This book belongs to: _____

19th Annual

PHA Conference

June 21st & 22nd
2018

Las Vegas, NV

***** Do not lose this sheet. This is your record for obtaining CPE credit. *****

Attendance Tracking Sheet

PHA Conference – June 21st & 22nd, 2018
The Cosmopolitan, Las Vegas, NV

Name: _____

AHACPA is changing the way attendance is tracked for CPE credit. We will no longer require you to sign in and out. We are employing the use of a Code Word Tracking system as explained below.

Directions:

- Listen for the code word that will be given to you at the beginning and end of each session
- Record the code word provided to you in the spaces provided below.
- At the end of the course go to: https://ahacpa.org/pha-conference/cpe-credit/ (this link will not be live until the class has ended.)
- Verify your attendance by providing the code words and completing the evaluation for each session
- Your CPE certificate will be emailed to you immediately

This document is for your tracking purposes only. DO NOT turn this in at the end of the conference.
AHACPA Staff is not authorized to give out session codes to attendees.
Codes will be given during by the presenter during the session.

Thursday, June 21st, 2018

Speaker	Topic	Code Word (Circle Correct Word)
Session 1: Chris Kubacki & Moon Tran	Capital Fund Program & PIH Update	The Matrix, Star Trek, The Martian, Star Wars
Session 2: Becky Miles & Allison Reider	Creating an Effective Consortium	Thor, Hulk, Iron Man, Captain America
Session 3: Gene Ristaino	Risk Assessment in Governmental Audits	Gold, Silver, Platinum, Copper
Session 4: Ron Urlaub	Housing Choice Voucher Update	Mozart, Bach, Beethoven, Chopin
Session 5: Quincy Riley & Brian Edwards	FASS PH Update	Clydesdale, Shetland, Palomino, Mustang

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Friday, June 22nd, 2018

Speaker	Topic	Code Word (Circle One)
Session 6: Wendell Conner	Using Analytical Review to Evaluate PHA Performance	Apple, Cherry, Banana, Peach
Session 7: Dale Rector	Optimizing RAD Structure for PHA Profitability	Delta, Southwest, United, Jet Blue
Session 8: Chad Porter	GASB Update	Cycling, Swimming, Fencing, Gymnastics
Session 9: Les Sparks	Yellow Book Independence Update & General Q&A	John, Paul, George, Ringo

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19TH ANNUAL PUBLIC HOUSING AUTHORITY CONFERENCE

JUNE 21ST & 22ND 2018

Las Vegas, NV

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Table of Contents

Introduction:

Agenda
Announcements
About the Speakers
Course Attendee List
HUD Acronym List
About AHACPA

Course materials:

Capital Fund Program & PIH Update .....Section 1
CFP Reporting Flowchart, Income Validation Tool 1a

Creating a Successful Consortium.....Section 2
Consortium Agreement 2a
Consortium Final Rule 2b

Risk Assessment in Governmental Audits .....Section 3

Housing Choice Voucher Program Update .....Section 4

FASS-PH Update .....Section 5

Using Analytical Review to Evaluate PHA Performance .....Section 6

Optimizing RAD Structure for PHA Profitability.....Section 7

GASB Update.....Section 8

Yellow Book Independence Update & General Q & A.....Section 9
Independence Evaluation & Nonaudit Services Worksheet.....9a

Agenda

Thu Jun 21, 2018	Nolita Ballroom	Sign-in and Continental Breakfast (7:00 - 8:00)
Speaker	**Topic**	**Time**
Chris Kubacki & Moon Tran	Capital Fund Program & PIH Update	8:00 AM - 9:40 AM
Beverage Break (9:40 - 9:50)		
Becky Miles & Allison Reider	Creating an Effective Consortium	9:50 AM - 11:30 AM
Lunch in Nolita 3 (11:30 - 12:30)		
Gene Ristaino	Risk Assessment in Governmental Audits	12:30 PM - 2:00 PM
Break (2:00 - 2:10)		
Ron Urlaub	Housing Choice Voucher Update	2:10 PM - 3:40 PM
Snack & Beverage Break (3:40 - 3:50)		
Quincy Riley & Brian Edwards	FASS PH Update	3:50 PM - 5:00 PM
Social Hour - Commons area (5:00 - 6:00)		

Fri Jun 22, 2018	Nolita Ballroom	Sign-in and Continental Breakfast (7:00 - 8:00)
Speaker	**Topic**	**Time**
Wendell Conner	Using Analytical Review to Evaluate PHA Performance	8:00 AM - 9:40 AM
Beverage Break (9:40 - 9:50)		
Dale Rector	Optimizing RAD Structure for PHA Profitability	9:50 AM - 11:30 AM
Lunch in Nolita 3 (11:30 - 12:30)		
Chad Porter	GASB Update	12:30 PM - 1:50 PM
Beverage Break (1:50 - 2:00)		
Les Sparks	Yellow Book Independence Update & General Q&A	2:00 PM - 3:10 PM

Announcements

If you have questions or need any assistance, please let us know. Mikayla or Kathy will help you out. If the room gets too hot or too cold we can notify the hotel staff. It takes about an hour for the temperature to change in these large rooms. You can email us mikayla@ahacpa.org or kathy@ahacpa.org

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CPE Credit

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Wi-Fi

The Cosmopolitan **does not provide complimentary wireless internet**.

Phones

Please silence your phones and other portable electronic devices. If you need to take a phone call please step out into the commons area near the elevators.

Social Hour

Social Hour will be held in the commons area just outside the meeting room. Social hour is from 5:00 to 6:00 on the first day of the conference. Each attendee will have one coupon which they can present to the bartender for a complimentary drink. Additional drinks can be purchased. *Your drink coupon is tucked in the back of your name badge.*

Boarding Passes

We will have a station set up in the back of the room for printing boarding passes.

Your Belongings

Someone from AHACPA will be in the room during lunch. **Do not leave your book or other belongings in the room overnight.** We are not responsible for lost or stolen items.

Evaluations

A link to the course evaluation will be emailed to you at the end of the conference.

What's for Lunch (& snacks)?

June 21st –

11:30 am - "Comfort Favorites"

- Home-Style Chicken Noodle Soup with Soft Potato Dill Rolls
- Cobb Salad (GF) - Baby Ice Berg, Bacon, Egg, Tomato, Avocado, Jack Cheese, Ranch Dressing
- Mixed Lettuces (GF) – Crisp Apple, Toasted Pecans, Golden Raisins, Crumbled Blue Cheese, Red Wine Vinaigrette
- Crab Stuffed Deviled Eggs (GF) - Lemon, Truffle, Chives
- Sloppy Veggie Joe – Mushrooms, Grains, and Peppers in Tangy Tomato Sauce with Beer Battered Onion Rings, Soft Bun
- Mom's Meatloaf and Mashed Potatoes (GF) - Sweet and Spicy Tomato Glaze, Mushroom Gravy
- Blackened Salmon Filet (GF) - Sweet Corn and Edamame Succotash, Tartar Sauce
- Sautéed Green Beans (GF) - Pearl Onions, Marcona Almonds
- Fresh Fruit Salad (GF)
- DESSERTS: Red Velvet Mini Cupcakes (GF), Warm Apple Cobbler, Lemon Meringue Tarts

3:40 pm – Afternoon snack:

- Individually-wrapped sweet and salty snacks, assorted whole seasonal fruits, drinks

5:00 pm – Social Hour:

- Mixed nuts, pretzels, chips & salsa, vegetable crudité, assorted breads & cheeses, drinks

June 22nd –

11:30 am - "Southern Sensations"

- *Barbecue Chopped Pork Salad (GF) - Kale, Iceberg, Shaved Zucchini, Radish, Crispy Shallots, Sweet Tea Cider Vinaigrette*
- *Butter Lettuce, Spinach, and Radicchio Salad (GF) - Charred Corn Fire Roasted Peppers Jalapeño Ranch*
- *Crunchy Slaw (GF) - Carrots, Red and Green Cabbage, Dried Bing Cherries, Toasted Pumpkin Seeds, Poppy Seed Dressing*
- *Red Bliss Potato Salad (GF) - Andouille Sausage and Snipped Chives, Cajun Dressing*
- *Vegetable Jambalaya (Vegan, GF) - Rice, Quinoa, Okra, Sweet Peppers, Butter and Kidney Beans, Smoked Paprika*
- *Buttermilk Fried Chicken - Black Pepper Gravy*
- *Smoked Dry Rubbed Beef Tri Tip (GF) - Green Beans, Pickled Red Onions, Tangy BBQ Sauce*
- *Fresh Fruit Salad (GF)*
- *DESSERTS: Banofee Tarts, Pecan Chocolate Bar, Warm Bourbon Bread Pudding with Vanilla Sauce*

1:50 pm – coffee/soda break

Water coolers are available at the back of the room throughout the day

Speakers

Wendell Conner, Director, Quality Assurance Subsystem (QASS), HUD

Mr. Conner is the Director, Quality Assurance Subsystem (QASS), U.S. Department of Housing and Urban Development, Office of Public and Indian Housing's, Real Estate Assessment Center (HUDREAC). QASS is the Division within HUD responsible for conducting Quality Control Reviews (QCRs) of auditors of HUD assisted entities. Mr. Conner is a CPA with over 23 years of experience in the affordable housing industry. Under his leadership, over the past ten years QASS has made more than 150 referrals to State Boards of Accountancy, the AICPA and HUD's Department Enforcement Center. Mr. Conner also provides training and litigation support regarding HUD accounting and auditing matters. He is a graduate of Arizona State University and a member of the AICPA and ASCPA.

Chris Kubacki, Senior Associate, Phineas Consulting, LLC

Mr. Kubacki is the Senior Associate with Phineas Consulting, LLC, a firm specialized in public housing. Mr. Kubacki and the firm continue to be engaged by HUD, supporting the REAC FASS-PH business area and Public and Indian Housing's financial analysis needs. His latest projects with HUD include training HUD and PHAs on proper financial reporting, FASS-PH reviews and PHA financial portfolio analysis of the public housing and HCV program to support PIH decision making. Mr. Kubacki is also currently working on the HCV cost study.

Mr. Kubacki brings over fifteen years of experience in financial analysis and reporting, business process engineering, and policy development. Mr. Kubacki is a Certified Public Accountant. Mr. Kubacki has over ten years of specialized experience in the housing industry, including the Public Housing Conversion to the Asset Management Model, Housing Choice Voucher Financial Reporting, the Public Housing Operating Fund, and HUD's Financial Assessment Subsystem for Public Housing. He has served as both the Director of PIH's Financial Management Division and REAC's Financial Assessment Subsystem for Public Housing. Mr. Kubacki continues to work with both HUD and PHAs on a multitude of topics.

Brian Edwards, Financial Analyst/Auditor, HUD

See website for information: https://ahacpa.org/speaker/brian-edwards/

Becky Miles, CPA, Elizabeth A. Miles CPA

Becky has been in professional practice since 1977 and has been a sole practitioner since 1990. Since performing her first audit of a very young Section 8 project in 1978, she has continuously been involved with public housing authorities as an auditor, fee accountant and consultant. Becky also provides those same services to other HUD assisted entities as well as non profits. In addition, her firm provides tax preparation and consulting services to individuals, corporations and partnerships.

Chad Porter, Audit Partner, Smith Marion & Co, LLP

Chad is the managing partner at Smith Marion & Co., LLP. The firm has 3 offices, 2 in California and 1 in Tennessee. The firm's audit practice is focused on grant funded Nonprofits and Governmental entities. Chad is the lead partner on HUD funded organizations including Housing Authorities, Low Income Housing Tax Credit Properties, Multifamily Housing, Single Audit and FHA Lenders. He is a frequent speaker on GASB and HUD related issues regarding implementation and updates. He has extensive auditing and consulting experience which range from small housing authorities with 3 total employees to the 2nd largest housing authority in the U.S.

With more than 20 years of experience, Chad has assisted his clients with the ever-changing HUD industry, including the GAAP conversion, Asset Management implementation, and the recent GASB updates. Several of the firm's clients have a longer tenure than Chad himself. This is a testament to Smith Marion's philosophy of treating every client as if they are the only client.

Chad is a member of the AICPA, past president of California Society of CPAs, Tennessee Society of CPAs, Government Audit Quality Center, and Certified Fraud Examiner's Society as a CFE. He also serves on a GASB task force. He is licensed in both California and Tennessee and travels to clients across the U.S.

Dale Rector, CPA – Principal, Rector, Reeder & Lofton, PC

With over thirty years of experience in HUD auditing and fee accounting, seminar instruction, and tax consulting for several hundred Public Housing Agencies, Mr. Rector has unmatched expertise in our field. His experience includes:

- Management consultant services for Department of Housing and Urban Development Authorities, performance of complete fieldwork on housing authority audits, and reconstruction of housing authority records
- Preparation of federal and state income tax returns for corporations, partnerships, nonprofit organizations and individuals
- Interim Director of Finance for a large housing authority, engaged to reorganize and assist in the transition to new, permanent employees
- Commercial audit and fee accounting services in the areas of churches, individuals, and other profit and nonprofit organizations
- Management of tax department and staff personnel
- Seminar instructor of the Department of Housing and Urban Development Public Housing and Section 8 Programs

Mr. Rector is a graduate of Bob Jones University in Greenville, South Carolina with a B.S. in Accounting and a Master of Business Administration from Bellevue University in Bellevue, Nebraska. He is currently a Certified Public Accountant in multiple states. He and his wife, Donna, have two children and four grandchildren.

Allison Reider, Executive Director, Texoma Housing Partners

For the past 25 years, Allison Reider has served as Executive Director for the nation's first consortium, Texoma Housing Partners (THP). THP is an organization composed of 19 small cities located across a 4-county area who, in an effort to achieve much needed efficiencies, voluntarily joined the consortium.

Allison is responsible for the direction and oversight of the organization which consists of 23 employees with an annual budget of over 3.5 million dollars.

Prior to her tenure with THP, Allison worked in the conventional property management arena as Property Director for the Stabauch-Bruneg Property Management Company in Dallas, Texas.

Quincy Riley, Assessment Manager FASS PH, HUD-REAC

See website for information: https://ahacpa.org/speaker/quincy-riley/

Eugene J, Ristaino, CPA/ABV/CFF, ABAR, MT

Gene Ristaino currently provides valuation services for private companies, along with accounting and auditing consultation and technical reviews for small and medium-sized CPA firms. His expertise includes consulting services for real estate developers and construction contractors in project costing and analysis, cost certification, claim support and documentation, expert witness, business valuation and job cost system implementation and improvement.

Gene is a retired partner of Isdaner & Company, LLC (2016), a local firm of 65 people in the Philadelphia area, and was the director of accounting, auditing and quality control for the firm. Gene managed a diversified accounting practice (over 40 years of experience), which included accounting and auditing and technical engagement review. Gene concentrated in healthcare (nursing homes), the governmental and not-for-profit auditing sectors (yellow book), HUD regulations and the Single Audit Act, as well as substantial experience with manufacturing, transportation, retail and service organizations.

Gene has provided expert testimony and/or issued expert reports in numerous litigation support engagements involving real estate transactions, construction claims, family disputes and embezzlement cases. He has provided expert testimony in two Court appearances. He has also prepared construction contract claims, back charge reports, and damage reports in dispute litigation and arbitration.

Gene is "Accredited in Business Valuation" (ABV) and "Certified in Financial Forensics" (CFF) as designated by the American Institute of Certified Public Accountants (AICPA). Gene has also achieved his designation of "Accredited in Business Appraisal Review" (ABAR) from the National Association of Certified Valuators and Analysts (NACVA). Valuation and/or litigation engagements include construction contractors; leisure transportation; travel and tour agencies; manufacturing; real estate investment limited partnerships and LLCs; specialty restaurants; and family limited partnerships. Cases have included dissenting stockholder disputes; buy/sell transaction prices; estate and gift tax issues; and owner disputes. Gene has attended the Business Valuation Course, and the Fair Value Forum developed by the AICPA, the national Valuation Conference presented by the AICPA, as well as many national Forensic and Valuation Programs presented by the National Association of Certified Valuators and Analysts (NACVA).

Gene has a Masters in Taxation (MT) from Villanova University. His practice concentrated in corporate taxation for private companies, with a specialization in the real estate and construction industries.

Gene is a national instructor for the American Institute of Certified Public Accountants (AICPA) and many state societies. He also lectures for many industry associations, and has authored numerous professional education programs, including several seminars and webcasts.

Gene is a member of the American and Pennsylvania Institutes of Certified Public Accountants and currently serves on the Peer Review and A&A Procedures committees for the Pennsylvania Institute of Certified Public Accountants. Gene was a team captain for the AICPA Peer Review Program, and has performed numerous peer reviews under the AICPA Standards.

Gene is a former adjunct professor of tax law for the Masters in Taxation Programs for Villanova University and Philadelphia University. He received his undergraduate BS degree in accounting from Drexel University, and earned his Masters in Taxation from Villanova University.

Les Sparks, President, AHACPA

Les is the President of the Affordable Housing Association of Certified Public Accountants. Prior to this, Les was involved in various capacities in the software manufacturing for governmental "Case Management" systems for governmental agencies. He was the Chief Financial Officer for Professional Staff Management, a large employment services firm. Les began his career with the international accounting firm of Ernst & Young. He spent over 13 years at E&Y providing accounting, auditing and consulting services to variety of clients in many industries. Les is an accomplished trainer in both software and accounting issues.

As president of AHACPA, Les provides support to the more than 600 members of the association. This support includes the interpretation of accounting and auditing and financial statement requirements as specified by the Department of Housing and Urban Development. Such support is provided either by phone, email or other means and is designed to assist the members in correctly reporting financial information to HUD's Real Estate Assessment Center.

Les is responsible for the development and presentation of training programs which provide continuing professional education (CPE) to auditors and other users of the relevant REAC systems. Les also supervises the preparation of over 700 annual financial statement submissions under multifamily, public housing and FHA lender requirements.

Moon Tran, Senior Manager, Phineas Consulting

Moon Tran is a Senior Manager with Phineas Consulting and has over 10 years of experience working in the public housing industry. Ms. Tran has provided consulting support to HUD and specifically, the Real Estate Assessment Center in several areas in including the Financial Assessment sub-system for public housing (FASS-PH) and the Operating Fund and Housing Choice Voucher program areas. In addition, Ms. Tran has provided technical assistance to public housing authorities' management and financial operations.

Prior to Phineas Consulting, Ms. Tran was employed at the Office of Management and Budget with responsibilities for the public housing programs and with KPMG.

Ron Urlaub, CPA, Partner, Urlaub & Co., PLLC

Ronald Urlaub, CPA, is the president of Urlaub & Co., PLLC., located in Ada, Oklahoma. The firm provides accounting, auditing and consulting services for governmental and nonprofit entities. In addition, the firm provides software integration and design services targeted toward housing agencies. Mr. Urlaub is a frequent lecturer and trainer for numerous groups at the state, regional and national level. He is a member of American Institute of Certified Public Accountants (AICPA), Oklahoma Society of Certified Public Accountants, Association of Government Accountants (AGA), and most importantly Affordable Housing Association of Certified Public Accountants (AHACPA).

Attendee List

See https://ahacpa.org/account/directory/pha-conference for most up to date information

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HUD Acronym Listing

ACRONYM	DEFINITION
AE	Account Executive
AAFB	Area Approved for Business
ABA	Annual Budget Authority
ACC	Annual Contributions Contract
AcSEC	Accounting Standards Executive Committee
AFHMP	Affirmative Fair Housing Marketing Plan
AFS	Annual Financial Statement
AHACPA	Affordable Housing Association of CPAs
AICPA	American Institute of Certified Public Accountants
AMP	Asset Management Project
ARC	Annual Required Contribution
ARQ	Audit Required Questions
ARRA	American Recovery and Reinvestment Act
BLI	Budget Line Item
BTA	Business-Type Activities
CA	Contract Administrator
CAAF	Coordinator Access Authorization Form
CAC	EIV Role - Contract Admin. Coordinator (HUD Staff)
CAIVRS	Credit Alert Interactive Voice Response System
CAU	EIV Role - Contract Administrator User (Non-HUD)
CEO	Chief Executive Officer
CFDA	Catalog of Federal Domestic Assistance
CFFP	Capital Fund Financing Program
CFP	Capital Fund Program
CFR	Code of Federal Regulation
CMA	Computer Matching Agreement
COCC	Central Office Cost Center
COSO	Committee of Sponsoring Organizations
CPA	Certified Public Accountant
CPE	Continuing Professional Education
DAS	Deputy Assistant Secretary
DBA	Doing Business As
DCF	Data Collection Form
DE	Direct Endorsement
DEC	Departmental Enforcement Center
DHAP	Disaster Housing Assistance Program
DVP	Disaster Voucher Program
EC	Enforcement Center (see DEC)
EIV	Enterprise Income Verification
ELI	Extremely Low Income
eLOCCS	Electronic Line of Credit Control System
FAIN	Federal Award Identification Number

ACRONYM	DEFINITION
Fannie Mae	Federal National Mortgage Association
FASAB	Federal Accounting Standards Advisory Board
FASB	Financial Accounting Standards Board
FASS	Financial Assessment Subsystem
FASSMF	See FASSUB
FASS-PHA	Financial Assessment Subsystem - Public Housing Administration
FASSUB	Financial Assessment Subsystem - Submission
FDIC	Federal Deposit Insurance Corporation
FDS	Financial Data Schedule
FDT	Financial Data Template
FHA	Federal Housing Administration
FHA/MF	Federal Housing Administration/Multifamily
FMC	PIH Financial Management Center
FMD	Financial Management Division
FRAG	Financial Reporting and Auditing Guide
Freddie Mac	Federal Home Loan Mortgage Corporation
FSS	Family Self Sufficiency
FYE	Fiscal Year End
GAAFR	Governmental Accounting, Auditing, and Financial Reporting ('The Blue Book')
GAAP	Generally Accepted Accounting Principles
GAAS	Generally Accepted Auditing Standards
GAGAS	Generally Accepted Government Auditing Standards
GAO	General Accounting Office
GAS	Government Auditing Standards (see GAGAS)
GASB	Governmental Accounting Standards Board
Ginnie Mae	Government National Mortgage Association
HAP	Housing Assistance Payment
HCV	Housing Choice Voucher
HDK	EIV Role - Helpdesk Personnel
HECM	Home Equity Conversion Mortgage (Reverse mortgage)
HEREMS	Housing Enterprise Real Estate Management System
HFU	EIV Role - HUD Field Office User
HHS	Health and Human Services
HMDA	Home Mortgage Disclosure Act
HOC	HUD Homeownership Center (FHA)
HOH	Head of Household
HQA	EIV Role - HQ User Administrator
HQU	EIV Role - HUD HQ User
HSC	EIV Role - Housing Coordinator (HUD staff)
HSU	EIV Role - Non-HUD User

Updated 11/16/2017

ACRONYM	DEFINITION
HUD	U.S. Department of Housing and Urban Development
HUD OIG	HUD Office of Inspector General
HUD PM	HUD Project Manager
HUDCAPS	HUD Central Accounting and Program System
IAR	Independent Auditor Report
IG	Inspector General
IP	Improvement Plan
IPA	Independent Public Accountant (See CPA)
KDHAP	Katrina Disaster Housing Assistance Program
LASS	Lender Assessment Subsystem
LDP	Limited Denial of Participation
LI	Low Income
LIHTC	Low-income Housing Tax Credit
LLC	Limited Liability Company
LOCOM	Lower of cost or market
M2M	Market to Market-OHMAR Restructured Loans
MAHRA	Multifamily Assisted Housing Reform and Affordability Act
MASS	Management Assessment Subsystem
MCAW	Mortgage Credit Analysis Worksheet
MD&A	Management Discussion and Analysis
MF	Mixed Finance
MFH	Multifamily Housing
MINC	Management Interactive Network Connection (Rural Housing)
MIP	Mortgage Insurance Premium
MOR	Management & Occupancy Review
MRB	Management Review Board
MTW	Moving-to-Work
NASS	iNtegrated Assessment Subsystem
NCGAS	National Council on Governmental Accounting Statement
NCUA	National Credit Union Administration
NDNH	National Directory of New Hires
NH	Nursing Home
NPO	Non Profit Organization
NRA	Net Restricted Assets
O/A	Owners / Management Agent
OAHP	Office of Affordable Housing Preservation
OCBOA	Other Comprehensive Basis of Accounting
OHA	Office of Hearings and Appeals
OIG	Office of Inspector General
OIG	EIV Role - OIG User
OMB	Office of Management and Budget
ONAP	Office of Native American Programs

ACRONYM	DEFINITION
OPEB	Other Post Employment Benefits
ORCF	Office of Residential Care Facilities
P&U Division	Processing & Underwriting Division in an HOC
PASS	Physical Assessment Subsystem
PCAOB	Public Company Accounting Oversight Board
PEL	Project expense level
PHA	Public Housing Authority
PHAS	Public Housing Assessment System
PIC	PIH Information Center
PIH	(Office of) Public and Indian Housing
PUM/PUPM	Per-Unit per Month
QAD	Quality Assurance Division
QAR	Quality Assurance Review
QASS	Quality Assessment Subsystem
QC	Quality Control
QWHRA	Quality Housing & Work Responsibility Act
R&O	Regulatory & Operating Agreement
RA	Rental Assistance
RAD	Rental Assistance Demonstration Program
RASS	Residential Assessment Subsystem
RDA	Rural Development Agency
REAC	Real Estate Assessment Center
REMS	Real Estate Management System
RESPA	Real Estate Settlement Procedures Act
RHIIP	Rental Housing Integrity Improvement Project
RHS	Rural Housing Services
RMCR	Residential Mortgage Credit Reports
RRH	Rural Rental Housing
RSI	Required Supplementary Information
SAA	Single Audit Agency
SAC	Special Application Center
SAS	Statement on Auditing Standards
SEFA	Schedule of Expenditures of Federal Awards
SEPHAS	Section 8 Public Housing Assessment System
SFAS	Statements of Financial Accounting Standards issued by FASB
SKE	Skills, Knowledge, Experience
SOP	Statement of Position
SSAE	Statements on Standards for Attestation Engagements
SSN	Social Security Number
SUB	REAC AFS Submitter
TAC	Technical Assistance Center
TFAE	Total Federal Awards Expended
TIN	Tax Identification Number

ACRONYM	DEFINITION
TPA	Transfer of Physical Assets
TRACS	Tenant Rental Assistance Certification System
TSP	Tenant Selection Plan
TYT	Two-Year Tool
UAAF	User Access Authorization Form
UEL	Utility Expense Level
UFRS	Uniform Financial Reporting Standards
UI	Unemployment Benefits
UII	Unique IPA Identifier
URL	Uniform Resource Locator
VASH	HUD Veterans Affairs Supportive Housing Program
V-Form	Yearly Verification Report for Lender
VLI	Very Low Income
VMS	Voucher Management System
WASS	HUD's Secure Connection / Secure Systems
Yellow Book	Government Auditing Standards issued by GAO (See GAGAS)

about AHACPA

Submission Services

ABOUT AHACPA

HISTORY:

AHACPA was founded in 1998 to offer electronic submission services for multifamily housing as well as training. In January of 2002 Mike Olsen & Les Sparks acquired AHACPA. Since that time, we have expanded submission and training services to include HUD-approved lenders and Public Housing Authorities. We increased membership from 200 member firms to over 500, and we have quadrupled the number of courses we offer.

SUBMISSIONS:

AHACPA is nationally recognized for its training, technical support, troubleshooting and electronic submission of HUD annual financial statements. AHACPA has submitted thousands of annual financial statements for owners, agents, and CPAs. Our submission service is efficient, timely, and cost effective. We perform the complete submission process for you, within HUD's required time frame, at a competitive fee.

TRAINING:

In 1998 AHACPA began offering continuing professional education courses throughout the United States. We now hold over 30 courses a year. Our Multifamily courses provide audit training and HUD updates for auditors, owners & managers of HUD-subsidized multifamily properties. Lender courses provide audit training and HUD updates for auditors & owners of HUD-Approved lenders. The PHA conference provides audit training and HUD updates for PHA financial personnel, fee accountants, financial managers & auditors. AHACPA is NASBA certified.

MEMBERSHIP:

AHACPA currently has over 600 member firms. Members' benefits include technical support, access to templates & tools, and discounts at our trainings.

THE PEOPLE

LES SPARKS, PRESIDENT

Les is President of AHACPA. Prior to this, Les was involved in various capacities in the software manufacturing for governmental "Case Management" systems for governmental agencies. He was the Chief Financial Officer for Professional Staff Management, a large employment services firm. Les began his career with the international accounting firm of Ernst & Young. He spent over 13 years at E&Y providing accounting, auditing and consulting services to variety of clients in many industries. Les is an accomplished trainer in both software and accounting issues. Les has a Masters of Accounting.

Les provides support to the more than 600 members of the association. This support includes the interpretation of accounting and auditing and financial statement requirements as specified by the Department of Housing and Urban Development. Such support is designed to assist the members in correctly reporting financial information to HUD's Real Estate Assessment Center (REAC) and Lender Electronic Assessment Portal (LEAP).

Les is responsible for the development and presentation of training programs which provide continuing professional education (CPE) to auditors and other users of the relevant REAC systems. Les also supervises the preparation of over 1,300 annual financial statement submissions under multifamily, public housing and FHA lender requirements.

Mike Olsen, CFO

Mike is the CFO of AHACPA. He has a Master's of Business Administration and is a Certified Public Accountant. Mike was with the international accounting firm of Ernst & Young for 2 years. Following that Mike was the Chief Financial Officer and Accounting Manager for Skaggs Management Company. Before joining AHACPA, Mike was self-employed with his own accounting and tax practice.

Mike has specialized experience in the housing industry with a specific emphasis on the audit, financial reporting and submission requirements specifically required by the Department of Housing and Urban Development for HUD-approved lending. Mike provides continuing professional education training for auditors & owners of HUD-approved lending.

Kathy Christensen, Project Manager, Webmaster

Kathy has been with AHACPA from its very beginning in 1998, making her one of the country's foremost experts on the HUD REAC submission process. Kathy has extensive background in office software solutions and is also responsible for the design and development of AHACPA's website, as well as audit tools and other application development. Kathy was instrumental in the development of AHACPA's EZsub Submission Process. Kathy manages the receipt, logging and tracking of all multifamily submissions. Kathy uses her many HUD contacts to work out any submission problems that arise to ensure prompt resolution of issues preventing submission.

Mikayla Anderson, Administrative Assistant/Bookkeeper

Mikayla joined AHACPA in February 2018, and quickly became an invaluable member of our team. Mikayla correlates all bookings and logistics for AHACPA's private classes. Mikayla manages the receipt, logging and tracking of all FHA-Lender Submissions. Mikayla is responsible for all facets of AHACPA's bookkeeping, including accounts payables and receivables, invoicing, and bank reconciliations.

Other Staff:

AHACPA utilizes additional support staff to assist in the timely submission of financial statements during our peak busy seasons. Such individuals are selected based on the team's personal knowledge of the required skill sets including, prompt and accurate data entry as well as the judgment required to make decisions regarding issues that may arise during the submission process. Such decision making is critical in being able to complete the volume of submissions timely. These individuals are also trained to communicate any such issues to the client or the CPA for proper resolution of the matter. Each of these individuals has a minimum of 8 years' experience performing multifamily submissions with AHACPA.

AHACPA Membership

The Affordable Housing Association of Certified Public Accountants (AHACPA) is the premier national association providing support, training, and services for professionals of the Affordable Housing Industry and HUD-Approved Lending Industry. Our objective is to inform you of the latest HUD requirements and provide specific guidance on how to implement those requirements.

Technical Support

As an AHACPA member, you have access to AHACPA's technical support. This invaluable resource can save you hours of tracking down information or trying to get guidance, direction or assistance from HUD. We have probably experienced any HUD problem you are facing. Let us help you. For technical support questions email support@ahcapa.org, fax (801) 547-5070, or call (801) 547-0809.

Continuing Professional Education

AHACPA offers a variety of CPE Courses. Members attending courses receive a $50 discount off the registration fee.

The Affordable Housing Conferences are held annually. These two-day Conferences feature nationally recognized speakers and representatives from HUD Multifamily and Public Housing. These speakers and representatives present sessions on the latest affordable housing revisions.

We also offer one-day update courses for Multifamily and Lenders. Course descriptions, dates and locations can be found on our education page (https://ahacpa.org/education/).

Templates

Templates are downloadable standard document files. These templates provide illustrations and workable files you can customize when producing these documents. Templates can be found in our document library. If there is a template that you are looking for and can't locate on our website please let us know.

Referrals

AHACPA frequently receives calls requesting referrals for a CPA firm to perform audits and peer reviews. When providing referrals, we always first refer to our membership list.

Membership Dues

Membership dues are per office location and are $300 annually per firm (one location). You can sign up by filling out the application on the following page, or by going to https://ahacpa.org/membership/.

AHACPA

459 N 300 W #11 | Kaysville, UT | 84037 | (800) 532-0809

Membership Application

Fee of $300 per Office Location

Membership Main Contact (this is the person that will receive the renewal notice):

Name: _____ Title: _____

Company: _____

Address: _____ City: _____

State: _____ Zip Code: _____

Phone Number: _____ Fax: _____

Email: _____

Please list name and email address of co-workers that want to receive AHACPA email news:

_____

_____

_____

Method of Payment:

TOTAL $ 300 ☐ MasterCard ☐ Visa ☐ Discover ☐ American Express ☐ Check (address above)

Cardholder's Name _____

Card Number _____ CVV _____ Exp: _____

Billing Address _____

Signature _____

Email for CC Receipt _____

Announcing AHACPA's EZsub Service

AN INNOVATIVE SOLUTION FOR HUD'S MULTIFAMILY ELECTRONIC SUBMISSION PROCESS

AHACPA Submission Services	EZsub	Platinum
Client fills out the **EZsub** Excel template.	✓	
AHACPA processes the information through our innovative/proprietary **EZsub** upload software.	✓	
AHACPA provides client with a status report. Client continues the remaining submission steps.	✓	
AHACPA assists with ID registration and setup		✓
AHACPA assists with iREMS problems (iREMS = HUD's database of property information)		✓
AHACPA enters Data into HUD's Multifamily Financial Assessment Subsystem (FASSUB)		✓
AHACPA clears any errors and validates the submission		✓
AHACPA communicates with client regarding additional information that may be needed and updates the submission		✓
AHACPA provides a copy of the submission report & Auditor's Agreed-Upon Procedures Report in pdf format (using a secure file portal)		✓
AHACPA makes client requested updates or corrections to the electronic submission		✓
Upon client approval, AHACPA fills out the online Agreed-Upon Procedures Report on behalf of the audit firm		✓
Upon client approval, AHACPA finalizes the electronic submission		✓
AHACPA provides client with a final copy of the submission in pdf format. This includes the Submission Confirmation Page, the Agreed-Upon Procedures Report & the Final Submission Report.		✓
Pricing	$150	$500

Benefits of AHACPA's EZsub Service

Fast

Using AHACPA's new **EZsub** service will save you time. You can enter your financial information directly into the **EZsub** Excel template or map the data from another spreadsheet. Regardless of your method of data entry, there will be no more struggling with HUD's Multifamily Financial Assessment Subsystem (FASSUB) sluggishness and outages. You just fill out the **EZsub** Excel template and send it to AHACPA. AHACPA will upload your data using the **EZsub** proprietary software. We will run the program at night. Since fewer people are on the system at night, submissions can be processed more efficiently. Your submission is entered while you rest! After AHACPA has processed your **EZsub** Excel template, you just log into HUD's FASSUB, review the submission, make any necessary changes and finalize.

Accurate

The AHACPA **EZsub** Excel template has multiple error checking methods. Comments/errors pop up as you enter the data. When you have entered all data just click on the "check errors" button and any outstanding errors are listed. The **EZsub** Excel template checks for all of the FASSUB business rules, required accounts, required subordinate accounts, required subtotals, additional details (when necessary), proper date formats, correct number formats, it informs you when an account is off *and by how much,* and more!

Efficient

The FASSUB system has 11 main data entry pages and 60+ details pages. Moving from one page to the next requires saving your information, going back to the previous page, and then moving to the next page. When validating your submission and clearing the errors it can be particularly time consuming and frustrating. Each of those steps means you have to wait for the page to load. During peak usage times this process is especially laborious.

The AHACPA **EZsub** Excel template has all of the accounts from the 11 main FASSUB pages on one single worksheet. Another worksheet has all of the details. Unlike the FASSUB system, there is no saving and waiting for the next step to load. [Although we do recommend you save frequently]. Hyperlinks are contained throughout the **EZsub** Excel template to aid in quickly navigating to and from the details.

Economical

It can be costly paying staff to wrestle with the ins & outs of HUD's system. Don't waste your money and your staff's time. Give the AHACPA **EZsub** Service a try today.

Reviews From Actual EZsub Clients

I absolutely love this EZsub, just in case you wanted to report any feedback. I am the one who has to do all the data entry and we were giving it a test run on the two audits that we submitted and hope to use it on the other five next year, which would be a total of 7. I like how it is all on one sheet and not having to click in and out of different tabs like with the REAC system. I like how is populates certain fields that otherwise I would have to stop and calculate. And I really like knowing how fast your team got the info into REAC. It's a winner in my book. ☺ ~ Lisa

Thanks for all the help. It worked great and client was very happy

~ Scott

EZsub was a major improvement over entering directly into REAC. It was good to see errors before closing out the spreadsheet and the link took directly to the problem – no more flipping thru screens to correct.

Another plus was when changing from one section to another or entering additional data, you didn't have to save, answer yes you wanted to change screens, etc. Our accountants were able to enter data into the spreadsheet in a few minutes and know that it was correct before submission.

I would HIGHLY recommend EZsub to others. ~ Alice

Thank You!

I wanted to thank you for all your help. The submissions for our client went very well as they were able to successfully use your Excel tool and upload services. I also used your Excel tool [another client], but did not use your upload services. I ran short on time to transmit it to you and ended up doing the data entry myself. After five years of frustration, your tools and support made this year's submissions go very well. We can't thank you enough for your organization and support. ~ Steve

It was the best money I ever spent! You are such a life saver! Thank you for all your help. I will be using you again. I am not going to torture myself struggling with the submission. You made it a lot easier with your template. ~ Patti

Application for *EZsub* Service

AN INNOVATIVE SOLUTION FOR HUD'S MULTIFAMILY ELECTRONIC SUBMISSION PROCESS

How the Process Works

- Client fills out ***EZsub*** application.
- AHACPA creates an account for client in *ShareFile*, our secure file portal (256-bit encryption).
- AHACPA provides client with the ***EZsub*** Excel Template.
- Client fills out information in ***EZsub*** Excel Template and uploads completed file to secure file portal.
- AHACPA processes the file using the proprietary ***EZsub*** software.
- AHACPA provides the client with status report.
- Client logs into REAC/FASSUB and continues with the submission process as though they have personally entered the data.
- AHACPA invoices client.

Pricing

The price is $150 per project, per upload.

Limitations

Please check each item to indicate you are aware of the following limitations:

- ☐ ***EZsub*** does not handle consolidated submissions (multiple projects under one Tax ID Number).
- ☐ ***EZsub*** has a limit of 10 details per miscellaneous account. Client can manually enter after upload.
- ☐ ***EZsub*** works with Excel version 2007 and up.

Conditions

Please check each item to indicate you agree to the following conditions:

- ☐ Do not change any formulas in the ***EZsub*** Excel Template.
- ☐ Do not password protect the ***EZsub*** Excel Template.
- ☐ Do clear all errors before sending to AHACPA.
- ☐ Do verify your username is correct and the password is current, working, and will not expire soon.

I have read, acknowledge, and agree to the limitations and conditions listed above.

_____

(Signature & Date)

Return application to EZsub@ahacpa.org or fax to 801-547-5070

Please fill out other side

Billing Information – *We will send you an invoice after your submission has been uploaded*

Name: _____ Title: _____

Company: _____

Address: _____

City: _____ State: _____ Zip Code: _____

Phone: _____ Fax: _____

Email: _____

Project Information

Please provide the following for each of the project(s) for which you will be using this service. Or attach a separate list with the pertinent information.

Project Name	Year End	Tax ID Number

Return application to EZsub@ahacpa.org or fax to 801-547-5070

Section 1

AHACPA PHA Conference

June 21 – 22, 2018

Capital Fund Program | PIH Update

Presented by: Chris Kubacki & Moon Tran
Phineas Consulting

Topics

- **Introduction to the Capital Fund Program**
- **Specific Eligible Activities of the Capital Fund Program**
- **CFP and the Operating Fund Program**
- **Financial Data Schedule Reporting**
- **Capital Fund Financing Program Reporting**
- **Other PIH Updates**
  - **Recent Law Changes**
  - **PIC – Next Generation Update**
  - **EIV Income Validation Tool**
  - **New HUD Forms**

2

Introduction to the Capital Fund Program

3

Capital Fund Program (CFDA #14.872)

- The Capital Fund Program (CFP) provides financial assistance in the form of grants to PHAs to carry out capital and management activities including those listed in Section 9(d)(1) of the US Housing Act of 1937 (1937 Act)
  - Formula Grant
  - PHA's main source of funding for modernization
- Public Housing Capital Fund Program Final Rule became effective November 2013
- The Capital Fund Guidebook details the requirements contained under the Public Housing Capital Fund Program Final Rule and was issued in April of 2016 (available on HUD's website)

4

Capital Fund Program Funding Levels

- CFP Grant Appropriation Levels (not including set asides)
  - 2017 & 2016 Funding Levels - $1.8 billion annually or $1,700 per unit
  - 2013 to 2015 Funding Levels - $1.785 billion to $1.875 billion annually or $1,650 to $1,750 per unit

- Approximate CFP Sub-Grant Components
  - Capital Fund Grant (Main Formula) - $1.65 billion
  - Demolition and Disposition Transitional Funding (DDTF) - $125 million
  - Replacement Housing Factor (RHF) Funds - $25 million (phasing out)
  - PHAS High Performance Bonus - $30 million (5% of main formula amount)

5

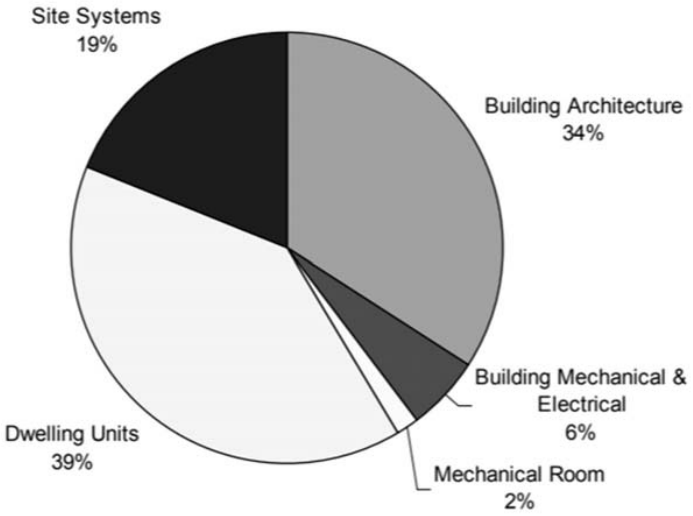
Capital Fund Needs in Public Housing

- Conclusion of 2010 Capital Needs Assessment Study
  - Existing needs: $25.6 billion or $24,000 per unit
  - Annual accrual: $3.4 billion or $3,000 per unit
    - Existing Needs are the costs of repairs and replacements beyond ordinary maintenance required to make the housing decent and economically sustainable
    - Accrual Needs are the costs needed each year to cover expected ongoing repairs and replacements beyond ordinary maintenance assuming that all existing needs are met

- Difference in funding levels and needs helps explain some of the changes in the law and CFP program

6

Capital Fund Needs By Major Area

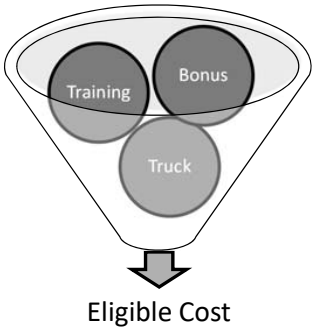


7

General Cost Eligibility of a Federal Program

Standard / Rule

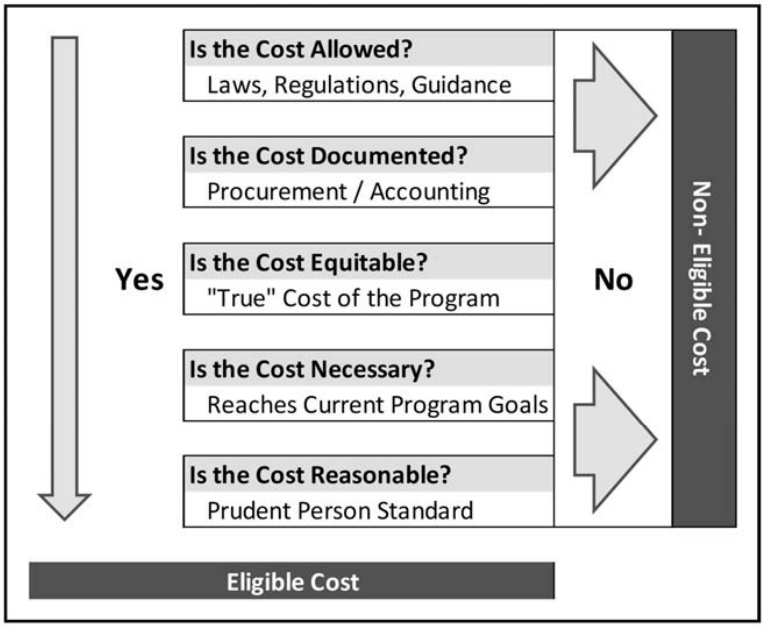
- Federal Law
- OMB's 2 CFR 200
- Federal Regulation
- ACC Contract
- State and Local Law
- PIH Notices
- PIH Guidance
- PHA Approved Budget
- PHA Policy



The most restrictive policy in the above listed documents will be used to determine eligibility

8

2 CFR 200 Eligible Cost Summary



9

CFP Eligibility Citations and References

Capital Fund Program Reference Table		
Eligible CFP Activity	Capital Fund Regulatory Citation	CFP Guidebook Section Reference
Modernization	24 CFR 905.200 (b) (1)	2.4
Development	24 CFR 905.200 (b) (2)	2.2
Financing	24 CFR 905.200 (b) (3)	2.3
Vacancy Reduction	24 CFR 905.200 (b) (4)	2.4.16
Nonroutine Maintenance	24 CFR 905.200 (b) (5)	2.4.14
Planned Code Compliance	24 CFR 905.200 (b) (6)	2.4.15
Management Improvements	24 CFR 905.200 (b) (7)	2.5.2
Economic Self-Sufficiency	24 CFR 905.200 (b) (8)	2.5.1
Demolition and Reconfiguration	24 CFR 905.200 (b) (9)	2.4.10
Resident Relocation and Mobility Counseling	24 CFR 905.200 (b) (10)	2.5.3
Security and Safety	24 CFR 905.200 (b) (11)	2.6
Homeownership	24 CFR 905.200 (b) (12)	2.7
Capital Fund Related Legal Costs	24 CFR 905.200 (b) (13)	2.7
Energy Efficiency	24 CFR 905.200 (b) (14)	2.4.13
Administrative Costs	24 CFR 905.200 (b) (15)	2.7
Audit	24 CFR 905.200 (b) (16)	2.7
Capital Fund Management Fee	24 CFR 905.200 (b) (17)	2.7
Emergency Activities	24 CFR 905.200 (b) (18)	2.4.12
Purchasing or Leasing of Vehicles	n/a	2.4.11

10

General Ineligible Activities of the CFP

- Ineligible activities include:
  - Any cost not related to public housing
  - Any costs not in the 5-Year Action Plan (with exception of an emergency or disaster)
  - Not modest design
  - Not eligible based on OMB regulation
  - Public housing operations except through BLI 1406 (transfer to operation)
  - Any costs that benefits other programs, such as the HCV program
  - Supportive services
  - Duplicate funding (i.e., a cost that was funded by another source)
  - As determined by HUD
- HUD approval of CFP plans, the spreading of budget in eLOCCS, and the disbursement of CFP funds to the PHA does not authorize / allow for the use of such funds on ineligible activity
- Depending on what transactions have occurred, PHAs may need to:
  - Repay the funds back to HUD from an appropriate source
  - De-obligate CFP funds
  - Request a Budget revision

11

Specific Eligible Activities of the CFP

12

CFP Change - Purchase / Lease of Vehicles

- Eligible costs of CFP if the vehicle is needed on a full-time basis to administer / implement the ***physical and management improvements*** set forth in the CFP budget
  - Most maintenance costs are considered operating costs

- If the vehicle is needed on less than a full-time basis to carry out the Capital Fund Program, the portion of the cost that is not associated with the administration or implementation of physical and management improvement, is an ineligible cost of the Capital Fund Program

13

CFP Change - Safety and Security

- Capital Funds can no longer be used to fund the on-going salaries and benefits of security personnel (i.e., security guards, police patrols, etc.). These expense should be paid from operations

- Cost of security items (including installation) have always been a capital fund eligible activity (either simply through BLI non-dwelling equipment or possibly as a management improvement). Includes items such as:
  - Security cameras, security lights, and surveillance equipment
  - Redesign of entrance, common areas for defensible space
  - Fencing and other perimeter security
  - Conversion of dwelling space for use by project security
  - Stabilization of buildings through consolidation of occupied units and securing vacant units/floors

14

CFP Change - Management Improvements

- Management Improvements – Defined specifically as activities that are Project-specific or PH-wide improvement that are needed to:
  - Upgrade or improve the operation or management of the program
    - Improvement to the PHA's management, financial and accounting control systems
  - Promote energy conservation
  - Sustain physical improvements
  - Correct management deficiencies identified by audit, HUD or the PHA
    - Staff Training in operations and procedures, including waitlist management, leasing, etc.
    - PHA must be able to demonstrate, upon request by HUD, the linkage between the management improvement and the correction of an identified management deficiency
- Gradual reduction on use of CFP for Management Improvements: 2013 Grant is capped at 20% and is reduced by 2% each year to 2018 Grant: capped at 10%

15

CFP and the Operating Fund

16

Small PHAs: Transfer of Capital Funds to Operations (BLI 1406)

- **Capital Funds to Operations** – PHAs with less than 250 public housing units that are not troubled can transfer up to 100% of their CFP to operations (full flexibility) if the PHA does not have debt service payments, significant capital needs, or emergency needs
  - PHA must have written determinations and provide records upon request that there are no debt service payments, significant capital needs, or emergency needs that must be met
  - Determination of significant capital needs is based on:
    - Field Office Review
    - Physical Assessment Sub-system Score
    - PHA assessment of capital needs (i.e., capital needs assessment report)
  - Small PHAs ineligible to exercise full flexibility are subject to a 20% limitation on transfers of Capital Funds to operations

Source: PIH Notice 2016-18 (HA)

17

Large PHAs: Transfer of Capital Funds to Operations

- **Capital Funds to Operations** – PHAs with 250 or more public housing units are allowed to transfer up to 20% of their CFP to operations

- **All PHAs:** Once CFP amounts are transferred to "operations", these funds lose their distinction as CFP funds and may be used for any eligible "Operating Fund" activity of the project

18

Operating Funds for Capital Items

- A PHA should use operating funds for non-expendable capital expenditures that support the operations of the projects. For example, a PHA must use operating funds to purchase a:
  - Snow blower
  - Maintenance truck
  - Computers (not associated with management improvements)
  - Office furniture

19

Small PHAs: Operating Funds for Capital Activity Funds

- **Operating Funds for Capital Expenses** – PHAs with less than 250 public housing units (small PHAs) that are not troubled can use their operating funds for capital activity
  - Capital items to be paid for through operating funds must be included in an approved CFP 5-Year Action Plan and budget submitted to HUD
  - Operating Funds include operating subsidy, tenant rents and all other PH program income (i.e., operating reserves)

Source: PIH Notice 2016-18 (HA)

20

Large PHAs: Operating Subsidy for Capital Activity Funds

- **Operating Subsidy for Capital Fund Eligible Activities** – PHAs with 250 or more public housing units (large PHAs) can use up to 20% of their 2018 operating subsidy and thereafter, for eligible activities of the Capital Fund Programs
  - These funds are still considered operating subsidy, just with expanded uses
  - Exception: Operating subsidy used for Capital fund activities cannot be used to pay additional CFP management fee (BLI 1410) or as a transfer to another project(s) to support operations (BLI 1406)

Source: PIH Notice 2018-03(HA)

21

Large PHAs: Operating Subsidy for Capital Activity Funds **(continued)**

- Operating subsidy to be used for this purpose may not be drawn down until actual related capital improvements are incurred and invoices are ready to be paid

- PHA accounting records need to support that
  - Only operating subsidy (i.e., no program income) was used for the CFP activity
  - No more than 20% of that year's Operating Subsidy was used
  - The funds were spend in accordance with the PHA's approved EPIC budget as provided to HUD

22

Large PHAs: Operating Subsidy for Capital Activity Funds (continued)

- Use of Operating Subsidy for CFP activities is limited to 20% of the PHA's total annual obligated operating subsidy and the amount cannot exceed the amount of operating subsidy obligated at the project level
- Example: PHA is obligated $400,000 of operating subsidy. Maximum amount of operating subsidy to be used for capital activities is $80,000 (20% of $400,000)

Allowable Budgets of CFP Activity	Project A	Project B	Project C	PHA Total
Total Obligated Operating Subsidy	$200,000	$150,000	$50,000	$400,000
Example 1	$40,000	$30,000	$10,000	$80,000
Example 3	$80,000	$0	$0	$80,000
Example 3	$0	$40,000	$40,000	$80,000
Example 4	$30,000	$10,000	$20,000	$60,000
Example 5	$0	$20,000	$50,000	$70,000

23

Large PHAs: Operating Subsidy for Capital Activity Funds (continued)

- FDS Reporting
  - Operating subsidy revenue, regardless of its final use will be reported in the Low Rent column of the project using FDS line 70600 (HUD PHA Operating Grants)
  - Operating Subsidy that has been budgeted, approved for use to fund eligible CFP activities, and drawn down but not yet paid will be reported as restricted cash using FDS Line 112 (Cash – Restricted – Modernization and Development) or FDS Line 115 (Cash – Restricted for Payment of Current Liability) on the project's Balance Sheet
  - If the Operating Subsidy used for CFP activities was spent on items that are capitalized, PHAs must enter the respective amounts into the capital activity memo accounts located at the bottom of the project's Low Rent Income Statement on the FDS

24

Other Changes to the CFP Program

- Housing Opportunity through Modernization Act of 2016 (HOTMA) – Replacement Reserve
  - Allows PHAs to establish a replacement reserve fund with CFP grant funds, operating subsidy, PH program income, and other sources of funds as allowed by the HUD Secretary
  - Change to be implemented via regulation and notice

25

Financial Data Schedule Reporting

26

General CFP FDS Reporting

- CFP grant is an expenditure-driven grant
  - Grant revenue is recognized when eligible expense occurs
- CFP grant is reported at a project level
  - One balance sheet w/ detail links
  - Two income statements
- FDS reporting is based on analysis of the CFP cost
  - Capital Expenditure (i.e., hard costs)
  - Expense (i.e., soft costs – CFP administration or Operations)

FDS Line Description	Low Rent	Capital Fund	Total Project
70300 Net Tenant Rental Revenue	$643,671	$0	$643,671
70400 Tenant Revenue - Other	$31,699	$0	$31,699
70500 Total Tenant Revenue	$6,753,701	$0	$6,753,701
70600 HUD PHA Operating Grants	$2,402,464	$271,717	$2,674,181
70610 Capital Grants	$0	$1,788,089	$1,788,089

27

Hard Costs and Soft Costs

- **Hard Costs**
  - Capitalized items typically associated with modernization work, development and purchase of material and equipment to support such activity
  - Revenue related to “hard costs” should be reported on FDS line 70610 (Capital Grants)
  - A PHA’s capitalization policy *ultimately determines* if the services and/or item is to be capitalized and therefore, reported as a hard cost on the FDS
- **Soft Costs**
  - Expense items typically associated with cost associated with the administration of the grant (i.e., overhead) or used to support a project’s operations
  - Capital-like activities that do not meet the PHA’s capitalization threshold policy
  - Revenue related to “soft costs” should be reported on FDS line 70600 (HUD PHA Operating Grants)

28

Hard Costs Memo Accounts

- The hard costs memo accounts reported in the CFP column provide additional detail as to the types of capital expenditures generated from Capital Grants (FDS Line 70610)
  - The sum of the memorandum accounts (FDS lines 11610 – 11660) plus any CFFP debt principal payments reported on FDS line 11020 should match the amount reported as Capital Grants (FDS line 70610)

Hard Costs Memo Accounts
FDS Line 11610 – Land Purchase
FDS Line 11620 – Building Purchase
FDS Line 11630 – Furniture and Equipment – Dwelling Purchases
FDS Line 11640 – Furniture and Equipment – Administrative Purchases
FDS Line 11650 – Leasehold Improvement Purchases
FDS Line 11660 – Infrastructure Purchases
FDS Line 13510 – CFFP Debt Service Payments
FDS Line 13901 – Replacement Housing Factor Funds

29

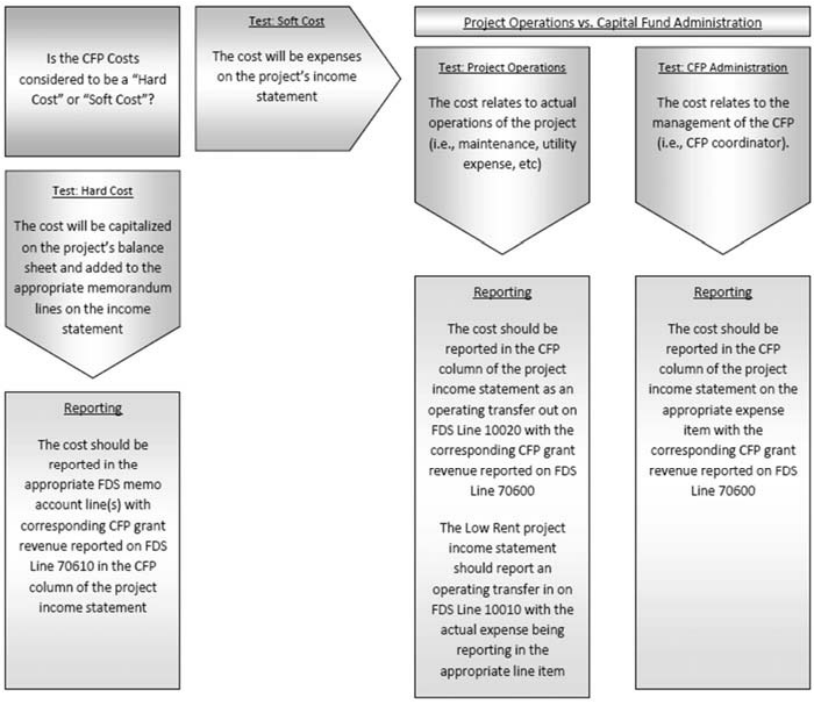
Learning Activity 1 - Hard Costs or Soft Costs

How should the following transactions that were charged to the CFP grant be classified, if the PHA's capitalization threshold is $5,000?

#	Item	Hard Cost	Soft Cost	Ineligible cost
1	Elevator system upgrade, cost $50,000			
2	Lawn mowing contract, cost $10,000			
3	CFP management fee paid to COCC, cost $15,000			
4	Purchase/installation of new boiler, cost $20,000			
5	Purchase of mainteance truck, cost $20,000			
6	Purchase & installation of security cameras, cost $8,000			
7	Purchase & installation of security cameras, cost $4,000			
8	Transfer of CFP to operations			

30

CFP Reporting Flowchart



31

CFP FDS Reporting: Hard Costs

Project - Income Statement				
FDS Line Item		**Project Total**	**Low Rent**	**Capital Fund**
70600	HUD PHA Operating Grants	$0		
70610	Capital Grants	$200,000		$200,000
11620	Building Purchases	$175,000		$175,000
11630	Furniture & Equipment - Dwelling Purchases	$25,000		$25,000

Project – Balance Sheet		
FDS Line Item		**Project Total**
162	Buildings	$175,000
163	Furniture, Equipment & Machinery - Dwelling	$25,000

32

CFP FDS Reporting: Soft Costs (Operations)

Project - Income Statement				
FDS Line Item		Project Total	Low Rent	Capital Fund
70600	HUD PHA Operating Grants	$200,000		$200,000
70610	Capital Grants			
10010	Operating Transfer In	$200,000	$200,000	
10020	Operating Transfer Out	($200,000)		($200,000)

33

CFP FDS Reporting: Soft Costs (CFP Administration)

Project - Income Statement				
FDS Line item		Project Total	Low Rent	Capital Fund
70600	HUD PHA Operating Grants	$100,000		$100,000
70610	Capital Grants			
91300	Management Fees	$100,000		$100,000

34

CFP FDS Reporting Check - Hard Cost Reporting

	Examples	
All Projects - CFP columns only	**PHA 1**	**PHA 2**
FDS line 70610 (Capital Grants)	700,000	500,000
FDS line11610 (Land Purchases)	-	-
FDS line11620 (Building Purchases)	400,000	400,000
FDS line11630 (Furniture and Equipment - Dwelling Purchases)	50,000	50,000
FDS line11640 (Furniture and Equipment - Administrative	-	-
FDS line11650 (Leasehold Improvement Purchases)	-	-
FDS line11660 (Infrastructure Purchases)	-	-
FDS Line11020 (Required Annual Debt Principal Payments)	50,000	50,000
Sum of memorandum accounts	500,000	500,000
Variance	200,000	-

Learning Activity 2 – CFP FDS Reporting

Using the answer keys below, answer the following questions for each CFP grant funded item

#	1	2	3	4	5
Transaction	Elevator System Upgrade, cost $50,000	CFP Management Fee Paid to COCC, cost $15,000	Purchase & Installation of Security Cameras, cost $8,000	Purchase & Installation of Security Cameras, cost $4,000	Transfer of CFP to Operations
Cost Type	Hard Costs	Soft Cost	Hard Costs	Soft Cost	Soft Cost
Which FDS grant revenue line should be used to report the grant revenue? (use Answer Key A)					
Is the final cost (either the expense / capital activity memo accounts) reported in the low rent or CFP column? (use Answer Key B)					
Is the final cost reported as an expense or in the capital acitivty memo accounts? (use Answer Key C)					

Answer Key A	
A	70600 HUD PHA Operating Grants
B	70610 Capital Grants

Answer Key B	
A	Low Rent Column
B	Capital Fund Column

Answer Key C	
A	As an expense in the capital fund column
B	As an expense in the low rent column via a transfer out / in
C	As a capital activity memo account(s)in the CFP column
D	As a capital activity memo account(s) in the LR column via a transfer out / in

Replacement Housing Factor (RHF) Funds

- Additional CFP funds provided to PHA who have demolished or disposed of PH units
- Funds can only be used for development
- RHF funds are provided for an initial 5-year period and the PHA can request a subsequent funding for an additional five years if certain criteria are met
- 2 year obligation / 4 year expenditures requirements do not apply to RHF funds
- RHF funding is phased out under the new regulation and is replaced by Demolition and Disposition Transitional Funding (DDTF)
- RHF funding is reported like any other CFP transaction, including in the hard costs memo accounts
- RHF funding must also be reported in FDS line 13901 (Replacement Housing Factor Funds)

37

Demolition and Disposition Transitional (DDT) Funding

- Replaces Replacement Housing Factor Funds
- Same general concept, that is, additional CFP funds provided to PHA who have demolished or disposed of PH units
- Additional funds are provided to the PHA for a 5-year period
- DDT funds can be used for any CFP eligible activity
- CFP grant amounts related to DDT are calculated as part of the main CFP formula and simply increases the PHA's grant and are treated like regular CFP funds
- 2 year obligation / 4 year expenditures requirements apply to DDT funds
- DDT funding is reported like any other CFP transaction, including in the hard costs memo accounts

38

Capital Fund Financing Program Reporting

39

Capital Fund Financing Program (CFFP)

- CFFP allows a PHA to borrow private capital to make improvements
- PHA pledges a portion of its future CFP funds to make debt service payment
- Project level reporting is required
- HUD provides principal and interest payment directly to the entity that provide the funding (i.e., bank)
  - The PHA does not draw the CFP funds down and make the payment

40

CFFP Reporting

- Bond / Loan proceeds and related debt liability will be recorded at the respective projects
- The increase in fixed assets due to modernization/construction work will be recorded on the respective project's balance sheet
- Grant Revenue associated with principal and interest payments will be recorded at the projects
  - Interest Expenses should be booked under the Capital Fund column. The corresponding grant revenue for this transaction is considered a "soft cost"
  - CFP revenue for debt principal payment should be booked as a "hard cost"
- The project's balance sheet will be adjusted annually to reflect the reduction in outstanding principal and to reclassify a portion of non-current liability to current liability

41

CFFP Debt Service Reporting

Project - Income Statement				
FDS Line	Item	Project Total	Low Rent	Capital Fund
70600	HUD PHA Operating Grants	$20,000		$20,000
70610	Capital Grants	$70,000		$70,000
96710	Interest of Mortgage (or Bonds) Payable	$20,000		$20,000
11020	Required Annual Debt Principal Payments	$70,000		$70,000
13510	CFFP Debt Service Payments	$90,000		$90,000

42

CFFP / FDS Outstanding Debt

Line Item 343 Details (readonly mode)		
Line Item #	**Description**	**Value**
343-010	CFFP	$1318013
343-020	Capital Projects/Mortgage Revenue	$
343-030	EPC Related Debt	$9545
	Total Amount	$1327558
	Back to BalanceSheet	

Line Item 351 Details (readonly mode)		
Line Item #	**Description**	**Value**
351-010	CFFP	$5193257
351-020	Capital Projects/Mortgage Revenue	$280449
	Total Amount	$5473706
	Back to BalanceSheet	

43

PHA CFFP Note Disclosures – Example 1

BONDS PAYABLE

At June 30, 2017, the Authority's liability under bonds payable was $9,090,000 to Public Housing Finance Corporation (PHFC) related to its 29.2486% participation in the $112,860,000 Capital Program Revenue Bonds Series (Bonds) 2003-B dated December 2003. Interest payable on the Bonds is due each July 1.

The Bonds bear interest at various rates (3.000% - 4.700%) until maturity at December 31, 2021. Principle and interest maturities for the Bonds are reflected below as of June 30, 2017.

	Principal	Interest
2018	$ 1,840,000	$ 366,902
2019	1,925,000	283,201
2020	2,010,000	195,719
2021	2,095,000	104,458
2022	1,220,000	27,145
	$ 9,090,000	$ 977,425

44

PHA CFFP Note Disclosures – Example 2

The Authority has pledged, as security for the payment of the Bonds, a certain portion of the annual grant proceeds it expects to receive pursuant to its Capital Fund Program grants with the HUD. HUD has approved such pledges and HUD's agreement provides for direct remittance of such pledged amounts directly to PHFC. Any Authority Capital Fund Program funds not remitted directly to PHFC are not subject to the lien of the Trust Indenture. As further security for the payment of the Bonds, the Authority has pledged all monies and securities from time to time held by the Trust Agent under the terms of the Trust Indenture dated August 6, 2003.Additionally, the Authority has secured from Financial Security Assurance, Inc, an insurance policy representing its Municipal Bond Insurance Policy for the Bonds. Such policy is in-force and guarantees the scheduled payment of principal and interest on the Bonds when due.

45

Capital Fund Training References

- United States Housing Act of 1937 as Amended by the Quality Housing and Work Responsibility Act of 1998 as of 3/2/1999 -Section 9 Public Housing Capital and Operating Funds (law)
- Housing Opportunity through Modernization Act of 2016 (HOTMA)
- 24 CFR 905 – The Capital Fund Program (regulation)
- 2 CFR 200 - Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (regulation)
- Capital Fund Guidebook issued April 2016 (guidebook)
- Financial Data Schedule Line Definition Guide issued May 2012 (FDS reporting guidance)
- Capital Fund Program Reporting Accounting Brief #15 issued August 2011 (accounting guidance)
- PIH Notice 2016-18 (HA) - Guidance on Full Flexibility for Eligible Small PHAs
- PIH Notice 2018-03 (HA) - Guidance on the Use of Operating Subsidy for Capital Fund Purposes for Subsidy Appropriated and Allocated for Calendar Year 2018 and Subsequent Years

46

Recent Law Changes

47

HUD-related Provisions in P.L. 115-74

- S. 2155 – Economic Growth, Regulatory Relief and Consumer Protection Act became law on May 24, 2018 (P.L. 115-74). The Act contains a number of HUD-related provisions including the following:
  - **Small PHA Deregulation.** Provides relief from frequency of physical inspections, environmental reviews, and energy costs for Small PHAs (550 or fewer combined public housing and HCV) operating in rural areas. Effective within 60 days **(July 23, 2018)**
  - **Reporting by Consortia Agencies.** Requires HUD to develop and implement an electronic system that allows for full consolidated reporting for all PHAs (consortia and non-consortia) within 180 days **(November 20, 2018)**
  - **FSS Program.** Makes several changes to the FSS program with regulations to be issued within 360 days **(May 20, 2019)**
  - **Shared Waiting Lists.** Requires HUD to make available software programs that facilitate voluntary use of shared waiting lists by multiple PHAs or owners receiving assistance within 1 year **(May 24, 2019)**

48

Small PHA Deregulation - Applicability

- The Act applies to **Small PHAs** that operates predominantly in a rural area
  - A small PHA is defined as an agency that administers 550 or fewer combined public housing units and HCV vouchers
  - **Rural** is defined per 12 CFR 1026.35(b)(2)(iv)(A) as:
    - A county that is neither in a metropolitan statistical area nor in a micropolitan statistical area (i.e., urban cluster with population of between 10,000 to 50,000) that is adjacent to a metropolitan statistical area, as those terms are defined by the U.S. Office of Management and Budget and as they are applied under currently applicable Urban Influence Codes (UICs), established by the US Department of Agriculture's Economic Research Service (USDA-ERS);
    - A census block that is not in an urban area, as defined by the U.S. Census Bureau using the latest decennial census of the United States; or
    - A county or a census block that has been designated as rural by the Bureau pursuant to the application process established under section 89002 of the Helping Expand Lending Practices in Rural Communities Act, P.L. 114-94, title LXXXIX (2015). The provisions of this paragraph (b)(2)(iv)(A)(*3*) shall cease to have any force or effect on December 4, 2017.

49

Small PHA Deregulation - Provisions

- **Physical Inspections**
  - HUD Physical Inspections - Unless the PHA is designated as Troubled, HUD will conduct a physical inspection of both public housing and HCV units no more than once every 3 years
  - HUD Inspection Standards - HUD is required to use the same inspection standard for public housing and HCV units
  - PHA Physical Inspections - Except for interim inspections, a PHA is permitted to inspect each dwelling unit once every 3 years
- **Environmental Review.** Exempt from environmental review for development/modernization projects under $100,000. HUD is required to develop streamline environmental review procedures for projects greater than $100,000
- **Energy Conservation.** PHAs have the option to freeze **formula utility** and **waste management** costs under a formula to accrue cost savings

50

Small PHA Deregulation – Energy Conservation

- Small PHA may elect to freeze its 3-year average utility consumption on their HUD Form 52722 Operating Fund - Calculation of Utilities Expense Level (not to exceed 20 years)
- Concept is similar to current regulatory language allowed for Energy Performance Contracts (EPCs)
- Benefits of provision will be increased operating subsidy via cost savings but only if actual utility consumption levels are less than the frozen consumption level
  - Cost savings are 100% retained by the small PHA and may be used for any public housing purpose
  - Not required to use services of a third-party
  - PHA determines the source, terms and conditions of any financing

51

Small PHA Deregulation - Impact

- **Number of Small and Rural PHAs**
  - Roughly 74% of all PHAs have less than 550 or less combined units

Small PHAs with 550 or Less Combined Units				
PHA Type	**PHA Count**	**# of PH Units**	**# of HCV Units**	**Total Units**
PH Only	1,550	145,778	0	145,778
HCV Only	653	0	134,623	134,623
Combined PHA	572	71,911	88,856	160,767
Total	**2,775**	**217,689**	**223,479**	**441,168**
# of Portfolio	**74%**	**22%**	**9%**	**13%**

  - When the "rural" requirement is applied, only **33%** of all PHAs are both small and rural
- **PHAS Impact for Small and Rural PHAs**
  - PHAS **Financial**, **Management Operations**, and **Capital Fund** indicators will be scored annually while the Physical score will be scored based on inspection data updated once every 3 years
  - There were 221 PHAs (based on PHA size without considering "rural") that had benefited from the previous Small PHA Deregulation rule (24 CFR 902.13) and were assessed once every 3 years if a high performer, and once every 2 years if other than Troubled. Under the new law, a certain number of PHAs would be assessed more frequently

52

Small PHA Deregulation - Implementation

- The following implementation questions still need to be addressed:
  - Is the 550 combined unit based on a PHA's vouchers leased or a PHA's vouchers available?
    - (We assume that public housing will be based on ACC units authorized regardless of unit status)
  - Does the original Small PHA Deregulation (24 CFR 902.13) 3-2-1 rule continue to apply to a PHA's overall PHAS score and Physical Inspections and if yes, how will this be implemented?

53

Reporting by Consortia Agencies

- A PHA Consortium is 2 or more PHAs that join together to perform planning, reporting, and other administrative or management functions for participating PHAs as specified in a consortium agreement
  - A consortium is required to submit a joint PHA Plan
    - The lead agency collects the funds from HUD for the participating PHAs for those elements of their operations that are administered by the consortium and allocates the funds according to the consortium agreement
    - The participating PHAs must adopt the same fiscal year so that the applicable periods for submission and review of the joint PHA Plan are the same
  - Current Financial Reporting. PHAs that are member of a consortium are required to file both an un-audited and audited FDS to HUD
    - If the consortium receives an audit, each PHA in the consortium shall submit an audited submission. The audited submission's FDS will contain the individual PHA's information but the file attachments will reflect the consortia-wide audit information
  - New law will impact FDS for consortia PHAs. Implementation options are under discussion

54

FSS Program Changes

- Broadens the scope of supportive services that may be offered to include GED, education in pursuit of a post-secondary degree or certification, training in financial literacy, and homeownership education and assistance
- **Permanently authorized PBRA property owners/managers to offer the FSS program by entering into agreement with PHAs that already administer the program or create their own programs**
- Require HUD to establish a formula by which annual FSS funds will be awarded for the costs incurred by an eligible entity administering the program
- Requires FSS contract participation to have at least one (1) household member to seek and maintain employment
- **Remove limit on the amounts that can be deposited into escrow accounts for FSS participants with income between 50 to 80 percent of area median income**
- Instructs PHAs required to administer a FSS program to continue to operate the program for at least the number of families the PHA was required to serve
- Prohibits HUD from requiring a PHA to carry out its mandatory FSS program if the PHA can demonstrate that it is unable to do so (e.g., lack of services, funding, etc.)
- **Provide HUD discretion to reserve up to 5% of FSS funds to award innovation and high performing FSS programs**

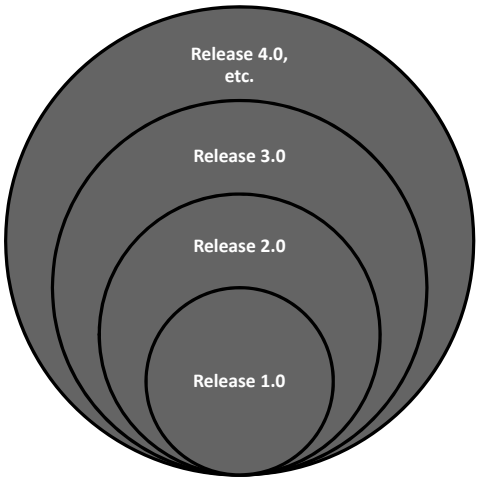
55

PIC – Next Generation Update

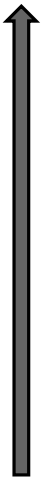
56

PIC-NG: 50058 vs Legacy System

PIC-NG 50058 Development

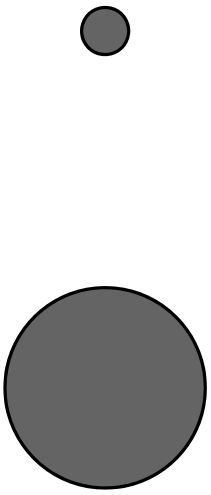


Future



Today

PIC 50058 Legacy System

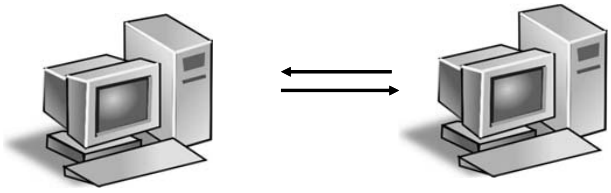


Target, Release 1.0 ⟹ June 2018
Target, Release 2.0 ⟹ January 2019

57

New IT Platform - Solution Release 1.0 (continued)

PHA Users to Work Exclusively in their System



PHA System

HUD Databases

IT Solution

1. Fully cloud-based
2. Micro services/application programming
3. Both synchronous and asynchronous processing

HUD Code Release → Software Vendor Modifies their Code → PHA System Updated with New Vendor Functionality

58

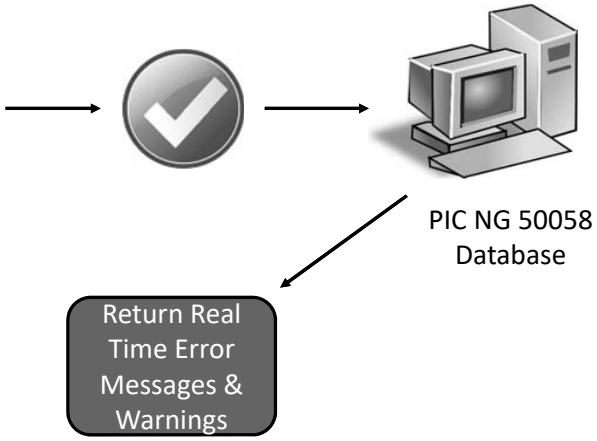
Expected Benefits of Solution to PHAs Release 1.0 (continued)

Pre-submission Edit Checks

- Completed 50058 data can be bounced against all the 50058 business rules **prior to** actual submission of the 50058 data (i.e., no more fatal errors)

12. Housing Choice Vouchers: Tenant Based Vouchers

12a.	Number of bedrooms on Voucher		12a.
12b.	Is family now moving to this unit? (Y or N)		12b.
12c.	Does the family qualify as a Hard to House family? (Y or N)		12c.
12d.	Did family move into your PHA jurisdiction under portability? (Y or N) (if no, skip to 12g)		12d.
12e.	Cost billed per month (put 0 if absorbed)	$	12e.
12f.	PHA code billed		12f.
12g.	Housing type: ☐ Group Home (prorate gross rent) ☐ Own manufactured home, lease space ☐ SRO: 1 room occupied by 1 person		
12h.	Owner name		12h.
12i.	Owner TIN/SSN		12i.
12j.	Payment standard for the family	$	12j.
12k.	Rent to owner	$	12k.
12m.	Utility allowance, if any	$	12m.
12p.	Gross rent of unit: 12k + 12m (or Space Rent)	$	12p.
12q.	Lower of 12j or 12p	$	12q.
12r.	TTP: copy from 9j	$	12r.
12s.	Total HAP: 12q minus 12r	$	12s.
Rent Calculation (if prorated rent, skip to 12ab)			
12t.	Total family share: 12p minus 12s	$	12t.
12u.	HAP to owner: lower of 12k or 12s	$	12u.
12v.	Tenant rent to owner: 12k minus 12u	$	12v.
12w.	Utility reimbursement to family: 12s minus 12u, but do not exceed 12m	$	12w.
Prorated Rent Calculation			
12ab.	Normal total HAP: copy from 12s, but do not exceed 12p	$	12ab.
12ac.	Total number eligible		12ac.
12ad.	Total number in family		12ad.
12ae.	Proration percentage: 12ac ÷ 12ad	$	12ae.
12af.	Prorated total HAP: 12ab X 12ae	$	12af.
12ag.	Mixed family total family contribution: 12p minus 12af	$	12ag.
12ah.	Utility allowance: copy from 12m	$	12ah.
12ai.	Mixed family tenant rent to owner: 12ag minus 12ah — If positive or 0, put tenant rent / If negative, credit tenant	$	12ai.
12aj.	Prorated HAP to owner: 12k minus 12ai. If 12ai is negative, put 12k	$	12aj.

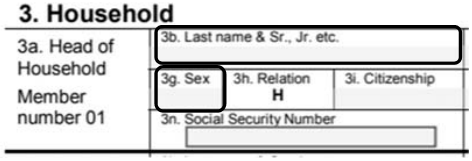


59

Expected Benefits of Solution to PHAs Release 1.0 (continued)

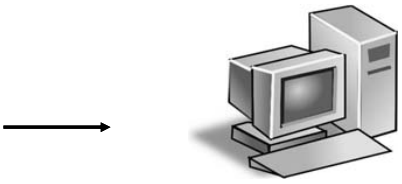
Improvement 50058 Submission Error Correction Process

- To correct errors, PHAs no longer have to use **void / resubmission** process. Instead, PHAs will be able to re-submit the 50058 that needs to be corrected with the same effective date. All records are retained



3. Household

3a. Head of Household	3b. Last name & Sr., Jr. etc.		
Member number 01	3g. Sex	3h. Relation H	3i. Citizenship
	3n. Social Security Number		



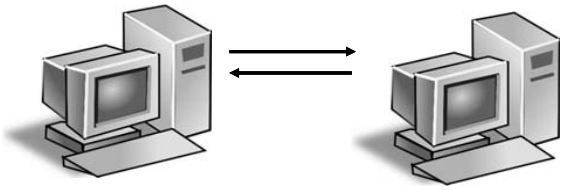
7. Income

7a. Family member name	No.	7b. Income Code	7c. Calculation (PHA use)	7d. Dollars per year	7e. Income exclusions	7f. Income after exclusions (7d minus 7e)
				$	$	$
				$	$	$
				$	$	$
				$	$	$
				$	$	$
				$	$	$
				$	$	$
				$	$	$

60

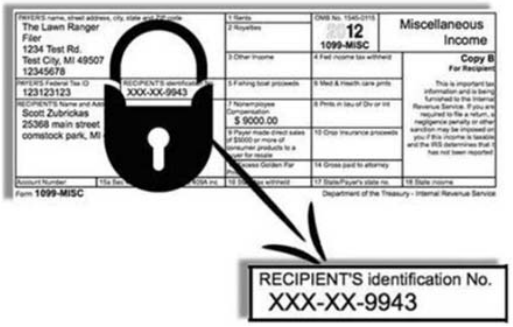
Expected Benefits of Solution to PHAs Release 1.0 (continued)

Reduced Risk of PII Exposure



PHA System

PIC NG 50058 Database



1. PHA provides SSN Information once
2. HUD creates, stores and provides PHA a unique identifier
3. Unique identifier is used instead of SSN

Note: SSN, TIN, EIN are all treated equally

61

Next Releases – Focus Business Process

- With the new design and platform in place, the emphasis shifts to:
  - Improvements & possible changes to Form 50058 data fields submitted
  - **Accurate information for accurate program funding**
    - **VMS eliminated – HCV program is to be paid off of 50058 Data / PHA HAP Register**
  - Continued relaxation of fatal errors to absolute minimum
  - Added efficiencies through web applications
  - Reduction of reporting burden
  - Enhanced Business Intelligence
  - Geocoding, mapping
  - Phase out of batch processing and legacy system

62

EIV Income Validation Tool

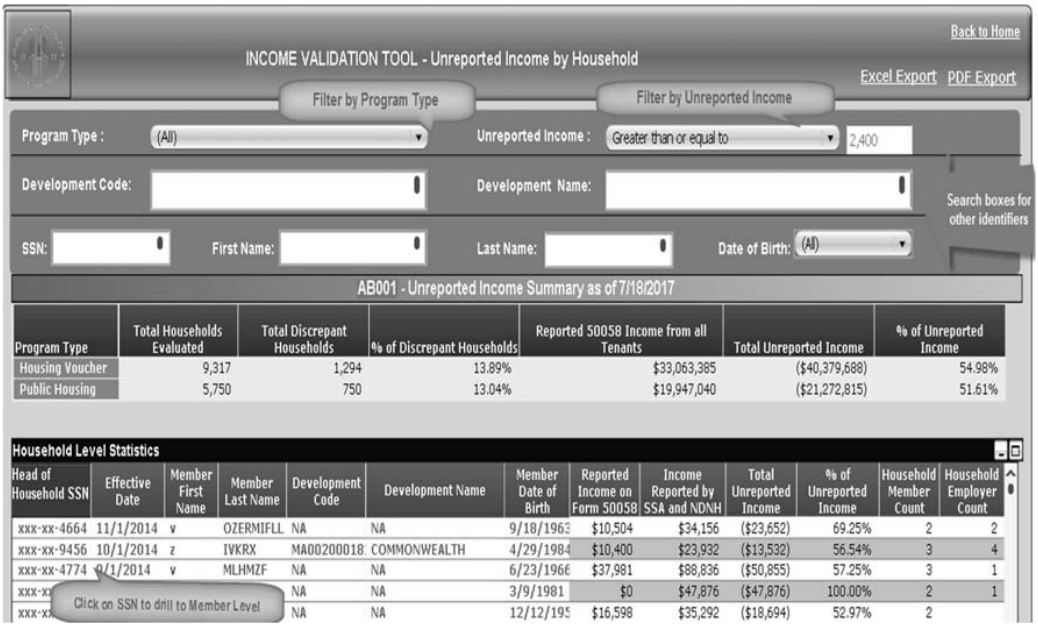
63

Rollout of EIV Income Validation Tool

- The **EIV Income Validation Tool (IVT)**
  - The IVT was developed in response to an OIG audit based on a finding of false positives in the EIV Income discrepancy Report
  - The IVT provides a validation of tenant reported wages, unemployment compensation, and social security/disability benefits reported in IMS/PIC via form HUD-50058
  - The IVT was pilot tested for 90 days with 12 PHAs between October 2017 and January 2018
  - New EIV tool available to all PHAs – **Target:** July – December 2018
  - EIV tool available via web-service call – **Target:** Fall/Winter 2018

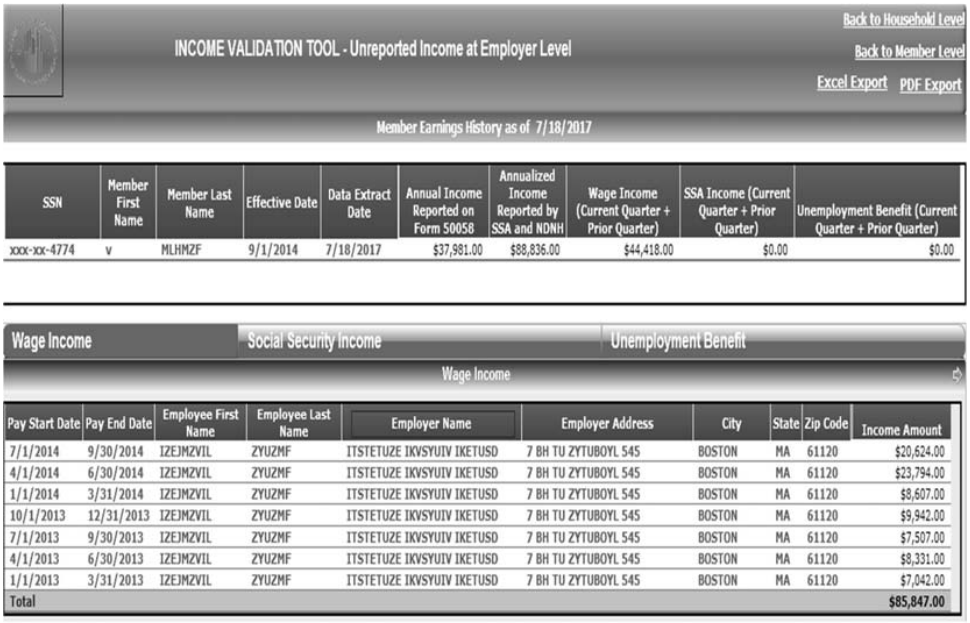
64

Income Validation Tool – HoH Report



65

Income Validation Tool – Employment History Report



66

Improved Efficiency – EIV Income Validation Tool

- New Methodology Used by Income Validation Tool
  - Results in substantial reduction of false positives
  - Increases the identification of potential cases of identity theft
  - Excludes income for Full-Time Students, Live-in Aides, Flat Rents and Youth Employment
- Tool Design
  - Allows for quick identification of instances of under-reported tenant income at regular and/or interim re-examinations
  - Efficient drilldown capability to household member income
  - Allows for focused review of wage, unemployment compensation, zero incomes and social security benefits
  - Effective filtering, sorting and enhanced reporting (exports to Excel & PDF)
  - Enhanced ability to search by Name, SSN, DOB, Development Name and Development Code with additional filtering to sort cases alphabetically, by effective date & recertification month
  - Assists PHAs in identifying accurate income categories

67

New HUD Forms

68

New HUD Forms Issued

- HUD has issued in April of 2018 the following new forms (OMB Paperwork Reduction)
  - HUD-51999 General Depository Agreement
  - HUD-52190 Declaration of Trust / Restrictive Covenants
  - HUD-53012 Public Housing Annual Contribution Contract
  - HUD-52860 Inventory Removal Application
  - HUD-5837 Notification of Close-out or Future Public Housing Development
- No major changes
- Very little information on PHA implementation / use of the forms

69

New General Depository Agreement

- HUD-51999 General Depository Agreement
  - Purpose of form:
    1. Requires PHA to deposit funds into interest-bearing accounts at financial institution whose deposits are insured by the FDIC or NCUSIF
    2. Requires 100% collateralization of funds in select investments
    3. Allows HUD to freeze / control funds
  - Changes to form:
    1. Requires financial institution to implement provisions of General Depository Agreement within 24 hours

70

New Declaration of Trust and Restrictive Covenants

- HUD-52190 Declaration of Trust and Restrictive Covenants
  - Purpose of form:
    1. Legal instrument that grants HUD an interest in a public housing property that is supported by federal funds
    2. Protects HUD's financial investment in the property by allowing HUD to seize and reassign a property in the event of substantial default
  - Changes to form:
    1. Merged HUD 51290-A (development) and HUD 51290-B (modernization) into this form.
    2. Added the Declaration of Restrictive Covenants for mixed-finance public housing developments

71

New Public Housing Annual Contribution Contract

- HUD-53012 Public Housing Annual Contribution Contract
  - Purpose of form:
    1. Establishes a grant agreement between the PHA and HUD
    2. Provides basic terms and conditions of the administration of the program
    3. Requires the PHA to operate the program in accordance with a governing laws, regulations and HUD requirements
  - Changes to form:
    1. Merges HUD-53012-A (ACC part A) and HUD-53012-B (ACC part B) into one form
    2. Adds mixed-finance public housing development requirements
    3. Makes minor clarifications and conforming updates, based on applicable statutes and regulations

72

New Inventory Removal Application

- HUD-52860 Inventory Removal Application, including parts A through G
  - Purpose of form:
    1. Ensures compliance with statutory and regulatory requirements when removing public housing projects and other real property subsidized by HUD from a PHA's inventory
  - Changes to form:
    1. Formatting changes
    2. Instructional clarifications

73

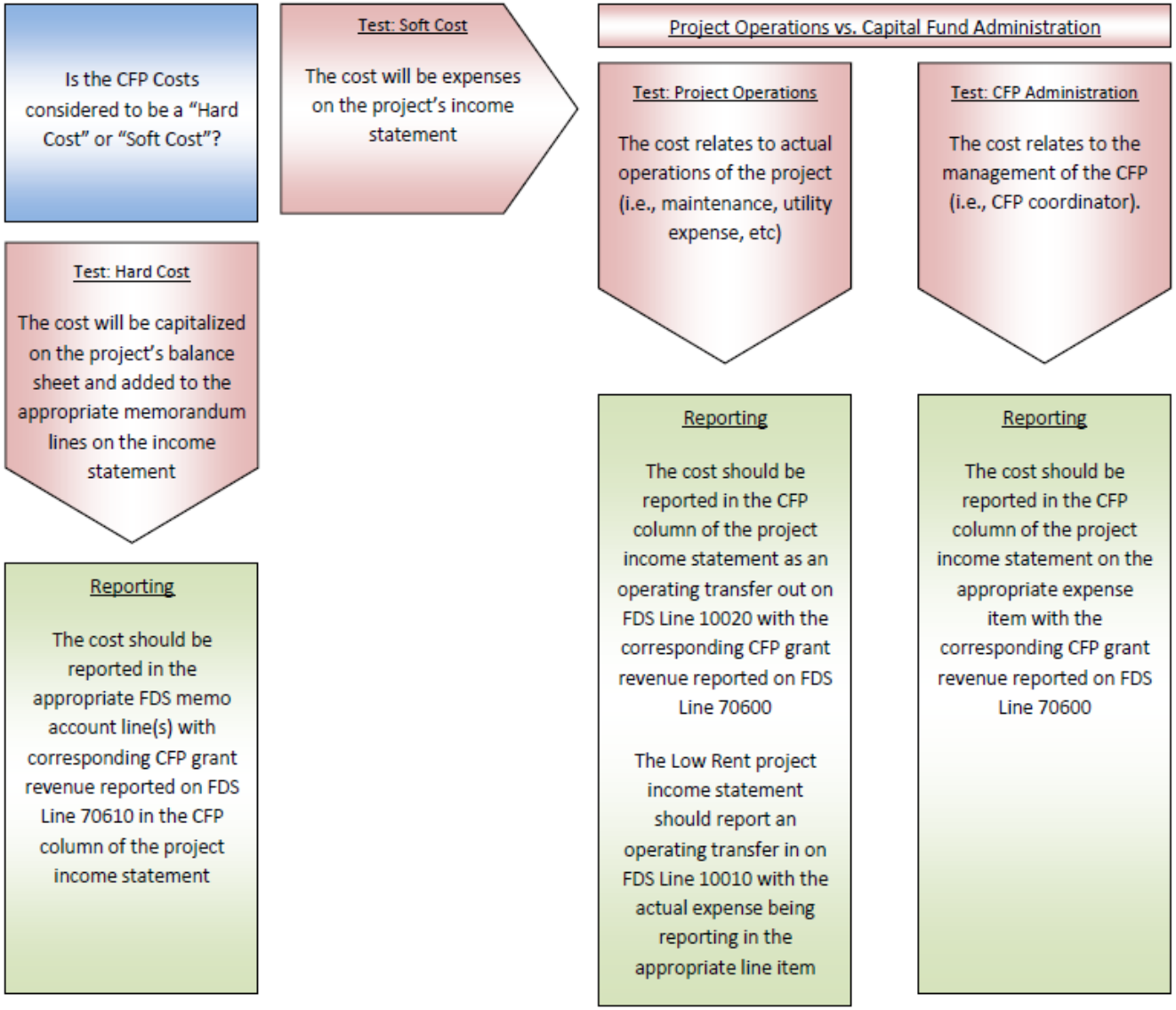
New Notification of Close-out or Future Public Housing Development

- HUD-5837 Notification of Close-out or Future Public Housing Development
  - Purpose of form:
    1. Notifies HUD of a PHA's intention to either close-out their public housing portfolio or develop new public housing
    2. Used by HUD to provided targeted technical assistance and monitoring
  - Changes to form:
    1. New (?)

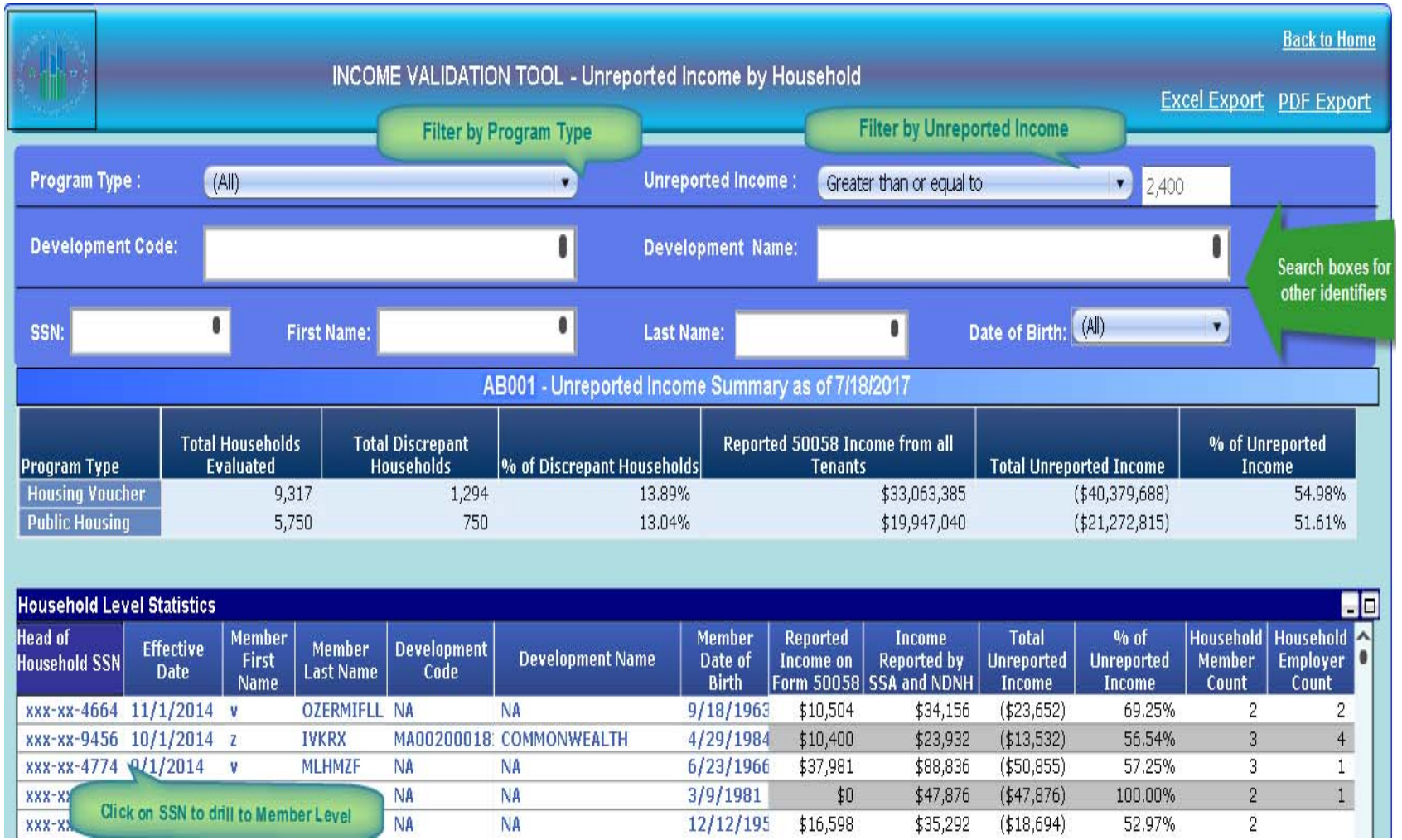
74

Section 1a

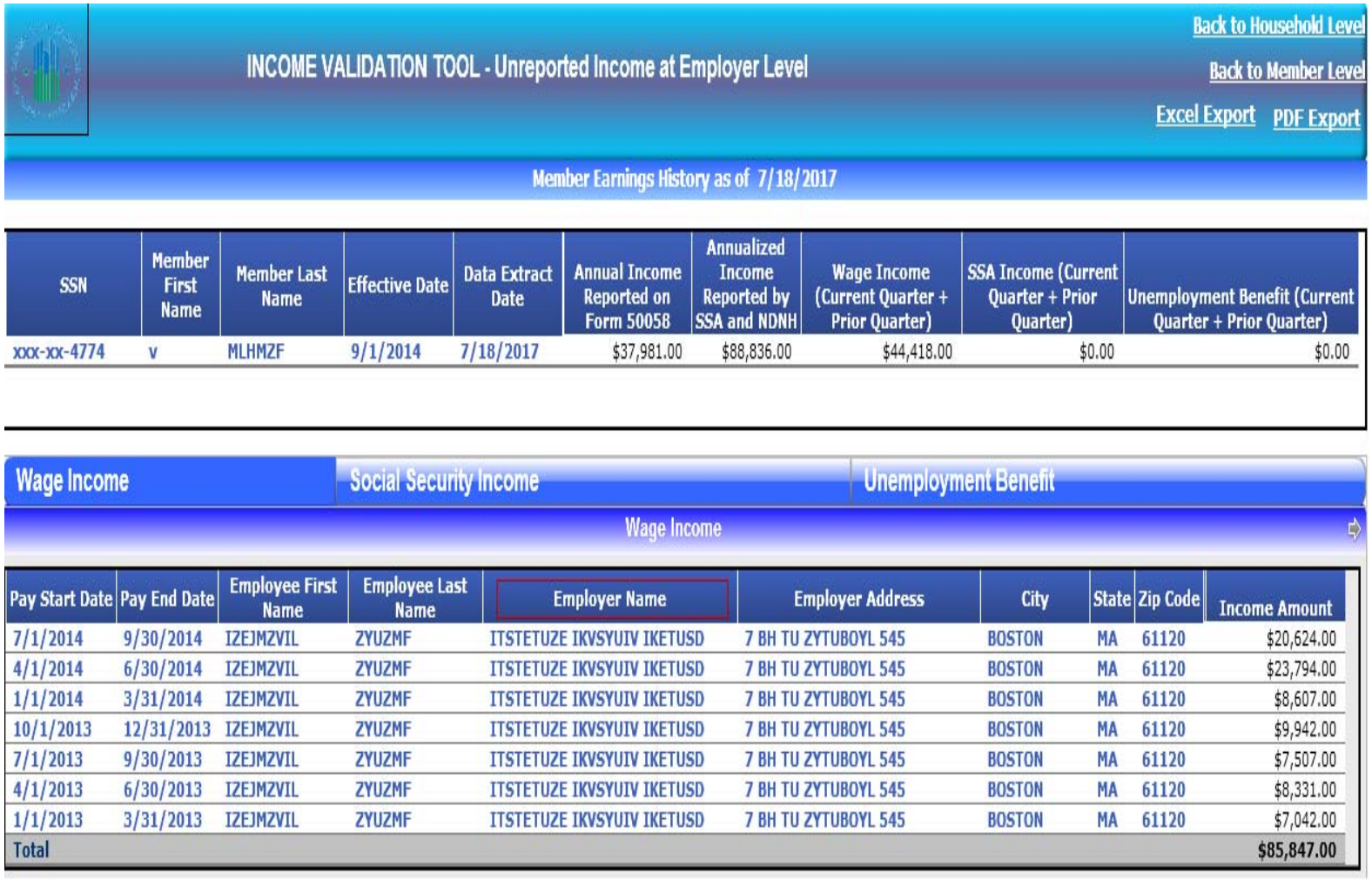
CFP Reporting Flowchart



Income Validation Tool – HoH Report



Income Validation Tool – Employment History Report



INCOME VALIDATION TOOL - Unreported Income at Employer Level

Back to Household Level | Back to Member Level | Excel Export | PDF Export

Member Earnings History as of 7/18/2017

SSN	Member First Name	Member Last Name	Effective Date	Data Extract Date	Annual Income Reported on Form 50058	Annualized Income Reported by SSA and NDNH	Wage Income (Current Quarter + Prior Quarter)	SSA Income (Current Quarter + Prior Quarter)	Unemployment Benefit (Current Quarter + Prior Quarter)
xxx-xx-4774	v	MLHMZF	9/1/2014	7/18/2017	$37,981.00	$88,836.00	$44,418.00	$0.00	$0.00

Wage Income | Social Security Income | Unemployment Benefit

Wage Income

Pay Start Date	Pay End Date	Employee First Name	Employee Last Name	Employer Name	Employer Address	City	State	Zip Code	Income Amount
7/1/2014	9/30/2014	IZEJMZVIL	ZYUZMF	ITSTETUZE IKVSYUIV IKETUSD	7 BH TU ZYTUBOYL 545	BOSTON	MA	61120	$20,624.00
4/1/2014	6/30/2014	IZEJMZVIL	ZYUZMF	ITSTETUZE IKVSYUIV IKETUSD	7 BH TU ZYTUBOYL 545	BOSTON	MA	61120	$23,794.00
1/1/2014	3/31/2014	IZEJMZVIL	ZYUZMF	ITSTETUZE IKVSYUIV IKETUSD	7 BH TU ZYTUBOYL 545	BOSTON	MA	61120	$8,607.00
10/1/2013	12/31/2013	IZEJMZVIL	ZYUZMF	ITSTETUZE IKVSYUIV IKETUSD	7 BH TU ZYTUBOYL 545	BOSTON	MA	61120	$9,942.00
7/1/2013	9/30/2013	IZEJMZVIL	ZYUZMF	ITSTETUZE IKVSYUIV IKETUSD	7 BH TU ZYTUBOYL 545	BOSTON	MA	61120	$7,507.00
4/1/2013	6/30/2013	IZEJMZVIL	ZYUZMF	ITSTETUZE IKVSYUIV IKETUSD	7 BH TU ZYTUBOYL 545	BOSTON	MA	61120	$8,331.00
1/1/2013	3/31/2013	IZEJMZVIL	ZYUZMF	ITSTETUZE IKVSYUIV IKETUSD	7 BH TU ZYTUBOYL 545	BOSTON	MA	61120	$7,042.00
Total									$85,847.00

Section 2

CREATING A SUCCESSFUL CONSORTIUM

Allison Reider
Texoma Housing Partners Executive Director

TEXOMA HOUSING PARTNERS

Background

- Public Housing has been around since 1937 when it was presented as a component of the "New Deal" by President Franklin Roosevelt as a means to address unemployment and lack of affordable housing. The program is funded through the Department of Housing and Urban Development (HUD).
- Enabling legislation in Texas requires each Housing Authority to have a governing board of at least 5 appointed commissioners.
- Texas has the largest number of small housing authorities nation-wide; 313 of the 416 state-wide have a total of less than 250 units.

TEXOMA HOUSING PARTNERS

Background

- All Housing Authorities, regardless of size are required to meet all HUD reporting and management requirements.
- Many small authorities do not have the necessary resources or expertise to meet the growing or ever changing HUD requirements.
- HUD is unable to provide sufficient oversight to small housing authorities resulting in a variety of inefficiencies and even mismanagement.
- Examples of issues

TEXOMA HOUSING PARTNERS

Trouble in Paradise

- 1993- Fort Worth Field Office identifies management issues within the "Bonham Group" which consists of 10 small housing authorities across North Texas, all managed by the same Executive Director, Willis Duff.
- 1993 - HUD performs management review of Bonham Group resulting in a 70 page management deficiency report which included violations to open meetings act, property site segregation, delinquent reporting, non-existent preventative maintenance, or on going maintenance and dilapidated property condition with an overall vacancy rate of 70%.

TEXOMA HOUSING PARTNERS

TCOG to the Rescue

- HUD has existing relationship with Texoma Council of Governments (TCOG) through Section 8 contract and recommends TCOG as management solution.
- 1993-94- 8 Cities contract with TCOG for administrative services. TCOG is responsible for staffing and day to day operations; PHA's no longer have employees.
- 1995-98- HUD continues to intervene; four more cities contract with TCOG bringing the total to 12 PHA's.

TEXOMA HOUSING PARTNERS

Accounting trials and tribulations

- Accounting issues associated with managing 16 separate PHAs include:
  - Segregation of revenues and HUD funding.
  - Allocation of expenses.
  - Accounting for capital improvements.

TEXOMA HOUSING PARTNERS

QHWRA offers hope…or does it?

- 1998-99 – Quality Housing Work Responsibility Act (QHWRA) Enabling legislation allowing for consortia. Most sweeping legislation for PHA's in 30 years.
- 1999 – Although legislation is passed, no policy is forthcoming from HUD to implement. 12 PHA's combine capital funding.
- 1999- 4 additional PHA's sign administrative contract with TCOG bringing total to 16. Duplication of everything.

TEXOMA HOUSING PARTNERS

Here we goooooooooo!

- 2000- The 16 individual PHAs act on legislation and take local steps to push forward. Each housing authority passed a resolution acting under the Texas Interlocal Cooperation Act and the QHWRA legislation to create the consortium named Texoma Housing Partners (THP).
- 2000- Consortium agreement is established.
- 2000- One administrative contract is established between the newly formed THP and TCOG.

TEXOMA HOUSING PARTNERS

Here we are…….

- 2000 - One member from each PHA board is selected to serve on the consolidated THP board; all financial resources are combined and 100% fungible.
- 2001 - City 17 joins consortium.
- 2011 - City 18 joins consortium.
- 2017- City 19 joins consortium.
- 2017- THP grows to include 24 staff members with a budget of over 4 million dollars and becomes a Stand Alone Organization.

TEXOMA HOUSING PARTNERS

So just what is a Consortium

- Definition- Two or more PHA's that join together to perform planning, reporting and other administrative or management functions for participating PHAs, as specified in the consortia agreement.
- Must establish and execute a consortia agreement between all members.
- Must establish a Lead Agency; cannot be identified as troubled or be determined by HUD to fail civil rights compliance.
- Lead Agency collects funds on behalf of all participating PHAs then allocates according to consortium agreement. **Note**: HUD has not implemented directing funds to lead agency; all funds for the 19 PHAs participating in the consortia are directed to the same bank account.

TEXOMA HOUSING PARTNERS

Still more on Consortium

- Participating PHAs must adopt the same fiscal year as the Lead Agency.
- Submission of joint PHA Plan; currently this is the only streamlined reporting available to consortiums.
- PHAs are permitted to join a consortia as a remedy for Troubled status.
- If a PHA elects to enter a consortium, the whole program under the ACC including all dwelling units and funding is covered. No partial spin-offs of program sections such as only the FSS program component in the HCV program.
- Total fungibility of capital funds and equity. Equity transfers are allowed to the lead agency and equity transfers are allowed from the lead agency.

TEXOMA HOUSING PARTNERS

What is the difference between Consortia and Consolidation?

- Consortia is a voluntary collection of PHAs who join their resources but who retain their ACC contract. Although the QHWRA legislation provided for streamlined reporting for consortia, all HUD systems continue to view participating PHAs as individual entities. Only the PHA Plan is submitted as a single report.
- Consolidation is a voluntary collection of PHAs who join their resources but who elect to have their individual ACC contracts end and roll their units into the ACC contract of the Lead Agency. PHAs who consolidate are viewed as one entity.

TEXOMA HOUSING PARTNERS

Why Consortia vs. Consolidation

- PHAs wanted to retain ACC contracts in the event of withdrawal. More politically palatable.
- Cities are recognized as small individually vs. large combined providing for certain advantages including reduced reporting and the ability to utilize 100 % of capital funding in the operating budget.

TEXOMA HOUSING PARTNERS

THP Consortium = Savings

- Reduction in planning and advertising cost
- Reduced Annual Audit Fees
- Decreased CPA Fees
- Reduced Insurance Premiums
- Consolidated Capital Improvements
- Reduced Administration and Meetings
- Total savings the first year over $100,000

Why does THP work?

- Board Support
- HUD Support
- Regional Approach to Governance and Management
- Significant efficiencies of scale gained
- Member cities see their properties in better physical condition than ever before and public officials get fewer complaints.

TEXOMA HOUSING PARTNERS

How THP works

- Managed and maintained as one property.
- One staff consisting of nine (9) administrative staff and fifteen (15) maintenance staff.
- One centrally located administrative office and one satellite office.

TEXOMA HOUSING PARTNERS

How THP works

- One centrally located maintenance shop with storage facilities located on several properties.
- One Public Housing Software program designed to provide both consolidated and separate reporting.

TEXOMA HOUSING PARTNERS

THP takes on all accounting

- Moving away from an administrative contract with TCOG, all staff become THP employees for the first time.
- THP staff takes on all accounting functions including payroll, unemployment, taxes, retirement and accounts receivable and payable.
- THP develops new general ledger account system which includes reporting, bank reconciliation and budget preparation.
- All new policies and procedures are developed for the newly minted stand alone organization.

TEXOMA HOUSING PARTNERS

Possible Challenges to forming a Consortia

- Board and City acceptance.
- Miscellaneous HUD system changes.
- Managing holistically rather than single cities.

TEXOMA HOUSING PARTNERS

Contact Information

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TEXOMA HOUSING PARTNERS

Section 2a

TEXOMA HOUSING PARTNERS
CONSORTIUM AGREEMENT

WHEREAS, the 100% Low Rent Public Housing Authorities of the Cities of: Bells, Bonham, Celeste, Ector, Gunter, Farmersville, Howe, Honey Grove, Ladonia, Pottsboro, Savoy, Tom Bean, Trenton, Van Alstyne, Whitewright, and Windom, Texas, hereby agree to join together to form, operate, and maintain a voluntary consortium to be known as TEXOMA HOUSING PARTNERS (THP) for the purpose of administering public housing funds and to provide for the public housing needs of the citizens of their respective cities; and

WHEREAS, the operation and maintenance of THP involves certain responsibilities and privileges; and,

WHEREAS, it is the intent of this Consortium Agreement to provide the basic framework for this cooperative endeavor;

WHEREAS, it is our mutual goal to combine our total resources to provide public housing needs beyond our individual capabilities and in accordance with 24 CFR 943, the Bonham Housing Authority is designated as the lead agency; now therefore

The sixteen (16) public housing authorities who are signatories to this Consortium Agreement agree as follows:

ARTICLE I

The sixteen (16) public housing authorities whose approval is attached hereto agree to operate and maintain THP offices at the Bonham Public Housing Authoritiy Administrative Offices located at 810 West 16th Street, Bonham, Texas, and such other locations as the Governing Board of THP may from time to time designate. THP shall be governed by a policy-making board consisting of seventeen (17) voting members who shall serve terms of three (3) years, with the exception that initial members shall have staggered terms to provide continuity of THP's program. Each of the existing sixteen (16) public housing authority boards shall designate one (1) member to the initial THP Governing Board. Upon convening for the first time, these sixteen (16) members shall draw lots to determine five (5) members to serve an initial one (1) year term; five (5) members to serve an initial two (2) year term; and six (6) members to serve an initial three (3) year term. Members may be appointed to the THP Governing Board for successive terms. After appointment for an initial term by the sixteen public housing authorities, subsequent appointments or reappointments will be made by the mayor of each city represented in accordance with Chapter 392, Subchapter 3, Section 392.031 of the Local Government Code. One public housing resident of one of the member public housing authorities will be appointed for a three (3) year term. This resident will be appointed in accordance with a selection process to be established by the THP Governing Board. In the event that new members are added under the terms of Article IV hereof, such new members will have a member appointed to the Governing Board by the mayor of the city represented.

This Governing Board shall have policy-making authority for THP and shall be known as the Board of Directors. THP shall operate on a fiscal year that shall begin on April 1 of each calendar year and end on March 31 of the following year. Bonham Housing Authority, acting as the lead agency, is designated to receive HUD program payments on behalf of participating PHAs, to administer HUD requirements for administration of the funds, and to apply the funds in accordance with the consortium agreement and HUD regulations and requirements. All participating PHAs are subject to the joint PHA Plan submitted by the lead agency.

If a member of the Board of Directors resigns, dies, or is absent from three (3) consecutive meetings, the appointing authority may designate a new member to complete the unexpired term of the departing member upon written notice by the President of the Board of Directors.

ARTICLE II

The Board of Directors of THP, by majority vote, shall be responsible for the approval of the expenditure of all funds made available to THP from all sources including, but not limited to, U.S. Department of Housing and Urban Development (HUD) subsidy, rent roll income, interest income, and the sale of fixed assets or surplus equipment. Such expenditure of funds will be made from the depository selected under Article IV and may be expended upon check or warrant signed by the Secretary/Treasurer, countersigned by the President, or in the absence or inability of the President to act, the Vice-President. The Board of Directors of THP shall enter into a management contract with Texoma Council of Governments (TCOG) to provide administrative services, property maintenance, and fiscal operations for THP. The scope, nature and compensation for such services shall be mutually agreed upon by the Board of Directors and TCOG.

ARTICLE III

TCOG's Public Housing Director shall prepare and submit to the Board of Directors a standard operating procedural manual. The Public Housing Director shall prepare an annual budget and recommendations to be presented to the Board of Directors for their consideration and approval in accordance with the schedule established by HUD. The approval of the budget by the Board of Directors shall be contingent upon the availability of sufficient funds in the form of HUD subsidy, projected rental income, and operating reserves.

ARTICLE IV

The activities of THP shall be financed by a fund which shall be set up in a depository to be selected by the Board of Directors. Each public housing authority shall, upon execution of this agreement, and selection of the depository by THP, execute such forms and documents so as to 1) authorize HUD to make payment of all subsidy amounts directly to the selected depository, and 2) authorize transfer of existing operating reserve amounts to the selected depository.

The Board of Directors may consider requests from other public housing authorities to be admitted to and become cooperative partners of THP on an equal basis with the participating

partners to this agreement. New members shall agree to comply with the provisions of Article IV, paragraph 1, upon acceptance by the Board of Directors.

ARTICLE V

In the event that any of the original sixteen (16) parties to this agreement or any parties subsequently admitted under Article IV desires to disassociate themselves from THP, it shall be necessary for that particular public housing authority to give written notice to the Board of Directors. Such notice of intention to disassociate from THP will be effective at the end of THP's fiscal year during which notice is given provided that at least ninety (90) days remain in the fiscal year. In the event that less than ninety (90) days remain in THP's current fiscal year, such notice of intention to disassociate from THP will be effective at the end of the succeeding fiscal year. In the event of that one or more public housing authorities give proper notice to the remaining members of their intention to disassociate from THP, the other parties may continue to operate THP. In the event that all of the cooperative public housing authorities jointly agree to dissolve the THP, the assets of THP will be disposed of in a manner designated by the Board of Directors and the net proceeds, after the satisfaction of all indebtedness, will be divided among the cooperative public housing authorities in a manner designated by them. Any party may challenge the manner for disposing of assets provided by a majority of the Board of Directors by submitting to the non-challenging parties three (3) names of individuals acceptable as an arbitrator to the challenging party. The non-challenging parties may select one (1) of the named individuals to arbitrate the manner of disposition. If none of the individuals are acceptable to the non-challenging parties, they shall submit the names of three (3) individuals acceptable as an arbitrator from which the challenging party may select. The alternating submission of names of individuals shall be continued until one (1) mutually acceptable person is selected. The selected arbitrator shall establish the procedures for arbitration of the issue. The decision of the arbitrator will be finding on all parties.

ARTICLE VI

The appointed members serving on the Board of Directors shall meet no less often than annually at a time and place to be determined. The President shall also be authorized to call special meetings in accordance with applicable state laws. A simple majority of fifty-one percent (51%) of the total number of voting members shall constitute a quorum for the transaction of business.

Special meetings called by the President shall be announced in accordance with the Texas Open Meetings Act. The posted notice shall specify the time, place, and subject of the called meeting and business transacted at such called meetings shall be confined to the subjects as stated in such notice.

When a quorum is present at any meeting, the vote of the majority of the voting members shall decide any question brought before the meetings, except that a two-thirds (2/3) affirmative vote of the total number of representatives shall be required to amend the Consortium Agreement.

The President of the Board of Directors shall preside at all meetings. In the absence of the President, the Vice-President shall preside at these meetings. In the absence of both the President and the Vice-President, the Secretary/Treasurer shall preside at these meetings. In the event that any of the aforementioned officers of THP are unable to attend any meeting, the members present at the meeting shall, in a manner deemed acceptable to them, designate a presiding officer from among them, provided that a quorum is present to conduct business.

ARTICLE VII

The officers and duties of THP are as follows:

A. The duties of the President of the Board of Directors shall be:
   1. Preside at meetings of the Board of Directors
   2. Sign official documents
   3. Call special meetings as required and in accordance with provisions of the Open Meetings Act
   4. Recommend committee appointments to include but not be limited to, audit committee, budget committee, nominating committee
   5. The President shall not vote on matters before the Board of Directors except to cast the tie breaking vote in the event of a tie vote

A. The duties of the Vice-President of the Board of Directors shall be to assume the duties of the President in the event the President is absent or otherwise unable to fulfill his or her responsibility.

B. The duties of the Secretary/Treasurer shall be:
   1. Preside at meetings of the Board of Directors in the absence of both the President and Vice-President
   2. Sign official documents

ARTICLE VIII

THP shall have an annual audit made of its financial accounts and transactions during the preceding fiscal year. Such audit shall be made in conformance with applicable laws and regulations.

ARTICLE IX

This Consortium Agreement shall become initially effective upon the date of ratification by the minute order, resolution or other appropriate signification of assent by the parties hereto as shown by a certified copy of said minute order, resolution, or other appropriate signification of assent under the hand of the Chairman of the public housing authority of the initial sixteen (16) cooperative members; or a similar certified copy in the case of any public housing authority becoming a member of THP after the execution of this Consortium Agreement by the parties originally signatories hereto, or any parties subsequently admitted with the participating public housing authorities to this Agreement

This Consortium Agreement may be amended by affirmative letter vote of two-thirds (2/3) of the total number of members of the Board of Directors, provided that the proposed amendment was discussed and authorized for consideration at a regular or special called meeting of the Board of Directors.

Section 2b

Federal Register

Wednesday,
November 29, 2000

Part II

Department of Housing and Urban Development

24 CFR Part 943
Consortia of Public Housing Agencies and Joint Ventures; Final Rule

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

24 CFR Part 943

[Docket No. FR–4474–F–02]

RIN 2577–AC00

Consortia of Public Housing Agencies and Joint Ventures

AGENCY: Office of Public and Indian Housing, HUD.

ACTION: Final rule.

SUMMARY: This final rule implements a 1998 law that authorizes public housing agencies (PHAs) to administer any or all of their housing programs through a consortium of PHAs. The law also authorizes PHAs to use subsidiaries, joint ventures, partnerships or other business arrangements to administer their housing programs or to provide supportive or social services. This final rule specifies minimum requirements relating to formation and operation of consortia and minimum contents of consortium agreements, as required by the statute and reflects consideration of public comments received on the proposed rule.

EFFECTIVE DATE: December 29, 2000.

FOR FURTHER INFORMATION CONTACT: Rod Solomon, Deputy Assistant Secretary for Policy, Program and Legislative Initiatives, Department of Housing and Urban Development, Office of Public and Indian Housing, 451 Seventh Street, SW, Room 4116, Washington, DC 20410; telephone (202) 708–0713 (this is not a toll-free telephone number). Persons with hearing or speech disabilities may access this number via TTY by calling the toll-free Federal Information Relay Service at 1–800–877–8339.

SUPPLEMENTARY INFORMATION:

I. The September 14, 1999 Proposed Rule

On September 14, 1999 (64 FR 49940), HUD published for public comment a proposed rule implementing section 13 of the United States Housing Act of 1937 (42 U.S.C. 1437 *et seq.*) (referred to as the ''1937 Act''), as amended by section 515 of the Quality Housing and Work Responsibility Act of 1998 (title V of the fiscal year 1999 HUD Appropriations Act; Pub. L. 105–276, approved October 21, 1998; 112 Stat. 2461) (referred to as the ''Public Housing Reform Act'').

In addition to authorizing public housing agencies (PHAs) to administer any or all of their housing programs through a consortium of PHAs, section 13 of the 1937 Act also authorizes PHAs to use subsidiaries, joint ventures, partnerships or other business arrangements to administer their housing programs or to provide supportive or social services. The proposed rule specified minimum requirements relating to formation and operation of consortia and minimum contents of consortium agreements, as required by the statute.

Before enactment of the Public Housing Reform Act, some PHAs had established cooperative arrangements for carrying out some of their responsibilities. A principal difference is that under a section 13 consortium, a joint PHA Plan is submitted on behalf of participating PHAs. Enactment of the revised section 13, however, does not restrict the ability of PHAs to continue to establish cooperative arrangements under which they receive funding separately and submit separate PHA Plans. Another major difference between such arrangements and consortia as authorized under section 13, is that under section 13 funding must be paid to the consortium. HUD is implementing this requirement by providing that funds shall be directed to the lead agency, as a representative of the consortium, on behalf of the participating PHAs, instead of being paid to the PHAs separately (although funding allocations are still calculated separately for each PHA).

The preamble to the September 14, 1999 proposed rule provides additional information regarding the proposed implementation of section 13 of the 1937 Act, as revised.

II. Changes Made at the Final Rule Stages

The following describes the more significant changes made to this rule at the final rule stage. In addition to the changes discussed below, certain technical and clarifying changes were made at the final rule stage. Some of the nonsubstantive changes, but not necessarily all, may be noted below. The more significant changes are as follows:

- In § 943.118 (What is a consortium?), HUD adds language at the end of this section to require that PHAs participating in a consortium adopt the same fiscal year in order that the applicable periods for submission and review of the joint PHA Plan are the same and to indicate that notwithstanding any other regulation, PHAs may request and HUD may approve changes in PHA fiscal years to make this possible.
- In § 943.120 (What programs of a PHA are included in a consortium's functions), HUD revises paragraph (a)(1) to clarify that a PHA's public housing program may include either the operating fund or the capital fund, or both). In paragraph (a)(4) of this same section, HUD removes reference to the exception made for ''Moderate Rehabilitation and Certificates and Vouchers.
- In § 943.122 (How is a consortium organized?), HUD revises paragraph to clarify that any necessary payment agreements entered into between HUD and the lead agency and other participating agencies must provide that HUD funding to the participating PHAs for program categories covered by the consortium will be paid to the lead agency. This payment arrangement is consistent with the requirements of the Public Housing Reform Act. HUD revises paragraph (b) to provide that to be the lead agency in a consortium, not only must a PHA not be designated as troubled, or determined by HUD to fail the civil rights compliance threshold for new funding, the PHA must not have had its PHAS designation withheld for civil rights or other reasons.
- In § 943.124 (What elements must a consortium agreement contain?), HUD revises paragraph (a)(5) to provide that the consortium agreement must not only specify the period of existence of the consortium and the terms under which a PHA may withdraw from the consortium before the end of the period of existence, but must specify when a PHA may join the consortium. This paragraph also was revised to provide that, for orderly transition, the addition or withdrawal of a PHA and termination of the consortium must take effect on the anniversary of the consortium's fiscal year.
- In § 943.126 (What is the relationship between HUD and a consortium?), HUD removes paragraph (b) which provided that HUD's payment to the consortium of funding for the covered program categories covered will be paid to the lead agency. This paragraph was duplicative of § 943.122, which addresses consortium organization. HUD revises paragraph (a) by removing the ''(a)'' as the designation for this paragraph and by clarifying that HUD's relationship with the consortium is through the PHA Plan process, in addition to the payment agreements entered into. HUD also revises this paragraph to clarify that HUD funds provided to the consortium must be used in accordance with the consortium agreement and the joint PHA Plan, in addition to HUD's regulations and requirements.
- In § 943.128 (How does a consortium carry out planning and reporting functions?), HUD revises paragraph (b) to clarify that the consortium must maintain records, in

addition to submitting certain reports to HUD. HUD revises paragraph (c) to require that the consortium agreement must be made available to the public as a supporting document to the joint PHA Plan.

• In § 943.130 (What are the responsibilities of participating PHAs?), HUD adds a new paragraph (b) to address the applicability of independent audit and performance assessment system requirements to consortia and to note that the manner of applicability depends upon the composition and funding of the PHA. The new paragraph provides that where the lead agency will manage substantially all program and activities of the consortium, HUD interprets financial accountability to rest with the consortium and therefore apply independent and performance assessment requirements on a consortium-wide basis. Where the lead agency will not manage substantially all programs and activities of a consortium, the consortium must identify in its PHA Plan submission which PHAs have financial accountability for the programs. The determination of financial accountability shall be made in accordance with generally accepted accounting principles, as determined in consultation with an independent public accountant. This paragraph also provides, however, that with respect to any consortium, HUD may determine (based on a request from the consortium or other circumstances) to apply independent audit and performance requirements on a different basis (than that provided in the rule) where a different basis would promote sound management.

• In § 943.140 (What programs and activities are covered by this subpart?), HUD revises paragraph (a) to clarify that subpart C applies to a PHA's management functions as well as the PHA's administrative functions.

• In § 943.146 (What impact does the use of a subsidiary affiliate, or joint venture have on financial accountability to HUD and the Federal government?), HUD replaces the term ''General Accounting Office'' with ''Comptroller General,'' which is consistent with statutory terminology.

• In § 943.148 (What procurement standards apply to PHAs selecting partners for a joint venture?), HUD revises paragraph (a) to clarify that the requirements of 24 CFR part 85 (Administrative Requirements for Grants and Cooperative Agreements to State, Local and Federally Recognized Indian Tribal Governments) are applicable to the regulations in part 943, subject to the provisions in paragraph (b) of this section. HUD revises paragraph (b)(2) of this same section, to reference the applicability of the requirements of 24 CFR part 84 (Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Agencies).

In § 943.150 (What procurement standards apply to a PHA's joint venture partner?), HUD revises paragraph (a) to include reference to the applicability of part 84.

III. Discussion of Public Comments Received on the Proposed Rule

This final rule takes into consideration the public comments received on the September 14, 1999 proposed rule. The public comment period on the proposed rule closed on November 15, 1999. By close of business on that date, HUD had received 6 public comments. Comments were submitted by two PHAs; two of the three main organizations representing PHAs; a State PHA association; and a private individual. This section of the preamble presents a summary of the significant issues raised by the public commenters on the September 14, 1999 proposed rule and HUD's responses to these comments, and provides the basis why certain changes, as highlighted in Section II of this preamble, were made at the final rule stage. The changes benefit both from the comments received during the public comment period and from comments and questions that have arisen since the comment period closed from PHAs and others interested in forming consortia or joint ventures, as provided by this rule.

A. General Comments Not Regarding a Particular Regulatory Section

Comment: Rule is unclear regarding the relationship between PHA consortia and formula funding under PHDEP. One commenter posed several questions regarding the relationship between PHA consortia and formula funding under the Public Housing Drug Elimination Program (PHDEP). The commenter referred to HUD's September 14, 1999 final rule (64 FR 49900) providing for PHDEP formula allocations. The commenter wrote that the September 14, 1999 final rule provides that certain grantees who received past funding will automatically receive PHDEP funding for Fiscal Year (FY) 1999, provided that the grantee's grant application demonstrates positive program outcomes. The commenter was concerned about those PHAs that are not eligible for automatic FY 1999 PHDEP funding.

The commenter asked the following questions:

1. Will such a PHA be able to join a consortium of other PHAs that continuously receive PHDEP assistance?

2. Will the PHA be required to become a PHDEP grantee before joining such a consortium?

3. May a PHA that was not awarded PHDEP assistance conduct drug-elimination activities subsidized by other PHAs who have received PHDEP funding?

HUD Response. Yes, a PHA not eligible for automatic PHDEP funding may join a consortium with other PHAs that do receive PHDEP assistance, without becoming a PHDEP grantee itself first. A PHA that was not awarded PHDEP assistance and is part of a consortium with PHAs that were awarded PHDEP assistance may conduct drug elimination activities using that assistance.

Comment: Rule is unclear regarding real estate transactions and development/acquisition and redevelopment. One commenter wrote that it had hoped ''that these types of development activities would be highlighted in the proposed rule and encouraged by HUD.''

HUD Response. HUD encourages PHAs to use the consortium and joint venture options as broadly as possible to advance their mission, including using them for capital planning and development. However, HUD also believes that any public housing development activities involving joint ventures are more appropriately addressed in HUD's Mixed-Finance Development rule or Capital Fund rule, to be issued later this year.

Comment: Further HUD guidance is required. One commenter wrote that the ''statute and the proposed rule assume a level of experience or sophistication which may not be universal among the PHAs.'' The commenter wrote that ''it would be most useful [for HUD] to prepare some form of policy guide or 'how to' that would direct the energies of potential members in a productive way.'' The commenter recommended that HUD provide guidance in the question and answer format, with ''examples with different sizes of PHAs and different sets of consortia objectives that have successfully used the strategy.''

Comment: Rule provides sufficient guidance. In contrast to the preceding comment, one commenter wrote that ''sufficient regulatory guidance has been provided and that remaining planning and operational issues should be left for [P]HAs to develop through their agency planning process and partnership agreements.'' The commenter believes that the provisions of the proposed rule

''effectively outline the basic framework and submission process for [P]HAs that opt to form a consortium or joint venture.''

HUD Response. The rule provides the basic regulatory framework. HUD will explore issuing additional guidance to supplement the rule.

B. Comment regarding proposed § 943.115—What programs are covered under this subpart?

Comment: Final rule should cover all categories of Section 8 projects. Section 943.115 of the proposed rule provided that two types of Section 8 projects are not covered by the regulatory provisions governing consortia:

1. PHA-administered project-based Section 8 under the Request for Proposals published on May 19, 1999 (64 FR 27358); and

2. Section 8 projects that are the subject of financial restructuring under the ''Mark to Market'' program, where Participating Administrative Entities are designated to administer the program (see 42 U.S.C. 1437f note).

One commenter objected to these exclusions, writing that ''[a]ny consortium made up of public agencies should be treated corporately as a public agency itself.''

HUD Response. Neither of these categories is covered by the PHA Plan, which is why they were excluded in the September 14, 1999 proposed rule. The PHA Plan is the vehicle for PHAs to combine their planning and reporting, and this rule addresses only those entities and activities covered by a PHA Plan. HUD, therefore, makes no change in response to this comment.

C. Comment regarding proposed § 943.120—What programs of a PHA are included in a consortium's functions?

Comment: Final rule should authorize a PHA to enter more than one consortium for a program category. Section 943.120(b) of the proposed rule provided that ''[i]f a PHA elects to enter a consortium with respect to a program category * * * the consortium must cover the PHA's whole program under the [Annual Contributions Contract (ACC)] with HUD for that program category.'' One commenter—the PHA for the State of Hawaii—objected to this provision. The commenter wrote that in addition to the administration of its state-wide program, it administers a relatively large Section 8 tenant-based program for the City and County of Honolulu. The PHA also administers separate, and smaller, Section 8 programs for neighboring counties. According to the commenter, each county also administers separate Section 8 certificate and voucher programs. The PHA wrote that it would like to continue to administer the Section 8 program for Honolulu, while forming a separate consortium to administer the smaller programs on each of the neighbor island counties. However, under proposed § 943.120(b), the PHA stated it would be prevented from taking this course of action.

HUD Response. A joint PHA Plan covering an entire program category is an essential element of a consortium. If HUD were to allow a PHA to participate in more than one consortium for the same program category, there would be overlapping PHA Plans for the same program, and as many or more PHA Plans rather than fewer. Program administration would not be simplified. Consequently, the final rule continues to provide that a PHA may not be a member of two different consortia for the same program. However, the proposed rule and this final rule still leave room for a PHA or a consortium to contract with another PHA to administer some or all aspects of a Section 8 program. The PHA performing these functions under contract need not be a member of a consortium with the PHA whose program it is administering. In addition, HUD will work with agencies that encounter problems in determining how to combine functions where a consortium under this rule does not seem to be the proper mechanism.

D. Comment regarding proposed § 943.124—What elements must a consortium agreement contain?

Comment: Consortium agreement should provide for PHAs joining consortium after establishment. One commenter wrote that the final rule should require the inclusion of a provision in the consortium agreement providing for (or prohibiting) a new PHA joining the consortium after its establishment.

HUD Response. Section 943.124 was revised in the final rule to include the requested provision.

E. Comment regarding proposed § 943.128—How does a consortium carry out planning and reporting functions?

Comment: Final rule should provide flexibility regarding the reporting requirements. Section 943.128 of the proposed rule provided for reporting to HUD, in accordance with HUD regulations and requirements, for all of the participating PHAs. The preamble to the proposed rule solicited public comment on whether all reports should be combined reports (see 64 FR 49940, third column). One commenter wrote that, absent an explanation of what is meant by ''all reports'', the question is difficult to answer. However, the commenter recommended that ''reporting requirements should be met in whatever way seems best for the consortium and its individual members, so long as [HUD] gets the data it needs.''

HUD Response. The scope of planning and reporting by the consortium must reflect the scope of consortium activities. PHAs should be aware that funding allocations for the Operating Fund and Capital Fund will continue to be calculated separately for each PHA in a consortium. In addition, as noted in Section II of this preamble, how independent audit and performance assessment requirements apply to PHAs in a consortium depends upon the composition and funding of participating PHAs. HUD's intention, with respect to applicability of independent audit and performance assessment of PHAs in a consortium, is that a consortium composed entirely of PHAs that are not designated as troubled and for which the lead agency has assumed all public housing administration and management functions would be treated as one entity for purposes of independent and audit performance assessment requirements of the participating PHAs. However, the rule also provides HUD with the flexibility to select or approve alternative approaches to applying independent audit and performance assessment requirements where such alternative approaches would promote sound management.

F. Comment regarding proposed § 943.148—What procurement standards apply to PHAs selecting partners for a joint venture?

Comment: Final rule should not apply procurement requirements to selection of an affiliate as a joint venture partner. Section 943.148(a) of the proposed rule provided that the procurement requirements of 24 CFR part 85 are generally applicable to a PHA's procurement of goods and services. Section 943.148(b) of the proposed rule permitted qualifications based on sole source procurement for PHA selection of a joint venture partner without making a distinction between selection of an affiliated or non-affiliated entity. Section 943.148(b) permitted such a selection of a joint venture partner if one of two conditions is met:

1. The joint venture partner will make available to the PHA substantial, unique and tangible resources or other benefits that would not otherwise be available to the PHA on the open market (*e.g.*,

planning expertise, program experience, or financial or other resources); or

2. A resident group or a PHA subsidiary is willing and able to act as the PHA's partner in performing administrative functions or to provide supportive or social services.

One commenter wrote that, by treating a PHA's decision to operate through an affiliate as a procurement action, the proposed rule ''detracts from the benefit to the PHA of utilizing the associated entity.'' The commenter wrote that new section 13 of the 1937 Act ''appears to evidence Congress' opinion that PHAs need the ability to operate through whatever organizational structure is most suitable in light of the specific objectives sought to be accomplished, without fear that such operation will be clouded by intimations that such relationships are somehow improper or inappropriate vehicles.''

The commenter stated that it does not believe that the ''sole source exception'' provided in proposed § 943.148(b) adequately addresses this problem. According to the commenter, the first standard ''provides little help in the PHA/affiliate context'' because the ''PHA affiliate will usually offer to the PHA only another form with which to accomplish its objectives, with perhaps the same staff and resources the PHA already has.'' The commenter also objected to the second standard because ''there are many functions'' (such as real estate acquisition) that cannot be categorized as administrative functions or supportive/social services.

HUD Response. The commenter interprets the rule to require a PHA to follow part 85 in its transactions with a subsidiary or affiliate, while that is not its intent. Rather, the rule creates an exception to part 85 procurement procedures in selection of its joint venture partner. The rule creates an ability to make this selection under streamlined procedures—either through a Request for Qualifications or a sole source procurement.

With respect to the functions that are covered by subpart C, the rule has been revised at this final rule stage to clarify that the functions covered include management functions. It does not apply to activities of a PHA that are subject to the requirements of subpart F of Part 941. This section also has been revised at the final rule stage to clarify that the requirements of 24 CFR part 84 also may be applicable.

IV. Findings and Certifications

Public Reporting Burden

The information collection requirements contained in §§ 943.124, 943.126, and 943.128 have been approved by the Office of Management and Budget (OMB) under the Paperwork Reduction Act of 1995 (44 U.S.C. 3501–3520) and assigned OMB Control Number 2577–0235. 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.

Impact on Small Entities

The Secretary has reviewed this final rule before publication and by approving it certifies, in accordance with the Regulatory Flexibility Act (5 U.S.C. 605(b)), that this final rule will not have a significant economic impact on a substantial number of small entities. Based on HUD's experience and contacts with representatives of PHAs and HUD field offices, HUD expects a relatively small number of PHAs to form consortia—certainly fewer than 100. While there would be savings and efficiencies in the long run for small PHAs, forming a consortium also would require some work for these PHAs—to enter consortium agreements—and would require them to overcome resistance to giving up local control of their programs. Consequently, HUD concludes that this final rule will not have a significant impact on a substantial number of small entities.

Environmental Impact

A Finding of No Significant Impact with respect to the environment was made at the proposed rule stage, in accordance with HUD regulations at 24 CFR part 50, which implement section 102(2)(C) of the National Environmental Policy Act of 1969 (42 U.S.C. 4223). Since the changes to the proposed rule are minor, that Finding remains applicable to this final rule and is available for public inspection between the hours of 7:30 a.m. and 5:30 p.m. weekdays in the Regulations Division, Office of General Counsel, Room 10276, U.S. Department of Housing and Urban Development, 451 Seventh Street, SW, Washington, DC 20410.

Federalism Impact

Executive Order 13132 (entitled ''Federalism'') prohibits an agency from publishing any rule that has federalism implications if the rule either imposes substantial direct compliance costs on State and local governments and is not required by statute, or the rule preempts State law, unless the agency meets the consultation and funding requirements of section 6 of the Executive Order. This final rule does not have federalism implications and does not impose substantial direct compliance costs on State and local governments or preempt State law within the meaning of the Executive Order.

Unfunded Mandates Reform Act

Title II of the Unfunded Mandates Reform Act of 1995 (2 U.S.C. 1531–1538) establishes requirements for Federal agencies to assess the effects of their regulatory actions on State, local, and tribal governments and the private sector. This rule does not impose a Federal mandate that will result in the expenditure by State, local, and tribal governments, in the aggregate, or by the private sector, of $100 million or more in any one year.

Regulatory Review

The Office of Management and Budget (OMB) reviewed this rule under Executive Order 12866, entitled ''Regulatory Planning and Review.'' OMB determined that this rule is a ''significant regulatory action'' as defined in section 3(f) of the Order (although not an economically significant regulatory action under the Order). Any changes made to this rule as a result of that review are clearly identified in the docket file, which is available for public inspection in the Regulations Division of the Office of General Counsel, Room 10276, 451 Seventh Street, SW, Washington, DC 20410–0500.

Catalog of Federal Domestic Assistance

The Catalog of Federal Domestic Assistance numbers for the program affected by this rule are 14.850, 14.855, and 14.857.

List of Subjects in 24 CFR Part 943

Low and moderate income housing, Reporting and recordkeeping requirements.

Accordingly, HUD adds a new part 943 to title 24 of the Code of Federal Regulations to read as follows:

PART 943—PUBLIC HOUSING AGENCY CONSORTIA AND JOINT VENTURES

Subpart A—General

Sec.

943.100 What is the purpose of this part?

Subpart B—Consortia

943.115 What programs are covered under this subpart?
943.118 What is a consortium?

943.120 What programs of a PHA are included in a consortium's functions?
943.122 How is a consortium organized?
943.124 What elements must a consortium agreement contain?
943.126 What is the relationship between HUD and a consortium?
943.128 How does a consortium carry out planning and reporting functions?
943.130 What are the responsibilities of participating PHAs?

Subpart C—Subsidiaries, Affiliates, Joint Ventures in Public Housing

943.140 What programs and activities are covered by this subpart?
943.142 In what types of operating organizations may a PHA participate?
943.144 What financial impact do operations of a subsidiary, affiliate, or joint venture have on a PHA?
943.146 What impact does the use of a subsidiary, affiliate, or joint venture have on financial accountability to HUD and the Federal government?
943.148 What procurement standards apply to PHAs selecting partners for a joint venture?
943.150 What procurement standards apply to a PHA's joint venture partner?
943.151 What procurement standards apply to a joint venture itself?

Authority: 42 U.S.C. 1437k and 3535(d).

Subpart A—General

§ 943.100 What is the purpose of this part?

This part authorizes public housing agencies (PHAs) to form consortia, joint ventures, affiliates, subsidiaries, partnerships, and other business arrangements under section 13 of the United States Housing Act of 1937 (42 U.S.C. 1437k). Under this authority, PHAs participating in a consortium enter into a consortium agreement, submit joint PHA Plans to HUD, and may combine all or part of their funding and program administration. This part does not preclude a PHA from entering cooperative arrangements to operate its programs under other authority, as long as they are consistent with other program regulations and requirements.

Subpart B—Consortia

§ 943.115 What programs are covered under this subpart?

(a) Except as provided in paragraph (b) of this section, this subpart applies to the following:

(1) PHA administration of public housing or Section 8 programs under an Annual Contributions Contract (ACC) with HUD; and

(2) PHA administration of grants to the PHA in connection with its public housing or Section 8 programs.

(b) This subpart does not apply to the following:

(1) PHA administration of Section 8 projects assigned to a PHA for contract administration pursuant to an ACC entered under the Request for Proposals (RFP) published May 19, 1999 (64 FR 27358);

(2) Section 8 contract administration of a restructured subsidized multifamily project by a Participating Administrative Entity in accordance with part 401 of this title; or

(3) A PHA in its capacity as owner of a Section 8 project.

§ 943.118 What is a consortium?

A consortium consists of two or more PHAs that join together to perform planning, reporting, and other administrative or management functions for participating PHAs, as specified in a consortium agreement. A consortium also submits a joint PHA Plan. The lead agency collects the assistance funds from HUD that would be paid to the participating PHAs for the elements of their operations that are administered by the consortium and allocates them according to the consortium agreement. The participating PHAs must adopt the same fiscal year so that the applicable periods for submission and review of the joint PHA Plan are the same. Notwithstanding any other regulation, PHAs proposing to form consortia may request and HUD may approve changes in PHA fiscal years to make this possible.

§ 943.120 What programs of a PHA are included in a consortium's functions?

(a) A PHA may enter a consortium under this subpart for administration of any of the following program categories:

(1) The PHA's public housing program (which may include either the operating fund or the capital fund, or both);

(2) The PHA's Section 8 voucher and certificate program (including the project-based certificate and voucher programs and special housing types);

(3) The PHA's Section 8 Moderate Rehabilitation program, including Single Room Occupancy program;

(4) All other project-based Section 8 programs administered by the PHA under an ACC with HUD; and

(5) Any grant programs of the PHA in connection with its Section 8 or public housing programs, such as the Drug Elimination program or the Resident Opportunities and Self-Sufficiency program, to the extent not inconsistent with the terms of the governing documents for the grant program's funding source.

(b) If a PHA elects to enter a consortium with respect to a category specified in paragraph (a) of this section, the consortium must cover the PHA's whole program under the ACC with HUD for that category, including all dwelling units and all funding for that program under the ACC with HUD.

§ 943.122 How is a consortium organized?

(a) PHAs that elect to form a consortium enter into a consortium agreement among the participating PHAs, specifying a lead agency (see § 943.124), and submit a joint PHA Plan (§ 943.118). HUD enters into any necessary payment agreements with the lead agency and the other participating PHAs (see § 943.126) to provide that HUD funding to the participating PHAs for program categories covered by the consortium will be paid to the lead agency.

(b) The lead agency must not be a PHA that is designated as a ''troubled PHA'' by HUD, that has been determined by HUD to fail the civil rights compliance threshold for new funding, or that has had a PHAS designation withheld for civil rights or other reasons. The lead agency is designated to receive HUD program payments on behalf of participating PHAs, to administer HUD requirements for administration of the funds, and to apply the funds in accordance with the consortium agreement and HUD regulations and requirements.

§ 943.124 What elements must a consortium agreement contain?

(a) The consortium agreement among the participating PHAs governs the formation and operation of the consortium. The consortium agreement must be consistent with any payment agreements between the participating PHAs and HUD and must specify the following:

(1) The names of the participating PHAs and the program categories each PHA is including under the consortium agreement;

(2) The name of the lead agency;

(3) The functions to be performed by the lead agency and the other participating PHAs during the term of the consortium;

(4) The allocation of funds among participating PHAs and responsibility for administration of funds paid to the consortium; and

(5) The period of existence of the consortium and the terms under which a PHA may join or withdraw from the consortium before the end of that period. To provide for orderly transition, addition or withdrawal of a PHA and termination of the consortium must take effect on the anniversary of the consortium's fiscal year.

(b) The agreement must acknowledge that the participating PHAs are subject to the joint PHA Plan submitted by the lead agency.

(c) The agreement must be signed by an authorized representative of each participating PHA.

§ 943.126 What is the relationship between HUD and a consortium?

HUD has a direct relationship with the consortium through the PHA Plan process and through one or more payment agreements, executed in a form prescribed by HUD, under which HUD and the participating PHAs agree that program funds will be paid to the lead agency on behalf of the participating PHAs. Such funds must be used in accordance with the consortium agreement, the joint PHA Plan and HUD regulations and requirements.

§ 943.128 How does a consortium carry out planning and reporting functions?

(a) During the term of the consortium agreement, the consortium must submit joint five-year Plans and joint Annual Plans for all participating PHAs, in accordance with part 903 of this chapter. HUD may prescribe methods of submission for consortia generally and where the consortium does not cover all program categories.

(b) The consortium must maintain records and submit reports to HUD, in accordance with HUD regulations and requirements, for all of the participating PHAs. All PHAs will be bound by Plans and reports submitted to HUD by the consortium for programs covered by the consortium.

(c) Each PHA must keep a copy of the consortium agreement on file for inspection. The consortium agreement must also be a supporting document to the joint PHA Plan.

§ 943.130 What are the responsibilities of participating PHAs?

(a) *Responsibilities, generally.* Despite participation in a consortium, each participating PHA remains responsible for its own obligations under its ACC with HUD. This means that the PHA has an obligation to assure that all program funds, including funds paid to the lead agency for administration by the consortium, are used in accordance with HUD regulations and requirements, and that the PHA program is administered in accordance with HUD regulations and requirements. Any breach of program requirements with respect to a program covered by the consortium agreement is a breach of the ACC with each of the participating PHAs, so each PHA is responsible for the performance of the consortium.

(b) *Applicability of independent audit and performance assessment system requirements to consortia.* Where the lead agency will manage substantially all program and activities of the consortium, HUD interprets financial accountability to rest with the consortium and thus HUD will apply independent audit and performance assessment requirements on a consortium-wide basis. Where the lead agency will not manage substantially all programs and activities of a consortium, the consortium shall indicate in its PHA Plan submission which PHAs have financial accountability for the programs. The determination of financial accountability shall be made in accordance with generally accepted accounting principles, as determined in consultation with an independent public accountant. In such situations, HUD will apply independent audit and performance assessment requirements consistent with that determination. With respect to any consortium, however, HUD may determine (based on a request from the consortium or other circumstances) to apply independent audit and performance requirements on a different basis where this would promote sound management.

Subpart C—Subsidiaries, Affiliates, Joint Ventures in Public Housing

§ 943.140 What programs and activities are covered by this subpart?

(a) This subpart applies to the provision of a PHA's public housing administrative and management functions, and to the provision (or arranging for the provision) of supportive and social services in connection with public housing. This subpart does not apply to activities of a PHA that are subject to the requirements of part 941, subpart F, of this title.

(b) For purposes of this subpart, the term ''joint venture partner'' means a participant (other than a PHA) in a joint venture, partnership, or other business arrangement or contract for services with a PHA.

(c) This part does not affect a PHA's authority to use joint ventures, as may be permitted under State law, when using non-1937 Act funds.

§ 943.142 In what types of operating organizations may a PHA participate?

(a) A PHA may create and operate a wholly owned or controlled subsidiary or other affiliate; may enter into joint ventures, partnerships, or other business arrangements with individuals, organizations, entities, or governmental units. A subsidiary or affiliate may be a nonprofit corporation. A subsidiary or affiliate may be an organization controlled by the same persons who serve on the governing board of the PHA or who are employees of the PHA.

(b) The purpose of any of these operating organizations would be to administer programs of the PHA.

§ 943.144 What financial impact do operations of a subsidiary, affiliate, or joint venture have on a PHA?

Income generated by subsidiaries, affiliates, or joint ventures formed under the authority of this subpart is to be used for low-income housing or to benefit the residents assisted by the PHA. This income will not cause a decrease in funding provided under the public housing program, except as otherwise provided under the Operating Fund and Capital Fund formulas.

§ 943.146 What impact does the use of a subsidiary, affiliate, or joint venture have on financial accountability to HUD and the Federal government?

None; the subsidiary, affiliate, or joint venture is subject to the same authority of HUD, HUD's Inspector General, and the Comptroller General to audit its conduct.

§ 943.148 What procurement standards apply to PHAs selecting partners for a joint venture?

(a) The requirements of part 85 of this title are applicable to this part, subject to paragraph (b) of this section, in connection with the PHA's public housing program.

(b) A PHA may use competitive proposal procedures for qualifications-based procurement (request for qualifications or ''RFQ''), or may solicit a proposal from only one source (''sole source'') to select a joint venture partner to perform an administrative or management function of its public housing program or to provide or arrange to provide supportive or social services covered under this part, under the following circumstances:

(1) The proposed joint venture partner has under its control and will make available to the partnership substantial, unique and tangible resources or other benefits that would not otherwise be available to the PHA on the open market (*e.g.*, planning expertise, program experience, or financial or other resources). In this case, the PHA must maintain documentation to substantiate both the cost reasonableness of its selection of the proposed partner and the unique qualifications of the partner: or

(2) A resident group or a PHA subsidiary is willing and able to act as the PHA's partner in performing administrative and management functions or to provide supportive or social services. This entity must comply with the requirements of part 84 of this title (if the entity is a nonprofit) or part

85 of this title (if the entity is a State or local government) with respect to its selection of the members of the team and the members must be paid on a cost-reimbursement basis only. The PHA must maintain documentation that indicates both the cost reasonableness of its selection of a resident group or PHA subsidiary and the ability of that group or subsidiary to act as the PHA's partner under this provision.

§ 943.150 What procurement standards apply to a PHA's joint venture partner?

(a) *General.* A joint venture partner is not a grantee or subgrantee and, accordingly, is not required to comply with part 84 or part 85 of this title in its procurement of goods and services under this part. The partner must comply with all applicable State and local procurement and conflict of interest requirements with respect to its selection of entities to assist in PHA program administration.

(b) *Exception.* If the joint venture partner is a subsidiary, affiliate, or identity of interest party of the PHA, it is subject to the requirements of part 85 of this title. HUD may, on a case-by-case basis, exempt such a joint venture partner from the need to comply with requirements under part 85 of this title if HUD determines that the joint venture has developed an acceptable alternative procurement plan.

(c) *Contracting with identity-of-interest parties.* A joint venture partner may contract with an identity-of-interest party for goods or services, or a party specified in the selected bidder's response to a RFP or RFQ (as applicable), without the need for further procurement if:

(1) The PHA can demonstrate that its original competitive selection of the partner clearly anticipated the later provision of such goods or services;

(2) Compensation of all identity-of-interest parties is structured to ensure there is no duplication of profit or expenses; and

(3) The PHA can demonstrate that its selection is reasonable based upon prevailing market costs and standards, and that the quality and timeliness of the goods or services is comparable to that available in the open market. For purposes of this paragraph (c), an ''identity-of-interest party'' means a party that is wholly owned or controlled by, or that is otherwise affiliated with, the partner or the PHA. The PHA may use an independent organization experienced in cost valuation to determine the cost reasonableness of the proposed contracts.

§ 943.151 What procurement standards apply to a joint venture itself?

(a) When the joint venture as a whole is controlled by the PHA or an identity of interest party of the PHA, the joint venture is subject to the requirements of part 85 of this title.

(b) If a joint venture is not controlled by the PHA or an identity of interest party of the PHA, then the rules that apply to the other partners apply. See § 943.150.

Dated: November 8, 2000.

Harold Lucas,

Assistant Secretary for Public and Indian Housing.

[FR Doc. 00–30332 Filed 11–28–00; 8:45 am]

BILLING CODE 4210–33–P

Section 3

RISK ASSESSMENT AND THE GOVERNMENTAL AUDIT

1

AHACPA PHA CONFERENCE

JUNE 21 AND 22, 2018

PRESENTED BY GENE RISTAINO CPA/ABV/CFF, MT

2

RISK ASSESSMENT AND THE GOVERNMENTAL AUDIT

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WINTER SPRINGS, FL

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3

RISK ASSESSMENT AND THE GOVERNMENTAL AUDIT

THIS PROGRAM IS INTENDED SOLELY FOR CONTINUING EDUCATION PURPOSES.

THE AUTHOR IS NOT PROVIDING LEGAL, ACCOUNTING OR OTHER PROFESSIONAL SERVICES.

THE PROGRAM IS INTENDED TO PROVIDE AN OVERVIEW OF THE TOPICS PRESENTED.

THE AUTHOR HAS MADE EVERY EFFORT TO PROVIDE COMPLETE AND UPDATED INFORMATION - BUT CANNOT GUARANTEE THE APPLICABILITY OF ALL INFORMATION INCLUDED IN THE PRESENTATION.

4

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5

AGENDA

- ✓ ***AUDIT RISK – OVERVIEW (6)***
- ✓ ***AUDIT OBJECTIVES AND PLANNING (14)***
- ✓ ***YELLOW BOOK - GAGAS (49)***
- ✓ ***SINGLE AUDIT – UNIFORM GUIDANCE (105)***
- ✓ ***RISK ASSESSMENT (159)***
- ✓ ***SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – SEFA (208)***
- ✓ ***GROUP AUDITS (217)***
- ✓ ***AUDIT FINDINGS UNDER UNIFORM GUIDANCE (241)***

6

AUDIT RISK OVERVIEW

7

STANDARDS

- GENERALLY ACCEPTED AUDITING STANDARDS – GAAS
- GOVERNMENT AUDITING STANDARDS YELLOW BOOK - GAGAS
- SINGLE AUDIT ACT AND UNIFORM GUIDANCE

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8

AUDIT RISK

AR = DR X PMM

- **PMM** – POTENTIAL FOR MATERIAL MISSTATEMENT IN THE FINANCIAL STATEMENTS
- **DR** – DETECTION RISK – AUDITOR'S RISK OF NOT DETECTING MATERIAL MISSTATEMENTS

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9

AUDIT RISK

PMM = IR X CR

- **IR** – INHERENT RISK – INDUSTRY RISKS
- **CR** – CONTROL RISKS – RISK THAT INTERNAL CONTROL SYSTEM WILL NOT PREVENT OR DETECT MATERIAL MISSTATEMENTS

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10

RISK ASSESSMENT

DETECTION RISKS –

a) INDEPENDENCE THREATS THAT LEAD TO POOR OR JADED JUDGEMENTS

b) LACK OF KNOWLEDGE ABOUT THE ENTITY, ITS PROGRAMS, AND CONTROL STRUCTURE

c) INAPPROPRIATE ASSESSMENT OF THE POSSIBILITIES AND CAUSES OF MATERIAL MISSTATEMENTS

d) LACK OF UNDERSTANDING OF THE COMPLIANCE AND REGULATORY REQUIREMENTS OF THE PROGRAMS

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11

RISK ASSESSMENT

DETECTION RISKS –

e) LACK OF COMPETENCE REGARDING THE APPROPRIATE AUDIT PROCEDURES NECESSARY IN THE CIRCUMSTANCES

f) SAMPLES OF TRANSACTIONS TESTED THAT ARE NOT REPRESENTATIVE OF THE UNIVERSE OF TRANSACTIONS

g) INSUFFICIENT RELIABILITY OF TESTING SCOPE

h) LACK OF SUFFICIENT COVERAGE OF RISK AREAS

i) LACK OF RELATED EXPERIENCE IN FORMING CONCLUSIONS AS A RESULT OF THE TESTS AND PROCEDURES PERFORMED

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12

RISK ASSESSMENT

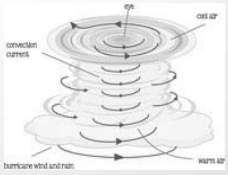
INHERENT RISK –

a) THE SUSCEPTIBILITY OF AN ASSERTION ABOUT A CLASS OF TRANSACTION, ACCOUNT BALANCE, OR DISCLOSURE

b) TO A MISSTATEMENT THAT COULD BE MATERIAL

c) EITHER INDIVIDUALLY OR WHEN AGGREGATED WITH OTHER MISSTATEMENTS

d) BEFORE CONSIDERATION OF ANY RELATED CONTROLS



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13

RISK ASSESSMENT

CONTROL RISK –

a) ***THE RISK THAT A MISSTATEMENT THAT COULD OCCUR IN AN ASSERTION ABOUT A CLASS OF TRANSACTION, ACCOUNT BALANCE, OR DISCLOSURE AND***

b) ***THAT COULD BE MATERIAL***

c) ***EITHER INDIVIDUALLY OR WHEN AGGREGATED WITH OTHER MISSTATEMENTS***

d) ***WILL NOT BE PREVENTED, OR DETECTED AND CORRECTED***

e) ***ON A TIMELY BASIS BY THE ENTITY'S INTERNAL CONTROL.***

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14

AUDIT OBJECTIVES AND PLANNING

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15

AUDIT OBJECTIVES

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16

GAAS OBJECTIVES

✓ ***IDENTIFY AND ASSESS RISKS OF MATERIAL MISSTATEMENT:***

a) ***WHETHER DUE TO FRAUD OR ERROR***

b) ***BASED ON AN UNDERSTANDING OF THE ENTITY AND ITS ENVIRONMENT***

c) ***INCLUDING THE ENTITY'S INTERNAL CONTROL***

RISTAINO

17

GAAS OBJECTIVES

✓ ***OBTAIN SUFFICIENT APPROPRIATE AUDIT EVIDENCE:***

a) ***ABOUT WHETHER MATERIAL MISSTATEMENTS EXIST***

b) ***THROUGH DESIGNING AND IMPLEMENTING APPROPRIATE RESPONSES***

c) ***TO THE ASSESSED RISKS***

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18

GAAS OBJECTIVES

✓ ***FORM AN OPINION ON THE FINANCIAL STATEMENTS:***

a) ***OR DETERMINE THAT AN OPINION CANNOT BE FORMED***

b) ***BASED ON AN EVALUATION OF THE AUDIT EVIDENCE OBTAINED***

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19

AUDIT PLANNING

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20

AUDIT PLANNING

- ✓ *PLANNING IS NOT A DISCRETE PHASE OF AN AUDIT BUT RATHER A CONTINUAL AND ITERATIVE PROCESS*
  - a) ***THAT OFTEN BEGINS SHORTLY AFTER - OR IN CONNECTION WITH - THE COMPLETION OF THE PREVIOUS AUDIT AND CONTINUES UNTIL THE COMPLETION OF THE CURRENT AUDIT ENGAGEMENT***
- ✓ *PLANNING, HOWEVER, INCLUDES CONSIDERATION OF THE TIMING OF CERTAIN ACTIVITIES AND AUDIT PROCEDURES THAT NEED TO BE COMPLETED*
  - a) ***PRIOR TO THE PERFORMANCE OF FURTHER AUDIT PROCEDURES***

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21

AUDIT PLANNING

- ✓ *PLANNING INCLUDES THE NEED TO CONSIDER - PRIOR TO THE AUDITOR'S IDENTIFICATION AND ASSESSMENT OF THE RISKS OF MATERIAL MISSTATEMENT - SUCH MATTERS AS THE FOLLOWING:*
  1) ***THE ANALYTICAL PROCEDURES TO BE APPLIED AS RISK ASSESSMENT PROCEDURES***
  2) ***A GENERAL UNDERSTANDING OF THE LEGAL AND REGULATORY FRAMEWORK AND HOW THE ENTITY IS COMPLYING WITH THAT FRAMEWORK***
  3) ***THE DETERMINATION OF MATERIALITY***
  4) ***THE INVOLVEMENT OF SPECIALISTS***
  5) ***THE PERFORMANCE OF OTHER RISK ASSESSMENT PROCEDURES***

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22

OBJECTIVES

- ✓ ***HELPING THE AUDITOR IDENTIFY AND DEVOTE APPROPRIATE ATTENTION TO IMPORTANT AREAS OF THE AUDIT***
- ✓ *HELPING THE AUDITOR IDENTIFY AND RESOLVE POTENTIAL PROBLEMS ON A TIMELY BASIS*
- ✓ ***HELPING THE AUDITOR PROPERLY ORGANIZE AND MANAGE THE AUDIT ENGAGEMENT SO THAT IT IS PERFORMED IN AN EFFECTIVE AND EFFICIENT MANNER***

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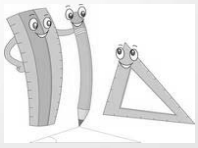
23

OBJECTIVES

- ✓ *ASSISTING IN THE SELECTION OF ENGAGEMENT TEAM MEMBERS WITH APPROPRIATE LEVELS OF CAPABILITIES AND COMPETENCE*
  - a) ***TO RESPOND TO ANTICIPATED RISKS AND ALLOCATING TEAM MEMBER RESPONSIBILITIES***
- ✓ *FACILITATING THE DIRECTION AND SUPERVISION OF ENGAGEMENT TEAM MEMBERS AND THE REVIEW OF THEIR WORK*
- ✓ ***ASSISTING - WHEN APPLICABLE - IN COORDINATION OF WORK DONE BY AUDITORS OF COMPONENTS AND SPECIALISTS***



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24

ENGAGEMENT CHARACTERISTICS

THE FOLOWING ARE EXAMPLES OF MATTERS THE AUDITOR MAY CONSIDER IN ESTABLISHING THE OVERALL AUDIT STRATEGY.

- a) *MANY OF THESE MATTERS ALSO WILL INFLUENCE THE AUDITOR'S DETAILED AUDIT PLAN.*
- b) ***THE EXAMPLES PROVIDED COVER A BROAD RANGE OF MATTERS APPLICABLE TO MANY ENGAGEMENTS.***
- c) ***ALTHOUGH SOME OF THE FOLLOWING MATTERS MAY BE REQUIRED BY OTHER AU-C SECTIONS - NOT ALL MATTERS ARE RELEVANT TO EVERY AUDIT ENGAGEMENT***

THE FOLLOWING LIST IS NOT NECESSARILY COMPLETE

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25

ENGAGEMENT CHARACTERISTICS

- THE FINANCIAL REPORTING FRAMEWORK ON WHICH THE FINANCIAL INFORMATION TO BE AUDITED HAS BEEN PREPARED - INCLUDING ANY NEED FOR RECONCILIATIONS TO ANOTHER FINANCIAL REPORTING FRAMEWORK
- INDUSTRY SPECIFIC REPORTING REQUIREMENTS, SUCH AS REPORTS MANDATED BY INDUSTRY REGULATORS
- THE EXPECTED AUDIT COVERAGE - INCLUDING THE NUMBER AND LOCATIONS OF COMPONENTS TO BE INCLUDED

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26

ENGAGEMENT CHARACTERISTICS

- THE NATURE OF THE CONTROL RELATIONSHIPS BETWEEN A PARENT AND ITS COMPONENTS THAT DETERMINE HOW THE GROUP IS TO BE CONSOLIDATED
- THE EXTENT TO WHICH COMPONENTS ARE AUDITED BY OTHER AUDITORS
- THE NATURE OF THE BUSINESS DIVISIONS TO BE AUDITED - INCLUDING THE NEED FOR SPECIALIZED KNOWLEDGE

RISTAINO

27

ENGAGEMENT CHARACTERISTICS

- THE REPORTING CURRENCY TO BE USED - INCLUDING ANY NEED FOR CURRENCY TRANSLATION FOR THE AUDITED FINANCIAL INFORMATION
- THE NEED FOR STATUTORY OR REGULATORY AUDIT REQUIREMENTS - FOR EXAMPLE AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS)

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28

ENGAGEMENT CHARACTERISTICS

- WHETHER THE ENTITY HAS AN INTERNAL AUDIT FUNCTION
- ✓AND IF SO - WHETHER THE WORK OF THE INTERNAL AUDIT FUNCTION CAN BE USED IN OBTAINING AUDIT EVIDENCE
- ✓OR WHETHER INTERNAL AUDITORS CAN BE USED TO PROVIDE DIRECT ASSISTANCE

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29

ENGAGEMENT CHARACTERISTICS

- THE ENTITY'S USE OF SERVICE ORGANIZATIONS AND HOW THE AUDITOR MAY OBTAIN EVIDENCE CONCERNING THE DESIGN OR OPERATION OF CONTROLS PERFORMED BY THEM
- THE EXPECTED USE OF AUDIT EVIDENCE OBTAINED IN PREVIOUS AUDITS - FOR EXAMPLE, AUDIT EVIDENCE RELATED TO RISK ASSESSMENT PROCEDURES AND TESTS OF CONTROLS

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30

ENGAGEMENT CHARACTERISTICS

- THE EFFECT OF PRIOR INFORMATION ON THE AUDIT PROCEDURES - INCLUDING THE AVAILABILITY OF DATA AND THE EXPECTED USE OF COMPUTER ASSISTED AUDIT TECHNIQUES
- THE COORDINATION OF THE EXPECTED COVERAGE AND TIMING OF THE AUDIT WORK WITH ANY REVIEWS OF INTERIM FINANCIAL INFORMATION AND THE EFFECT ON THE AUDIT OF THE INFORMATION OBTAINED DURING SUCH REVIEWS
- THE AVAILABILITY OF CLIENT PERSONNEL AND DATA

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31

PRELIMINARY ACTIVITIES

- ✓ PERFORMING PROCEDURES REQUIRED BY SECTION 220 - QUALITY CONTROL FOR AN ENGAGEMENT CONDUCTED IN ACCORDANCE WITH GENERALLY ACCEPTED AUDITING STANDARDS
  - a) REGARDING THE CONTINUANCE OF THE CLIENT RELATIONSHIP
  - b) AND THE SPECIFIC AUDIT ENGAGEMENT
- ✓ EVALUATING COMPLIANCE WITH RELEVANT ETHICAL REQUIREMENTS IN ACCORDANCE WITH SECTION 220
- ✓ ESTABLISHING AN UNDERSTANDING OF THE TERMS OF THE ENGAGEMENT AS REQUIRED BY SECTION 210 - TERMS OF ENGAGEMENT

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32

PRELIMINARY ACTIVITIES

PERFORMING THESE PRELIMINARY ENGAGEMENT ACTIVITIES ENABLES THE AUDITOR TO PLAN AN AUDIT ENGAGEMENT FOR WHICH:

- ✓ THE AUDITOR MAINTAINS THE NECESSARY INDEPENDENCE AND ABILITY TO PERFORM THE ENGAGEMENT
- ✓ THE AUDITOR HAS NO ISSUES WITH MANAGEMENT INTEGRITY THAT MAY AFFECT THE AUDITOR'S WILLINGNESS TO CONTINUE THE ENGAGEMENT
- ✓ THE AUDITOR HAS NO MISUNDERSTANDING WITH THE ENTITY ABOUT THE TERMS OF THE ENGAGEMENT

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33

PLANNING ACTIVITIES

- IDENTIFY THE CHARACTERISTICS OF THE ENGAGEMENT THAT DEFINE ITS SCOPE
- ASCERTAIN THE REPORTING OBJECTIVES OF THE ENGAGEMENT IN ORDER TO PLAN THE TIMING OF THE AUDIT AND THE NATURE OF THE COMMUNICATIONS REQUIRED
- CONSIDER THE FACTORS THAT - IN THE AUDITOR'S PROFESSIONAL JUDGMENT - ARE SIGNIFICANT IN DIRECTING THE ENGAGEMENT TEAM'S EFFORTS

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34

PLANNING ACTIVITIES

- CONSIDER THE RESULTS OF PRELIMINARY ENGAGEMENT ACTIVITIES
- ASCERTAIN THE NATURE, TIMING, AND EXTENT OF RESOURCES NECESSARY TO PERFORM THE ENGAGEMENT
- DEVELOP THE AUDIT PLAN

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35

MATERIALITY

- ➔ FINANCIAL REPORTING FRAMEWORKS OFTEN DISCUSS THE CONCEPT OF MATERIALITY IN THE CONTEXT OF THE PREPARATION AND FAIR PRESENTATION OF FINANCIAL STATEMENTS.
- ➔ ALTHOUGH FINANCIAL REPORTING FRAMEWORKS MAY DISCUSS MATERIALITY IN DIFFERENT TERMS - THE FOLLOWING ARE USUALLY UNIVERSAL CONCEPTS:

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36

MATERIALITY

1) MISSTATEMENTS, INCLUDING OMISSIONS, ARE CONSIDERED TO BE MATERIAL IF:
   - a) THEY, INDIVIDUALLY OR IN THE AGGREGATE
   - b) COULD REASONABLY BE EXPECTED TO INFLUENCE THE ECONOMIC DECISIONS OF USERS
   - c) MADE ON THE BASIS OF THE FINANCIAL STATEMENTS
2) JUDGMENTS ABOUT MATERIALITY ARE MADE IN LIGHT OF SURROUNDING CIRCUMSTANCES:
   - a) AND ARE AFFECTED BY THE SIZE OR NATURE OF A MISSTATEMENT - OR A COMBINATION OF BOTH

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37

MATERIALITY

3) JUDGMENTS ABOUT MATTERS THAT ARE MATERIAL TO USERS OF THE FINANCIAL STATEMENTS ARE BASED ON A CONSIDERATION OF THE COMMON FINANCIAL INFORMATION NEEDS OF USERS AS A GROUP
4) THE POSSIBLE EFFECT OF MISSTATEMENTS ON SPECIFIC INDIVIDUAL USERS, WHOSE NEEDS MAY VARY WIDELY, IS NOT CONSIDERED
5) WHEN ESTABLISHING THE OVERALL AUDIT STRATEGY - THE AUDITOR SHOULD DETERMINE MATERIALITY FOR THE FINANCIAL STATEMENTS AS A WHOLE

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38

MATERIALITY

IN 1976 JUSTICE THURGOOD MARSHALL, PENNED THIS DEFINITION OF MATERIALITY AND HOW IT IS CONSIDERED IN SECURITIES FRAUD CASES:

"AN OMITTED FACT IS MATERIAL IF THERE IS A SUBSTANTIAL LIKELIHOOD THAT A REASONABLE SHAREHOLDER WOULD CONSIDER IT IMPORTANT IN DECIDING HOW TO VOTE"

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39

AUDIT PLAN

1) THE NATURE AND EXTENT OF PLANNED RISK ASSESSMENT PROCEDURES:
   i. AS DETERMINED UNDER AU-C SECTION 315 - UNDERSTANDING THE ENTITY AND ITS ENVIRONMENT AND ASSESSING THE RISKS OF MATERIAL MISSTATEMENT
2) THE NATURE, TIMING, AND EXTENT OF PLANNED FURTHER AUDIT PROCEDURES AT THE RELEVANT ASSERTION LEVEL –
   I. AS DETERMINED UNDER AU-C SECTION 330 - PERFORMING AUDIT PROCEDURES IN RESPONSE TO ASSESSED RISKS AND EVALUATING THE AUDIT EVIDENCE OBTAINED

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40

AUDIT PLAN

3) OTHER PLANNED AUDIT PROCEDURES THAT ARE REQUIRED TO BE CARRIED OUT SO THAT THE ENGAGEMENT COMPLIES WITH GENERALLY ACCEPTED AUDITING STANDARDS
4) THE AUDITOR SHOULD UPDATE AND CHANGE THE OVERALL AUDIT STRATEGY AND AUDIT PLAN, AS NECESSARY, DURING THE COURSE OF THE AUDIT
5) THE AUDITOR SHOULD PLAN THE NATURE, TIMING, AND EXTENT OF DIRECTION AND SUPERVISION OF ENGAGEMENT TEAM MEMBERS AND THE REVIEW OF THEIR WORK

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41

AUDIT STRATEGY

THE PROCESS OF ESTABLISHING THE OVERALL AUDIT STRATEGY ASSISTS THE AUDITOR TO DETERMINE - SUBJECT TO THE COMPLETION OF THE AUDITOR'S RISK ASSESSMENT PROCEDURES - SUCH MATTERS AS THE FOLLOWING:

1) THE RESOURCES TO DEPLOY FOR SPECIFIC AUDIT ISSUES - SUCH AS:
   I. THE USE OF APPROPRIATELY EXPERIENCED TEAM MEMBERS FOR HIGH RISK AREAS
   II. OR THE INVOLVEMENT OF SPECIALISTS ON COMPLEX MATTERS

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42

AUDIT STRATEGY

2) THE AMOUNT OF RESOURCES TO ALLOCATE TO SPECIFIC AUDIT AREAS - SUCH AS:
   II. THE NUMBER OF TEAM MEMBERS ASSIGNED TO OBSERVE THE INVENTORY COUNT AT MATERIAL LOCATIONS
   III. THE EXTENT OF REVIEW OF COMPONENT AUDITORS' WORK IN THE CASE OF GROUP AUDITS
   IV. OR THE AUDIT BUDGET (IN HOURS) TO ALLOCATE TO HIGH RISK AREAS

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43

AUDIT STRATEGY

3) **HOW SUCH RESOURCES ARE MANAGED, DIRECTED, AND SUPERVISED, SUCH AS:**
   - I. WHEN TEAM BRIEFING AND DEBRIEFING MEETINGS ARE EXPECTED TO BE HELD
   - II. **HOW AND WHEN THE ENGAGEMENT PARTNER AND MANAGER REVIEWS ARE EXPECTED TO TAKE PLACE**
   - III. AND WHETHER TO COMPLETE ENGAGEMENT QUALITY CONTROL REVIEWS

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44

AUDIT STRATEGY

4) **WHEN THESE RESOURCES ARE TO BE DEPLOYED - SUCH AS:**
   - I. WHETHER AT AN INTERIM AUDIT STAGE
   - II. **OR AT KEY CUT-OFF DATES**

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45

I.T. PROFESSIONALS NEEDED?

IN DETERMINING WHETHER AN I.T. PROFESSIONAL IS NEEDED ON THE AUDIT TEAM - THE AUDITOR MAY CONSIDER SUCH FACTORS AS THE FOLLOWING:

1) THE COMPLEXITY OF THE ENTITY'S SYSTEMS AND IT CONTROLS AND THE MANNER IN WHICH THEY ARE USED IN CONDUCTING THE ENTITY'S BUSINESS
2) THE SIGNIFICANCE OF CHANGES MADE TO EXISTING SYSTEMS OR THE IMPLEMENTATION OF NEW SYSTEMS

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46

I.T. PROFESSIONALS NEEDED?

3) **THE EXTENT TO WHICH DATA IS SHARED AMONG SYSTEMS**
4) THE EXTENT OF THE ENTITY'S PARTICIPATION IN ELECTRONIC COMMERCE
5) **THE ENTITY'S USE OF EMERGING TECHNOLOGIES**
6) **THE SIGNIFICANCE OF AUDIT EVIDENCE THAT IS AVAILABLE ONLY IN ELECTRONIC FORM**

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47

YELLOW BOOK GAGAS

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48

OVERVIEW

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49 GAGAS – YELLOW BOOK

- ***GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS - GAGAS - ISSUED BY THE U.S. GOVERNMENT ACCOUNTABILITY OFFICE – GAO:***
  - ***a) IS THE STATEMENT OF AUDITING STANDARDS FOR AUDITS OF GOVERNMENT ORGANIZATIONS, FUNCTIONS, ACTIVITIES, AND PROGRAMS***
  - ***b) AS WELL AS FOR GOVERNMENT ASSISTANCE RECEIVED BY NON-FEDERAL ENTITIES***
- ***IN DECEMBER 2011 - THE GAO ISSUED THE GOVERNMENT AUDITING STANDARDS - 2011 REVISION - WHICH SUPERSEDED THE 2007 REVISION***
- ***THE 2011 REVISION OF GAS IS CURRENTLY EFFECTIVE***

50 GAGAS – YELLOW BOOK

- ***NOT-FOR-PROFITS THAT RECEIVE GOVERNMENT FINANCIAL ASSISTANCE MAY BE REQUIRED TO HAVE THEIR FINANCIAL STATEMENT AUDITED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS (GAGAS - YELLOW BOOK) IN ADDITION TO GAAS.***
- ***IN PERFORMING AN AUDIT IN ACCORDANCE WITH THE YELLOW BOOK - THE AUDITOR MUST REPORT ON:***
  - ***a) THE NFP'S COMPLIANCE WITH LAWS AND REGULATIONS - VIOLATIONS OF WHICH MAY AFFECT FINANCIAL STATEMENT AMOUNTS - AND***
  - ***b) THE NFP'S INTERNAL CONTROL OVER FINANCIAL REPORTING***

51 AICPA ETHICS

- ***AICPA ETHICS INTERPRETATION - GOVERNMENTAL AUDITS (ET SECTION 1.400.055) INDICATES:***
  - ***a) ENGAGEMENTS FOR AUDITS OF GOVERNMENT GRANTS, GOVERNMENT UNITS***
  - ***b) OR OTHER RECIPIENTS OF GOVERNMENT MONIES***
  - ***c) TYPICALLY REQUIRE THAT SUCH AUDITS BE IN COMPLIANCE WITH GOVERNMENT AUDIT STANDARDS, GUIDES, PROCEDURES, STATUTES, RULES, AND REGULATIONS***
  - ***d) IN ADDITION TO GAAS***

52 AICPA ETHICS

- ***IF A MEMBER HAS ACCEPTED SUCH AN ENGAGEMENT AND UNDERTAKES AN OBLIGATION TO FOLLOW SPECIFIED GOVERNMENT AUDIT STANDARDS, GUIDES, PROCEDURES, STATUTES, RULES AND REGULATIONS:***
  - ***a) THE MEMBER IS OBLIGATED TO FOLLOW SUCH REQUIREMENTS, IN ADDITION TO GAAS***
  - ***b) FAILURE TO DO SO IS AN ACT DISCREDITABLE TO THE PROFESSION IN VIOLATION OF THE "ACTS DISCREDITABLE RULE"***
  - ***c) UNLESS THE MEMBER DISCLOSES IN HIS OR HER REPORT THE FACT THAT SUCH REQUIREMENTS WERE NOT FOLLOWED AND THE REASONS FOR NOT FOLLOWING THE REQUIREMENTS***

53 YELLOW BOOK ETHICS

- ***GAGAS - KNOWN AS THE "YELLOW BOOK" - PROVIDES THE FOLLOWING ASSISTANCE:***
  - ***1) ADDRESSING THE UNIQUE REQUIREMENTS OF GOVERNMENTAL ENTITIES AT ALL LEVELS***
  - ***2) ESTABLISHING GENERAL STANDARDS FOR BOTH GOVERNMENTAL AND NON-GOVERNMENTAL AUDITORS PERFORMING AUDITS IN ACCORDANCE WITH GAGAS***
  - ***3) SUPPLEMENTING THE STANDARDS OF THE AICPA AUDITING STANDARDS BOARD***
  - ***4) ESTABLISHING FIELDWORK AND REPORTING STANDARDS FOR PERFORMANCE AUDITS***

54 YELLOW BOOK ETHICS

- ***THE ETHICAL PRINCIPLES THAT GUIDE THE WORK OF AUDITORS WHO CONDUCT AUDITS IN ACCORDANCE WITH GAGAS ARE:***
  - ✓ ***THE PUBLIC INTEREST***
  - ✓ ***INTEGRITY***
  - ✓ ***OBJECTIVITY***
  - ✓ ***PROPER USE OF GOVERNMENT INFORMATION, RESOURCES, AND POSITIONS***
  - ✓ ***PROFESSIONAL BEHAVIOR***

55 YELLOW BOOK ETHICS

- GOVERNMENT AUDITING IS ESSENTIAL IN PROVIDING GOVERNMENT ACCOUNTABILITY TO LEGISLATORS, OVERSIGHT BODIES, THOSE CHARGED WITH GOVERNANCE, AND THE PUBLIC
- MANAGEMENT SETS THE TONE FOR ETHICAL BEHAVIOR THROUGHOUT THE ORGANIZATION

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56 YELLOW BOOK ETHICS

- THE ETHICAL PRINCIPLES PRESENTED IN CHAPTER 1 OF THE YELLOW BOOK PROVIDE THE FOUNDATION, DISCIPLINE, AND STRUCTURE AS WELL AS THE CLIMATE, WHICH INFLUENCE THE APPLICATION OF GAGAS
- CONDUCTING AUDIT WORK IN ACCORDANCE WITH ETHICAL PRINCIPLES IS A MATTER OF PERSONAL AND ORGANIZATIONAL RESPONSIBILITY

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57 GAGAS – ENGAGEMENTS

TYPES OF YELLOW BOOK ENGAGEMENTS

1) FINANCIAL AUDITS
2) ATTESTATION ENGAGEMENTS
3) PERFORMANCE AUDITS

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58 GAGAS – ENGAGEMENTS

FINANCIAL AUDITS
- ✓ CHAPTERS 1 THROUGH 3
- ✓ AND CHAPTER 4

ATTESTATION ENGAGEMENTS
- ✓ CHAPTERS 1 THROUGH 3
- ✓ AND CHAPTER 5

PERFORMANCE AUDITS
- ✓ CHAPTERS 1 THROUGH 3
- ✓ AND CHAPTERS 6 AND 7

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59 FINANCIAL AUDITS

- GAGAS CONTAIN ADDITIONAL REQUIREMENTS OVER GAAS FOR AUDITORS TO REPORT ON:
  1) INTERNAL CONTROL OVER FINANCIAL REPORTING - AND
  2) COMPLIANCE WITH PROVISIONS OF LAWS, REGULATIONS, CONTRACTS, AND GRANT AGREEMENTS
  3) THAT HAVE A MATERIAL EFFECT ON THE FINANCIAL STATEMENTS

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60 PERFORMANCE AUDITS

- PERFORMANCE AUDITS ARE DEFINED AS ENGAGEMENTS:
  a) THAT PROVIDE FINDINGS OR CONCLUSIONS
  b) BASED ON AN EVALUATION OF SUFFICIENT, APPROPRIATE EVIDENCE AGAINST CRITERIA
  c) RELATED TO OBJECTIVES OF PROGRAM PERFORMANCE

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61

PERFORMANCE AUDITS

- PERFORMANCE AUDITS PROVIDE OBJECTIVE ANALYSIS TO ASSIST MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE AND OVERSIGHT:
  - a) IN USING THE INFORMATION
  - b) TO IMPROVE PROGRAM PERFORMANCE AND OPERATIONS
  - c) REDUCE COSTS
  - d) FACILITATE DECISION MAKING BY PARTIES WITH RESPONSIBILITY TO OVERSEE OR INITIATE CORRECTIVE ACTION - AND
  - e) CONTRIBUTE TO PUBLIC ACCOUNTABILITY

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62

PERFORMANCE AUDITS

- THE TERM "PROGRAM" IS USED IN YELLOW BOOK TO INCLUDE GOVERNMENTAL ENTITIES, ORGANIZATIONS, PROGRAMS, ACTIVITIES, AND FUNCTIONS
- FOR PERFORMANCE AUDITS:
  - a) GAGAS DOES NOT INCORPORATE OTHER STANDARDS BY REFERENCE
  - b) BUT RECOGNIZES THAT THE AUDITOR MAY USE OR MAY BE REQUIRED TO USE OTHER PROFESSIONAL STANDARDS IN CONJUNCTION WITH GAGAS

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63

GENERAL STANDARDS

- THE FOUR GENERAL STANDARDS ARE:
  - INDEPENDENCE
  - PROFESSIONAL JUDGMENT
  - COMPETENCE
  - QUALITY CONTROL AND ASSURANCE

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64

INDEPENDENCE

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65

INDEPENDENCE

- INTERRELATED SECTIONS
  1) A CONCEPTUAL FRAMEWORK FOR MAKING INDEPENDENCE DETERMINATIONS BASED ON FACTS AND CIRCUMSTANCES THAT ARE OFTEN UNIQUE TO SPECIFIC ENVIRONMENTS
  2) REQUIREMENTS FOR AND GUIDANCE ON INDEPENDENCE FOR AUDIT ORGANIZATIONS THAT ARE STRUCTURALLY LOCATED WITHIN THE ENTITIES THEY AUDIT

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66

INDEPENDENCE

- INTERRELATED SECTIONS
  3) REQUIREMENTS FOR AND GUIDANCE ON INDEPENDENCE FOR AUDITORS PERFORMING NON-AUDIT SERVICES - INCLUDING INDICATION OF SPECIFIC NON-AUDIT SERVICES THAT ALWAYS IMPAIR INDEPENDENCE AND OTHERS THAT WOULD NOT NORMALLY IMPAIR INDEPENDENCE
  4) REQUIREMENTS FOR AND GUIDANCE ON DOCUMENTATION NECESSARY TO SUPPORT ADEQUATE CONSIDERATION OF AUDITOR INDEPENDENCE

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67

INDEPENDENCE

➔ ***CONCEPTUAL FRAMEWORK:***

1) ***IDENTIFY THREATS TO INDEPENDENCE***
2) ***EVALUATE THE SIGNIFICANCE OF THE THREATS IDENTIFIED - BOTH INDIVIDUALLY AND IN THE AGGREGATE - AND***
3) ***APPLY SAFEGUARDS AS NECESSARY TO ELIMINATE THE THREATS OR REDUCE THEM TO AN ACCEPTABLE LEVEL***

IF SAFEGUARDS CANNOT BE IMPLEMENTED TO ELIMINATE OR REDUCE A THREAT TO AN ACCEPTABLE LEVEL - THEN INDEPENDENCE IS CONSIDERED TO BE IMPAIRED

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68

INDEPENDENCE

1) SELF-INTEREST THREAT

✓ ***THE THREAT THAT A FINANCIAL OR OTHER INTEREST WILL INAPPROPRIATELY INFLUENCE AN AUDITOR'S JUDGMENT OR BEHAVIOR***

2) SELF-REVIEW THREAT

✓ ***THE THREAT THAT AN AUDITOR OR AUDIT ORGANIZATION THAT HAS PROVIDED NON-AUDIT SERVICES WILL NOT APPROPRIATELY EVALUATE THE RESULTS OF PREVIOUS JUDGMENTS MADE OR SERVICES PERFORMED AS PART OF THE NON-AUDIT SERVICES WHEN FORMING A JUDGMENT SIGNIFICANT TO AN AUDIT***

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69

INDEPENDENCE

3) BIAS THREAT

✓ ***THE THREAT THAT AN AUDITOR WILL, AS A RESULT OF POLITICAL, IDEOLOGICAL, SOCIAL, OR OTHER CONVICTIONS, TAKE A POSITION THAT IS NOT OBJECTIVE***

4) FAMILIARITY THREAT

✓ ***THE THREAT THAT ASPECTS OF A RELATIONSHIP WITH MANAGEMENT OR PERSONNEL OF AN AUDITED ENTITY, SUCH AS A CLOSE OR LONG RELATIONSHIP, OR THAT OF AN IMMEDIATE OR CLOSE FAMILY MEMBER, WILL LEAD AN AUDITOR TO TAKE A POSITION THAT IS NOT OBJECTIVE***

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70

INDEPENDENCE

5) UNDUE INFLUENCE THREAT

✓ ***THE THREAT THAT EXTERNAL INFLUENCES OR PRESSURES WILL IMPACT AN AUDITOR'S ABILITY TO MAKE INDEPENDENT AND OBJECTIVE JUDGMENTS***

6) MANAGEMENT PARTICIPATION THREAT

✓ ***THE THREAT THAT RESULTS FROM AN AUDITOR TAKING ON THE ROLE OF MANAGEMENT OR OTHERWISE PERFORMING MANAGEMENT FUNCTIONS ON BEHALF OF THE ENTITY UNDERGOING AN AUDIT***

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71

INDEPENDENCE

7) STRUCTURAL THREAT

✓ ***THE THREAT THAT AN AUDIT ORGANIZATION'S PLACEMENT WITHIN A GOVERNMENT ENTITY, IN COMBINATION WITH THE STRUCTURE OF THE GOVERNMENT ENTITY BEING AUDITED, WILL IMPACT THE AUDIT ORGANIZATION'S ABILITY TO PERFORM WORK AND REPORT RESULTS OBJECTIVELY***

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72

INDEPENDENCE

EXAMPLES OF SAFEGUARDS - AUDITOR

1) ***CONSULTING AN INDEPENDENT THIRD PARTY - SUCH AS A PROFESSIONAL ORGANIZATION, A PROFESSIONAL REGULATORY BODY OR ANOTHER AUDITOR***
2) ***INVOLVING ANOTHER AUDIT ORGANIZATION TO PERFORM OR REPERFORM PART OF THE AUDIT***
3) ***HAVING A PROFESSIONAL STAFF MEMBER WHO WAS NOT INVOLVED WITH A NON-AUDIT SERVICE REVIEW ANY NON-AUDIT WORK PERFORMED***
4) ***REMOVING AN INDIVIDUAL FROM AN AUDIT TEAM WHEN THAT INDIVIDUAL'S FINANCIAL OR OTHER INTERESTS OR RELATIONSHIPS POSE A THREAT TO INDEPENDENCE***

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73

INDEPENDENCE

EXAMPLES OF SAFEGUARDS - AUDITEE

1) *AN ENTITY REQUIREMENT THAT PERSONS OTHER THAN MANAGEMENT RATIFY OR APPROVE THE APPOINTMENT OF AN AUDIT ORGANIZATION TO PERFORM AN AUDIT*
2) ***INTERNAL PROCEDURES AT THE AUDITED ENTITY THAT ENSURE OBJECTIVE CHOICES IN COMMISSIONING NON-AUDIT SERVICES***
3) *A GOVERNANCE STRUCTURE AT THE AUDITED ENTITY THAT PROVIDES APPROPRIATE OVERSIGHT AND COMMUNICATIONS REGARDING THE AUDIT ORGANIZATION'S SERVICES*

74

INDEPENDENCE

A THREAT TO INDEPENDENCE IS NOT ACCEPTABLE IF IT EITHER:

1) *COULD IMPACT THE AUDITOR'S ABILITY TO PERFORM AN AUDIT WITHOUT BEING AFFECTED BY INFLUENCES THAT COMPROMISE PROFESSIONAL JUDGMENT - OR*
2) *COULD EXPOSE THE AUDITOR OR AUDIT ORGANIZATION TO CIRCUMSTANCES THAT WOULD CAUSE A REASONABLE AND INFORMED THIRD PARTY:*

- TO CONCLUDE THAT THE INTEGRITY, OBJECTIVITY, OR PROFESSIONAL SKEPTICISM OF THE AUDIT ORGANIZATION, OR A MEMBER OF THE AUDIT TEAM, HAS BEEN COMPROMISED.

75

NON-ATTEST SERVICES

➔ *BEFORE AN AUDITOR AGREES TO PROVIDE A NON-ATTEST SERVICE TO AN AUDITED ENTITY:*

a) ***THE AUDITOR SHOULD DETERMINE WHETHER PROVIDING SUCH A SERVICE WOULD CREATE A THREAT TO INDEPENDENCE***
b) ***EITHER BY ITSELF OR IN AGGREGATE WITH OTHER NON-AUDIT SERVICES PROVIDED***

➔ *A CRITICAL COMPONENT OF THIS DETERMINATION IS:*

a) ***CONSIDERATION OF MANAGEMENT'S ABILITY TO EFFECTIVELY OVERSEE THE NON-ATTEST SERVICE TO BE PERFORMED***

76

NON-ATTEST SERVICES

➔ ***THE AUDITOR SHOULD:***

a) *DETERMINE THAT THE AUDITED ENTITY HAS DESIGNATED AN INDIVIDUAL*
b) *WHO POSSESSES SUITABLE SKILL, KNOWLEDGE, OR EXPERIENCE*
c) ***AND THAT THE INDIVIDUAL UNDERSTANDS THE SERVICES TO BE PERFORMED SUFFICIENTLY TO OVERSEE THEM***

d) *THE INDIVIDUAL IS NOT REQUIRED TO POSSESS THE EXPERTISE TO PERFORM OR REPERFORM THE SERVICES*

77

NON-ATTEST SERVICES

➔ ***THE AUDITOR SHOULD:***

a) *DOCUMENT CONSIDERATION OF MANAGEMENT'S ABILITY TO EFFECTIVELY OVERSEE NON-ATTEST SERVICES TO BE PERFORMED*

78

ROUTINE SERVICES

PROVIDING ADVICE TO THE AUDITED ENTITY ON AN ACCOUNTING MATTER AS AN ANCILLARY PART OF THE OVERALL FINANCIAL AUDIT

RESEARCHING AND RESPONDING TO THE AUDITED ENTITY'S TECHNICAL QUESTIONS ON RELEVANT TAX LAWS AS AN ANCILLARY PART OF PROVIDING TAX SERVICES

PROVIDING ADVICE TO THE AUDITED ENTITY ON ROUTINE BUSINESS MATTERS

EDUCATING THE AUDITED ENTITY ON MATTERS WITHIN THE TECHNICAL EXPERTISE OF THE AUDITOR

PROVIDING INFORMATION TO THE AUDITED ENTITY THAT IS READILY AVAILABLE TO THE AUDITOR, SUCH AS BEST PRACTICES AND BENCHMARKING STUDIES

79

MANAGEMENT

➔ **FOLLOWING ARE EXAMPLES OF ACTIVITIES:**

a) THAT WOULD BE CONSIDERED A MANAGEMENT RESPONSIBILITY

b) AND, THEREFORE, IMPAIR INDEPENDENCE

c) IF PERFORMED FOR AN AUDITED ENTITY

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80

MANAGEMENT

DEVELOPING AN AUDITED ENTITY'S PERFORMANCE MEASUREMENT SYSTEM WHEN THAT SYSTEM IS MATERIAL OR SIGNIFICANT TO THE SUBJECT MATTER OF THE AUDIT

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81

MANAGEMENT

SETTING POLICIES AND STRATEGIC DIRECTION FOR THE AUDITED ENTITY

DIRECTING AND ACCEPTING RESPONSIBILITY FOR THE ACTIONS OF THE AUDITED ENTITY'S EMPLOYEES IN THE PERFORMANCE OF THEIR ROUTINE RECURRING ACTIVITIES

HAVING CUSTODY OF AN AUDITED ENTITY'S ASSETS

REPORTING TO THOSE CHARGED WITH GOVERNANCE ON BEHALF OF MANAGEMENT

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82

MANAGEMENT

ACCEPTING RESPONSIBILITY FOR THE MANAGEMENT OF AN AUDITED ENTITY'S PROJECT

ACCEPTING RESPONSIBILITY FOR DESIGNING, IMPLEMENTING, OR MAINTAINING INTERNAL CONTROL

PROVIDING SERVICES THAT ARE INTENDED TO BE USED AS MANAGEMENT'S PRIMARY BASIS FOR MAKING SIGNIFICANT DECISIONS

SERVING AS A VOTING MEMBER OF AN AUDITED ENTITY'S MANAGEMENT COMMITTEE OR BOARD OF DIRECTORS

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83

JUDGEMENT

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84

JUDGEMENT

➔ AUDITORS MUST USE PROFESSIONAL JUDGMENT IN PLANNING AND PERFORMING AUDITS AND IN REPORTING THE RESULTS.

✓ PROFESSIONAL JUDGMENT INCLUDES EXERCISING REASONABLE CARE AND PROFESSIONAL SKEPTICISM

✓ REASONABLE CARE INCLUDES ACTING DILIGENTLY IN ACCORDANCE WITH APPLICABLE PROFESSIONAL STANDARDS AND ETHICAL PRINCIPLES

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85

JUDGEMENT

- ✓ *PROFESSIONAL SKEPTICISM IS AN ATTITUDE THAT INCLUDES A QUESTIONING MIND AND A CRITICAL ASSESSMENT OF EVIDENCE*
- ✓ *PROFESSIONAL SKEPTICISM INCLUDES A MINDSET IN WHICH AUDITORS ASSUME NEITHER THAT MANAGEMENT IS DISHONEST, NOR OF UNQUESTIONED HONESTY*

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86

COMPETENCE

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87

COMPETENCE

- ➔ ***THE STAFF ASSIGNED TO PERFORM THE AUDIT MUST COLLECTIVELY POSSESS ADEQUATE PROFESSIONAL COMPETENCE NEEDED:***
  - ***a) TO ADDRESS THE AUDIT OBJECTIVES***
  - ***b) AND PERFORM THE WORK IN ACCORDANCE WITH GAGAS***
- ➔ *THE STAFF ASSIGNED TO A GAGAS AUDIT SHOULD COLLECTIVELY POSSESS:*

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88

COMPETENCE

- ✓ ***KNOWLEDGE OF GAGAS APPLICABLE TO THE TYPE OF WORK THEY ARE ASSIGNED AND THE EDUCATION, SKILLS, AND EXPERIENCE TO APPLY THIS KNOWLEDGE TO THE WORK BEING PERFORMED***
- ✓ *GENERAL KNOWLEDGE OF THE ENVIRONMENT IN WHICH THE AUDITED ENTITY OPERATES*
- ✓ *SKILLS TO COMMUNICATE CLEARLY AND EFFECTIVELY, BOTH ORALLY AND IN WRITING*
- ✓ ***SKILLS APPROPRIATE FOR THE WORK BEING PERFORMED***

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89

COMPETENCE

ADDITIONAL GAGAS QUALIFICATIONS

BE KNOWLEDGEABLE OF:

- ✓ *ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA - GAAP*
- ✓ *THE APPLICABLE FINANCIAL REPORTING FRAMEWORK BEING USED*
- ✓ ***AICPA AUDITING STANDARDS - GAAS***
- ✓ ***AND BE COMPETENT IN APPLYING THESE STANDARDS TO THE AUDIT WORK***

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90

COMPETENCE

ADDITIONAL GAGAS QUALIFICATIONS:

- ✓ ***BE LICENSED CERTIFIED PUBLIC ACCOUNTANTS***
- ✓ *OR PERSONS WORKING FOR A LICENSED CERTIFIED PUBLIC ACCOUNTING FIRM*
- ✓ ***OR FOR A GOVERNMENT AUDITING ORGANIZATION***
- ✓ *OR LICENSED ACCOUNTANTS IN STATES THAT HAVE MULTICLASS LICENSING SYSTEMS*
  - ***a)*** *THAT RECOGNIZE LICENSED ACCOUNTANTS OTHER THAN CERTIFIED PUBLIC ACCOUNTANTS*

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91

CONTINUING EDUCATION -CPE

➔ ***AUDITORS PERFORMING GAGAS AUDITS:***

a) INCLUDING PLANNING, DIRECTING, PERFORMING AUDIT PROCEDURES

b) OR REPORTING ON AN AUDIT CONDUCTED IN ACCORDANCE WITH GAGAS

c) SHOULD MAINTAIN THEIR PROFESSIONAL COMPETENCE

d) THROUGH CONTINUING PROFESSIONAL EDUCATION

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92

CPE REQUIREMENTS

➔ ***EACH AUDITOR PERFORMING GAGAS AUDITS SHOULD COMPLETE - EVERY 2 YEARS:***

- ✓ *AT LEAST 24 HOURS OF CPE THAT DIRECTLY RELATES TO GOVERNMENT AUDITING*
- ✓ *THE GOVERNMENT ENVIRONMENT*
- ✓ *OR THE SPECIFIC OR UNIQUE ENVIRONMENT IN WHICH THE AUDITED ENTITY OPERATES*

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93

CPE REQUIREMENTS

➔ ***AUDITORS:***

- ✓ *WHO ARE INVOLVED IN ANY AMOUNT OF PLANNING, DIRECTING, OR REPORTING ON GAGAS AUDITS*
- ✓ *AND AUDITORS WHO ARE NOT INVOLVED IN THOSE ACTIVITIES BUT CHARGE 20 PERCENT OR MORE OF THEIR TIME ANNUALLY TO GAGAS AUDITS*
- ✓ ***SHOULD ALSO OBTAIN AT LEAST AN ADDITIONAL 56 HOURS OF CPE (FOR A TOTAL OF 80 HOURS OF CPE IN EVERY 2-YEAR PERIOD) THAT ENHANCES THE AUDITOR'S PROFESSIONAL PROFICIENCY TO PERFORM AUDITS***

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94

CPE REQUIREMENTS

➔ ***AUDITORS:***

- ✓ *REQUIRED TO TAKE THE TOTAL 80 HOURS OF CPE*
- ✓ *SHOULD COMPLETE AT LEAST 20 HOURS OF CPE IN EACH YEAR OF THE 2-YEAR PERIODS*

➔ ***AUDITORS:***

- ✓ ***HIRED OR INITIALLY ASSIGNED TO GAGAS AUDITS AFTER THE BEGINNING OF AN AUDIT ORGANIZATION'S TWO-YEAR CPE PERIOD***
- ✓ ***SHOULD COMPLETE A PRORATED NUMBER OF CPE HOURS***

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95

QUALITY CONTROL

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96

QUALITY CONTROL

➔ *EACH AUDIT ORGANIZATION PERFORMING AUDITS IN ACCORDANCE WITH GAGAS MUST:*

- ✓ ***ESTABLISH AND MAINTAIN A SYSTEM OF QUALITY CONTROL:***
  - ***a) DESIGNED TO PROVIDE THE AUDIT ORGANIZATION***
  - ***b) WITH REASONABLE ASSURANCE THAT THE ORGANIZATION AND ITS PERSONNEL COMPLY WITH PROFESSIONAL STANDARDS AND APPLICABLE LEGAL AND REGULATORY REQUIREMENTS***
- ✓ ***HAVE AN EXTERNAL PEER REVIEW PERFORMED BY REVIEWERS INDEPENDENT OF THE AUDIT ORGANIZATION BEING REVIEWED AT LEAST ONCE EVERY THREE YEARS***

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97

QC SYSTEM

➔ ***AN AUDIT ORGANIZATION SHOULD ESTABLISH POLICIES AND PROCEDURES IN ITS SYSTEM OF QUALITY CONTROL THAT COLLECTIVELY ADDRESS THE FOLLOWING:***

1) ***LEADERSHIP RESPONSIBILITIES FOR QUALITY WITHIN THE AUDIT ORGANIZATION***
2) ***INDEPENDENCE, LEGAL AND ETHICAL REQUIREMENTS***
3) ***INITIATION, ACCEPTANCE AND CONTINUANCE OF AUDITS***
4) ***HUMAN RESOURCES***
5) ***AUDIT PERFORMANCE, DOCUMENTATION, AND REPORTING***
6) ***MONITORING OF QUALITY***

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98

PEER REVIEW

➔ ***THE AUDIT ORGANIZATION SHOULD OBTAIN AN EXTERNAL PEER REVIEW AT LEAST ONCE EVERY THREE YEARS THAT IS SUFFICIENT IN SCOPE TO PROVIDE A REASONABLE BASIS FOR DETERMINING WHETHER - FOR THE PERIOD UNDER REVIEW:***

1) ***THE REVIEWED AUDIT ORGANIZATION'S SYSTEM OF QUALITY CONTROL WAS SUITABLY DESIGNED***
2) ***THE AUDIT ORGANIZATION IS COMPLYING WITH ITS QUALITY CONTROL SYSTEM IN ORDER TO PROVIDE THE AUDIT ORGANIZATION WITH REASONABLE ASSURANCE OF CONFORMING WITH APPLICABLE PROFESSIONAL STANDARDS***

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99

PEER REVIEW

➔ ***THE PEER REVIEW TEAM SHOULD INCLUDE THE FOLLOWING ELEMENTS IN THE SCOPE OF THE PEER REVIEW:***

1) ***REVIEW OF THE AUDIT ORGANIZATION'S QUALITY CONTROL POLICIES AND PROCEDURES***
2) ***CONSIDERATION OF THE ADEQUACY AND RESULTS OF THE AUDIT ORGANIZATION'S INTERNAL MONITORING PROCEDURES***
3) ***REVIEW OF SELECTED AUDITOR'S REPORTS AND RELATED DOCUMENTATION***

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100

PEER REVIEW

4) ***REVIEW OF OTHER DOCUMENTS NECESSARY FOR ASSESSING COMPLIANCE WITH STANDARDS - FOR EXAMPLE - INDEPENDENCE DOCUMENTATION, CPE RECORDS, AND RELEVANT HUMAN RESOURCE MANAGEMENT FILES***
5) ***INTERVIEWS WITH A SELECTION OF THE REVIEWED AUDIT ORGANIZATION'S PROFESSIONAL STAFF AT VARIOUS LEVELS TO ASSESS THEIR UNDERSTANDING OF AND COMPLIANCE WITH RELEVANT QUALITY CONTROL POLICIES AND PROCEDURES***

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101

PEER REVIEW

➔ ***THE TEAM PERFORMING THE PEER REVIEW SHOULD MEET THE FOLLOWING CRITERIA:***

1) ***THE REVIEW TEAM COLLECTIVELY HAS CURRENT KNOWLEDGE OF GAGAS AND GOVERNMENT AUDITING***
2) ***THE ORGANIZATION CONDUCTING THE PEER REVIEW AND INDIVIDUAL REVIEW TEAM MEMBERS ARE INDEPENDENT (AS DEFINED IN GAGAS) OF THE AUDIT ORGANIZATION BEING REVIEWED, ITS STAFF, AND THE AUDITS SELECTED FOR THE PEER REVIEW***

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102

PEER REVIEW

3) ***THE REVIEW TEAM COLLECTIVELY HAS SUFFICIENT KNOWLEDGE OF HOW TO PERFORM A PEER REVIEW***
   a) ***SUCH KNOWLEDGE MAY BE OBTAINED FROM ON-THE-JOB TRAINING, TRAINING COURSES, OR A COMBINATION OF BOTH***
4) ***HAVING PERSONNEL ON THE PEER REVIEW TEAM WITH PRIOR EXPERIENCE ON A PEER REVIEW OR INTERNAL INSPECTION TEAM IS DESIRABLE***

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103

SINGLE AUDITS AND UNIFORM GUIDANCE

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104

SINGLE AUDITS

➔ ***THE SINGLE AUDIT ACT AMENDMENTS OF 1996:***

a) *THE SINGLE AUDIT ACT AND TITLE 2 U.S. CODE OF FEDERAL REGULATIONS (CFR) PART 200*

b) *UNIFORM ADMINISTRATIVE REQUIREMENTS, COST PRINCIPLES, AND AUDIT REQUIREMENTS FOR FEDERAL AWARDS - UNIFORM GUIDANCE*

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105

SINGLE AUDITS

➔ ***THE SINGLE AUDIT ACT:***

a) *REQUIRES A SINGLE AUDIT FOR NONFEDERAL ENTITIES THAT EXPEND $750,000 OR MORE OF FEDERAL AWARDS IN A FISCAL YEAR*

b) ***CONSISTS OF AN AUDIT OF THE NON-FEDEREL ENTITY'S FINANCIAL STATEMENTS AND A COMPLIANCE AUDIT OF ITS MAJOR FEDERAL PROGRAMS***

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106

UNIFORM GUIDANCE

➔ *IN DECEMBER 2013 THE OMB ISSUED THE UNIFORM GUIDANCE:*

a) ***WHICH ESTABLISHES UNIFORM COST PRINCIPLES AND AUDIT REQUIREMENTS FOR FEDERAL AWARDS TO NONFEDERAL ENTITIES***

b) *AND ADMINISTRATIVE REQUIREMENTS FOR ALL FEDERAL GRANTS AND COOPERATIVE AGREEMENTS*

➔ *ON DECEMBER 19, 2014 - THE FEDERAL AWARD-MAKING AGENCIES ISSUED A JOINT INTERIM FINAL RULE TO IMPLEMENT THE UNIFORM GUIDANCE*

➔ *THE REGULATIONS WERE EFFECTIVE 12/26/2014*

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107

UNIFORM GUIDANCE

➔ ***THE UNIFORM GUIDANCE CONSOLIDATES THE FOLLOWING OMB CIRCULARS:***

a) *A-21 – COST PRINCIPLES EDUCATIONAL INSTITUTIONS*

b) *A-87 – COST PRINCIPLES STATE & LOCAL GOVERNMENTS*

c) ***A-102 – COMMON RULE***

d) ***A-110 – ADMNISTRATIVE REQUIREMENTS***

e) ***A-122 – COST PRINCIPLES FOR NFP ORGANIZATIONS***

f) *A-133 – AUDITS OF STATE & LOCAL GOVERNMENTS AND NOT-FOR PROFITS*

g) ***A-50 - GUIDANCE ON SINGLE AUDIT FOLLOW-UP***

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108

UNIFORM GUIDANCE

➔ *THE UNIFORM GUIDANCE SUPERSEDES THE PRE-UNIFORM GUIDANCE CIRCULARS FOR ANY FEDERAL AWARDS THAT ARE SUBJECT TO THE UNIFORM GUIDANCE ADMINISTRATIVE REQUIREMENTS AND COST PRINCIPLES*

➔ *NOTE THAT THE COST PRINCIPLES FOR HOSPITALS HAVE NOT YET BEEN INCORPORATED INTO THE UNIFORM GUIDANCE, HOWEVER, HOSPITALS ARE SUBJECT TO ALL OTHER PROVISIONS OF THE UNIFORM GUIDANCE*

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109

UNIFORM GUIDANCE

➔ ***SUB-PART F – AUDIT REQUIREMENTS:***

a) *ARE EFFECTIVE FOR AUDITS OF FISCAL YEARS BEGINNING ON OR AFTER DECEMBER 26, 2014*

b) *THEREFORE - SINGLE AUDITS ARE NOW BEING PERFORMED UNDER THE UNIFORM GUIDANCE*

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110

UNIFORM GUIDANCE

➔ *SUBPARTS UNIFORM GUIDANCE:*

A. ***SUB-PART A - ACRONYMS AND DEFINITIONS***

B. ***SUB-PART B - GENERAL PROVISIONS***

C. ***SUB-PART C - PRE-FEDERAL AWARD REQUIREMENTS AND CONTENTS OF FEDERAL AWARDS***

D. ***SUB-PART D - POST FEDERAL AWARDS REQUIREMENTS***

E. ***SUB-PART E – COST PRINCIPLES***

F. ***SUB-PART F – AUDIT REQUIREMENTS***

➔ *NUMEROUS APPENDIXES*

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111

AUDIT SCOPE

➔ ***THE UNIFORM GUIDANCE REQUIRES THAT THE AUDITOR CONDUCT THE AUDIT:***

1) *IN ACCORDANCE WITH GAGAS - WHICH*

2) *INCLUDES GENERALLY ACCEPTED AUDITING STANDARDS – GAAS*

➔ ***AN AUDIT CONDUCTED UNDER THE UNIFORM GUIDANCE MUST INCLUDE THE FOLLOWING:***

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112

REPORTING

➔ *A UNIFORM GUIDANCE COMPLIANCE AUDIT RESULTS IN THJE AUDITOR EXPRESSING AN OPINION ON THE AUDITEE'S COMPLIANCE WITH THOSE COMPLIANCE REQUIREMENTS FOR EACH OF ITS MAJOR PROGRAMS*

➔ ***IN ADDITION - THE UNIFORM GUIDANCE CONTAINS AUDIT AND REPORTING REQUIREMENTS RELATING TO INTERNAL CONTROL OVER COMPLIANCE***

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113

FINANCIAL STATEMENTS

➔ ***THE AUDITOR MUST DETERMINE:***

a) *WHETHER THE FINANCIAL STATEMENTS OF THE AUDITEE ARE PRESENTED FAIRLY IN ALL MATERIAL RESPECTS IN CONFORMITY WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES*

b) *WHETHER THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – **SEFA** - IS STATED FAIRLY IN ALL MATERIAL RESPECTS IN RELATION TO THE AUDITEE'S FINANCIAL STATEMENTS AS A WHOLE*

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114

INTERNAL CONTROL

➔ ***IN ADDITION TO GAGAS REQUIREMENTS:***

a) *THE AUDITOR MUST PERFORM PROCEDURES TO OBTAIN AN UNDERSTANDING OF INTERNAL CONTROL OVER FEDERAL PROGRAMS*

b) ***THAT ARE SUFFICIENT TO PLAN THE AUDIT TO SUPPORT A LOW ASSESSED LEVEL OF CONTROL RISK FOR EACH MAJOR PROGRAM***

c) *THE AUDITOR MUST ALSO TEST INTERNAL CONTROL OVER EACH MAJOR PROGRAM AS PLANNED*

d) *UNLESS THE AUDITOR DETERMINES THAT INTERNAL CONTROL OVER COMPLIANCE IS LIKELY TO BE INEFFECTIVE*

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115

COMPLIANCE

➔ **IN ADDITION TO THE REQUIREMENTS OF GAGAS THE AUDITOR MUST DETERMINE:**

a) WHETHER THE AUDITEE HAS COMPLIED WITH FEDERAL STATUTES AND REGULATIONS

b) WHETHER THE AUDITEE HAS COMPLIED WITH THE TERMS AND CONDITIONS OF FEDERAL AWARDS

c) THAT MAY HAVE A DIRECT AND MATERIAL EFFECT ON EACH OF ITS MAJOR PROGRAMS

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116

AUDIT FOLLOW UP

➔ **THE AUDITOR MUST FOLLOW UP ON PRIOR AUDIT FINDINGS:**

a) PERFORM PROCEDURES TO ASSESS THE REASONABLENESS OF THE SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS PREPARED BY THE AUDITEE

b) REPORT - AS A CURRENT YEAR AUDIT FINDING - WHEN THE AUDITOR CONCLUDES THAT THE SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS MATERIALLY MISREPRESENTS THE STATUS OF ANY PRIOR AUDIT FINDING

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117

MATERIALITY

➔ **IN A COMPLIANCE AUDIT – THE AUDITOR'S PURPOSE FOR ESTABLISHING MATERIALITY LEVELS IS TO:**

1) DETERMINE THE NATURE AND EXTENT OF RISK ASSESSMENT PROCEDURES
2) IDENTIFY AND ASSESS THE RISK OF MATERIAL NON-COMPLIANCE
3) DETERMINE THE NATURE, TIMING, AND EXTENT OF FURTHER AUDIT PROCEDURES
4) EVALUATE WHETHER THE ENTITY COMPLIED WITH THE DIRECT AND MATERIAL COMPLIANCE REQUIREMENTS

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118

MATERIALITY

5) REPORT FINDING OF NON-COMPLIANCE AND OTHER MATTERS REQUIRED TO BE REPORTED BY THE GOVERNMENTAL AUDIT REQUIREMENT
6) APPLY THE CONCEPT OF MATERIALITY TO EACH MAJOR PROGRAM RATHER THAN TO ALL MAJOR PROGRAMS COMBINED OR THE AUDITEE'S FINANCIAL STATEMENTS
7) REQUIRES THE AUDITOR TO CONSIDER A LOWER LEVEL OF MATERIALITY FOR PURPOSES OF REPORTING AUDIT FINDINGS IN THE SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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119

FEDERAL PROGRAMS

➔ **FEDERAL AWARD**

1) FEDERAL FINANCIAL ASSISTANCE AND FEDERAL COST-REIMBURSEMENT CONTRACTS
2) UNDER THE FEDERAL ACQUISITION REGULATIONS THAT
3) NONFEDERAL ENTITIES RECEIVE DIRECTLY FROM FEDERAL AWARDING AGENCIES
4) OR INDIRECTLY FROM PASS-THROUGH ENTITIES

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120

COMPLIANCE TESTS

➔ **AUDITORS MUST CONSIDER THE COMPLIANCE SUPPLEMENT:**

a) AND THE REFERENCED LAWS, REGULATIONS

b) IN DETERMINING THE COMPLIANCE REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON THE PROGRAMS INCLUDED IN THE SUPPLEMENT

➔ THUS - USE OF THE SUPPLEMENT IS MANDATORY FOR IDENTIFYING APPLICABLE COMPLIANCE REQUIREMENTS

a) ACCORDINGLY - ADHERENCE TO THE SUPPLEMENT SATISFIES THE REQUIREMENTS OF THE UNIFORM GUIDANCE

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121

COMPLIANCE TESTS

➔ ***WHERE THERE HAVE BEEN CHANGES TO THE COMPLIANCE REQUIREMENTS:***

a) *AND THE CHANGES ARE NOT REFLECTED IN THE SUPPLEMENT*

b) *THE AUDITOR MUST DETERMINE THE CURRENT COMPLIANCE REQUIREMENTS*

c) *AND MODIFY THE AUDIT PROCEDURES ACCORDINGLY*

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122

COMPLIANCE TESTS

COMPLIANCE SUPPLEMENT

➔ *THE COMPLIANCE SUPPLEMENT CONTAINS SUGGESTED AUDIT PROCEDURES FOR TESTING THE COMPLIANCE REQUIREMENTS INCLUDED THEREIN*

➔ ***HOWEVER - THE AUDITOR MAY NEED TO USE ALTERNATIVE OR ADDITIONAL PROCEDURES IN ORDER TO OBTAIN SUFFICIENT APPROPRIATE EVIDENCE***

➔ ***NATURE AND EXTENT OF TESTS FOR EACH MAJOR FEDERAL PROGRAM SHOULD BE BASED ON THE PROFESSIONAL JUDGMENT OF THE AUDITOR***

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123

COMPLIANCE TESTS

COMPLIANCE SUPPLEMENT

✓ *SOME FACTORS THAT MAY BE TAKEN INTO CONSIDERATION INCLUDE THE FOLLOWING:*

1) *AMOUNT OF EXPENDITURES FOR THE PROGRAM*

2) ***NEWNESS OF OR CHANGES IN THE PROGRAM***

3) *PRIOR EXPERIENCE WITH THE PROGRAM*

4) ***EXTENT TO WHICH THE PROGRAM IS CARRIED OUT THROUGH SUBRECIPIENTS***

5) ***EXTENT TO WHICH THE PROGRAM CONTRACTS FOR GOODS OR SERVICES***

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124

COMPLIANCE TESTS

COMPLIANCE SUPPLEMENT

6) *LEVEL AT WHICH THE PROGRAM IS SUBJECT TO REVIEW AND OVERSIGHT*

7) ***ADEQUACY OF INTERNAL CONTROL FOR ENSURING COMPLIANCE***

8) *EVIDENCE OBTAINED THROUGH OTHER AUDITING PROCEDURES*

9) ***POTENTIAL IMPACT OF ADVERSE FINDINGS***

10) *THE EXPECTATIONS OF ADHERENCE OR LACK OF ADHERENCE TO THE APPLICABLE FEDERAL STATUTES AND REGULATIONS*

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125

COMPLIANCE TESTS

➔ ***THE AUDITOR MUST PERFORM TESTS OF TRANSACTIONS AND SUCH OTHER PROCEDURES AS NECESSARY***

a) *TO OBTAIN SUFFICIENT APPROPRIATE AUDIT EVIDENCE TO SUPPORT THE OPINION ON COMPLIANCE FOR EACH MAJOR PROGRAM*

➔ *WHEN TESTING INTERNAL CONTROL OVER COMPLIANCE - THE AUDITOR IS PRIMARILY CONCERNED ABOUT THE RATES OF DEVIATIONS FROM A PRESCRIBED CONTROL*

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126

COMPLIANCE TESTS

➔ ***SIMILARLY - IN TESTS OF COMPLIANCE –***

a) *THE AUDITOR IS CONCERNED ABOUT WHETHER OR NOT THERE IS EVIDENCE OF COMPLIANCE - THAT IS THE RATE AND LIKELY MAGNITUDE OF NON-COMPLIANCE*

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127

COMPLIANCE TESTS

➔ **AUDITORS FREQUENTLY USE AUDIT SAMPLING WHEN PERFORMING THESE TESTS**

a) THEREFORE - **ATTRIBUTES SAMPLING** - AS DEFINED IN THE AICPA AUDIT GUIDE AUDIT SAMPLING - IS TYPICALLY USED FOR TESTS OF CONTROLS OVER COMPLIANCE AND COMPLIANCE TESTING IN A COMPLIANCE AUDIT

b) OMB HAS INDICATED THAT EITHER A NON-STATISTICAL OR STATISTICAL APPROACH TO AUDIT SAMPLING MAY BE USED

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128

COMPLIANCE TESTS

➔ **EXPERIENCE HAS SHOWN THAT IT IS PREFERABLE TO SELECT SEPARATE SAMPLES FROM EACH MAJOR PROGRAM**

a) BECAUSE THE SEPARATE SAMPLE CLEARLY PROVIDES EVIDENCE OF THE TESTS PERFORMED

b) THE RESULTS OF THOSE TESTS

c) AND THE CONCLUSIONS REACHED

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129

COMPLIANCE TESTS

➔ **THE AUDIT DOCUMENTATION:**

a) SHOULD BE PRESENTED IN A WAY THAT CLEARLY SHOWS THAT A SAMPLE WAS SELECTED FROM EACH MAJOR PROGRAM

b) **AND THAT THE RESULTS OF TESTS OF SUCH SAMPLES**

c) TOGETHER WITH OTHER AUDIT EVIDENCE

d) ARE SUFFICIENT TO SUPPORT THE OPINION ON EACH MAJOR PROGRAM'S COMPLIANCE

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130

COMPLIANCE SUPPLEMENT

- PART 1 - BACKGROUND, PURPOSE, AND APPLICABILITY
- PART 2 - MATRIX OF COMPLIANCE REQUIREMENTS
- PART 3 - COMPLIANCE REQUIREMENTS
- PART 4 - AGENCY PROGRAM REQUIREMENTS
- PART 5 - CLUSTERS OF PROGRAMS
- PART 6 - INTERNAL CONTROL
- PART 7 - GUIDANCE FOR AUDITING PROGRAMS NOT INCLUDED

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131

COMPLIANCE TESTS

COMPLIANCE SUPPLEMENT - TESTS

- ACTIVITIES ALLOWED OR UNALLOWED
- ALLOWABLE COSTS AND COST PRINCIPLES
- CASH MANAGEMENT
- ELIGIBILITY
- EQUIPMENT AND REAL PROPERTY MANAGEMENT
- MATCHING, LEVEL OF EFFORT, EARMARKING

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132

COMPLIANCE TESTS

COMPLIANCE SUPPLEMENT - TESTS

- PERIOD OF PERFORMANCE
- PROCUREMENT, SUSPENSION AND DEBARMENT
- PROGRAM INCOME
- REPORTING
- SUBRECIPIENT MONITORING
- SPECIAL TESTS AND PROVISIONS

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133

FINDINGS AND QUESTIONED COSTS

➔ ***AUDITORS MUST REPORT KNOWN QUESTIONED COSTS:***

a) WHEN KNOWN OR LIKELY QUESTIONED COSTS ARE GREATER THAN $25,000

b) FOR A TYPE OF COMPLIANCE REQUIREMENT

➔ ***THE UNIFORM GUIDANCE DEFINES QUESTIONED COSTS AS COSTS QUESTIONED BY THE AUDITOR BECAUSE OF AN AUDIT FINDING***

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134

FINDINGS AND QUESTIONED COSTS

QUESTIONED COSTS DEFINED:

1) RESULTED FROM A VIOLATION OR POSSIBLE VIOLATION OF A STATUTE, REGULATION, OR THE TERMS AND CONDITIONS OF A FEDERAL AWARD, INCLUDING FUNDS USED TO MATCH FEDERAL FUNDS

2) WHERE THE COSTS - AT THE TIME OF THE AUDIT - ARE NOT SUPPORTED BY ADEQUATE DOCUMENTATION

3) WHERE THE COSTS INCURRED APPEAR UNREASONABLE AND DO NOT REFLECT THE ACTION A PRUDENT PERSON WOULD EXPECT

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135

FINDINGS AND QUESTIONED COSTS

➔ ***THE AUDITOR MUST REPORT THE FOLLOWING AS AUDIT FINDINGS IN THE SCHEDULE OF FINDINGS AND QUESTIONED COSTS:***

1) SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES IN INTERNAL CONTROL OVER MAJOR PROGRAMS AND SIGNIFICANT INSTANCES OF ABUSE RELATING TO MAJOR PROGRAMS

2) MATERIAL NON-COMPLIANCE WITH THE PROVISIONS OF FEDERAL STATUTES, REGULATIONS, AND THE TERMS AND CONDITIONS OF FEDERAL AWARDS RELATED TO A MAJOR PROGRAM

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136

FINDINGS AND QUESTIONED COSTS

3) KNOWN QUESTIONED COSTS WHICH ARE GREATER THAN $25,000 FOR A TYPE OF COMPLIANCE REQUIREMENT FOR A MAJOR PROGRAM

4) KNOWN QUESTIONED COSTS WHICH ARE GREATER THAN $25,000 FOR A FEDERAL PROGRAM WHICH IS NOT AUDITED AS A MAJOR PROGRAM

5) THE CIRCUMSTANCES CONCERNING WHY THE AUDITOR'S REPORT ON COMPLIANCE FOR MAJOR PROGTRAMS IS OTHER THAN AN OPINION

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137

FINDINGS AND QUESTIONED COSTS

6) KNOWN OR LIKELY FRAUD AFFECTING A FEDERAL AWARD - UNLESS SUCH FRAUD IS OTHERWISE REPORTED AS AN AUDIT FINDING IN THE SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

7) INSTANCES IN WHICH THE RESULTS OF AUDIT FOLLOW-UP PROCEDURES DISCLOSED THAT THE SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS PREPARED BY THE AUDITEE MATERIALLY MISREPRESENTS THE STATUS OF ANY PRIOR AUDIT FINDING

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138

DATA COLLECTION

➔ ***THE UNIFORM GUIDANCE REQUIRES THAT A DATA COLLECTION FORM (SF-SAC) BE PREPARED AND SUBMITTED ELECTRONICALLY BY THE AUDITEE***

a) THE FORM IS ACCESSED AND COMPLETED ON LINE AT THE FAC WEBSITE AT HTTPS://HARVESTER.CENSUS.GOV/FACWEB/

b) BOTH THE AUDITOR AND AUDITEE ARE REQUIRED TO COMPLETE CERTAIN SECTIONS OF THE FORM

c) THE AUDITEE MUST SUBMIT FORM SF-SAC AND THE REPORTING PACKAGE WITHIN THE EARLIER OF 30 DAYS AFTER THE RECEIPT OF THE AUDITOR'S REPORT OR NINE MONTHS AFTER THE END OF THE AUDIT PERIOD

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139

DATA COLLECTION

➔ ***AFTER THE DATA COLLECTION FORM IS COMPLETED:***

- ***a) AND THE REPORTING PACKAGE IS UPLOADED TO THE FAC WEBSITE***
- ***b) CERTIFICATION BY THE AUDITEE***
- ***c) AND A SIGNATURE BY THE AUDITOR ON THE AUDITOR STATEMENT***
- ***d) COMPLETES THE SUBMISSION***

EACH AUDIT FINDING IN THE SCHEDULE OF FINDINGS AND QUESTIONED COSTS MUST INCLUDE A REFERENCE NUMBER IN THE FORMAT SPECIFIED IN THE INSTRUCTIONS

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140

DATA COLLECTION

➔ ***THE SF-SAC CONTAINS:***

1) ***GENERAL INFORMATION ABOUT THE AUDITEE AND AUDITOR***
2) ***INFORMATION ABOUT THE AUDITEE'S FEDERAL PROGRAMS***
3) ***SUMMARY INFORMATION ABOUT THE RESULTS OF THE AUDITS OF THE FINANCIAL STATEMENTS AND FEDERAL PROGRAMS***
4) ***INFORMATION ABOUT THE FINDINGS REPORTED BY THE AUDITOR***

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141

AUDIT FOLLOW-UP

➔ ***THE AUDITOR HAS THE FOLLOWING RESPONSIBILITIES RELATED TO AUDIT FOLLOW-UP:***

1) ***FOLLOW UP ON PRIOR AUDIT FINDINGS.***
2) ***ASSESS THE TREASONABLENESS OF THE AUDITEE'S SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS***
3) ***REPORT AS A CURRENT AUDIT FINDING WHEN THE AUDITOR CONCLUDES THAT THE SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS MATERIALLY MISSTATES THE STATUS OF ANY PRIOR AUDIT FINDING***

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142

AUDIT FOLLOW-UP

THE AUDITOR MUST PERFORM AUDIT FOLLOW-UP PROCEDURES REGARDLESS OF WHETHER A PRIOR AUDIT FINDING RELATES TO A MAJOR PROGRAM IN THE CURRENT YEAR

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143

INTERNAL CONTROL

➔ ***INTERNAL CONTROL OVER COMPLIANCE REQUIREMENTS FOR FEDERAL PROGRAMS***

1) ***A PROCESS - IMPLEMENTED BY A NONFEDERAL ENTITY***
2) ***DESIGNED TO PROVIDE "REASONABLE ASSURANCE" REGARDING THE ACHIEVEMENT OF THE OBJECTIVES FOR FEDERAL AWARDS***

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144

IC - OBJECTIVES

➔ ***TRANSACTIONS ARE PROPERLY RECORDED AND ACCOUNTED FOR TO:***

- ***a) PERMIT THE PREPARATION OF RELIABLE FINANCIAQL STATEMENTS AND FEDERAL REPORTS***
- ***b) MAINTAIN ACCOUNTABILITY OVER ASSETS***
- ***c) DEMONSTARTE COMPLIANCE WITH FEDERAL STATUTES, REGULATIONS, AND THE TERMS AND CONDITIONS OF THE FEDERAL AWARD***

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145

IC - OBJECTIVES

➔ ***TRANSACTIONS ARE EXECUTED IN COMPLIANCE WITH:***

a) ***FEDERAL STATUTES, REGULATIONS, AND THE TERMS AND CONDITIONS OF THE FEDERAL AWARD THAT CAN HAVE A DIRECT AND MATERIAL EFFECT ON A FEDERAL PROGRAM - AND***

b) ***ANY OTHER FEDERAL STATUTES AND REGULATIONS THAT ARE IDENTIFIED IN THE COMPLIANCE SUPPLEMENT***

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146

IC - OBJECTIVES

➔ ***FUNDS, PROPERTY, AND OTHER ASSETS ARE:***

a) ***SAFEGUARDED AGAINST LOSS FROM UNAUTHORIZED USE***

b) ***OR DISPOSITION***

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147

MUST VS. SHOULD

UNIFORM GUIDANCE

a) ***MUST INDICATES A REQUIREMENT***

b) ***SHOULD INDICATES A BEST PRACTICE OR RECOMMENDED APPROACH***

c) ***FEW USES OF THE WORD SHOULD IN UNIFORM GUIDANCE***

GAAS

a) ***SHOULD INDICATES A PRESUMPTIVELY MANDATORY REQUIREMENT – WHICH THE AUDITOR IS REQUIRED TO COMPLY WITH EXCEPT IN RARE CIRCUMSTANCES***

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148

RETENTION

THE UNIFORM GUIDANCE REQUIRES THE RETENTION OF AUDIT DOCUMENTATION AND REPORTS FOR A MINIMUM OF THREE YEARS AFTER THE DATE OF ISSUANCE OF THE AUDIT REPORT TO THE AUDITEE - UNLESS THE AUDITOR IS NOTIFIED IN WRITING TO EXTEND THE RETENTION PERIOD

AUDIT DOCUMENTATION MUST BE MADE AVAILABLE ON REQUEST TO THE COGNIZANT OR OVERSIGHT AUDIT AGENCY OR ITS DESIGNEE, A FEDERAL AGENCY PROVIDING DIRECT OR INDIRECT FUNDING, OR GAO AT THE COMPLETION OF THE AUDIT

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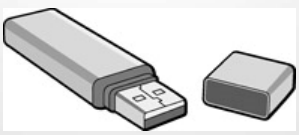
149

RETENTION

AU-C SECTION 230 - AUDIT DOCUMENTATION - SPECIFIES THAT A RETENTION PERIOD SHOULD NOT BE SHORTER THAN FIVE YEARS FROM THE REPORT RELEASE DATE

GAAS DOCUMENTATION RETENTION GUIDANCE SHOULD BE FOLLOWED FOR A UNIFORM GUIDANCE COMPLIANCE AUDIT BECAUSE THE FIVE-YEAR RETENTION PERIOD OF GAAS EXCEEDS THE UNIFORM GUIDANCE THREE-YEAR REQUIREMENT



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150

CHANGES TO PREVIOUS GUIDANCE

THE SINGLE AUDIT THRESHOLD IS INCREASED TO $750,000

THE MINIMUM TYPE A PROGRAM THRESHOLD IS INCREASED TO $750,000

THE TERM VENDOR HAS BEEN REPLACED WITH CONTRACTOR

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151

CHANGES TO PREVIOUS GUIDANCE

- PASS-THROUGH ENTITIE'S RESPONSIBILITIES FOR MONITORING SUB-RECIPIENTS CAN BE FOUND IN SUBPART D - PREVIOUSLY SOME OF THE REQUIREMENTS WERE HOUSED IN THE COMPLIANCE SUPPLEMENT
- WHEN PROCURING AN AUDIT - AUDITEES MUST REQUEST AND EVALUATE THE AUDITOR'S PEER REVIEW REPORTS WHEN EVALUATING EACH PROPOSAL FOR AUDIT SERVICES

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152

CHANGES TO PREVIOUS GUIDANCE

- THE UNIFORM GUIDANCE REQUIRES THAT THE AUDITEE'S CORRECTIVE PLAN AND SUMMARY OF PRIOR FINDINGS ADDRESS FINDINGS RELATED TO THE FINANCIAL STATEMENTS
- A GOVERNMENT-WIDE AUDIT QUALITY STUDY MUST BE PERFORMED ONCE EVERY SIX YEARS BEGINNING IN 2018

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153

RISK ASSESSMENT

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154

RISK ASSESSMENT PROCESS

➔ THE AUDITOR SHOULD PERFORM RISK ASSESSMENT PROCEDURES:

a) TO ASSESS THE RISKS OF NON-COMPLIANCE

b) AND PERFORM FURTHER PROCEDURES TO RESPOND TO THE ASSESSED RISKS OF NON-COMPLIANCE

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155

RISK ASSESSMENT PROCESS

➔ FOR EACH OF THE GOVERNMENT PROGRAMS AND APPLICABLE COMPLIANCE REQUIREMENTS SELECTED FOR TESTING:

a) THE AUDITOR SHOULD PERFORM RISK ASSESSMENT PROCEDURES TO OBTAIN A SUFFICIENT UNDERSTANDING OF THE APPLICABLE COMPLIANCE REQUIREMENTS

b) AND THE ENTITY'S INTERNAL CONTROL OVER COMPLIANCE WITH THOSE COMPLIANCE REQUIREMENTS

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156

RISK ASSESSMENT PROCESS

➔ THE AUDITOR SHOULD ASSESS RISKS OF MATERIAL NON-COMPLIANCE WHETHER DUE TO FRAUD OR ERROR FOR EACH APPLICABLE COMPLIANCE REQUIREMENT

a) AND SHOULD CONSIDER WHETHER ANY OF THOSE RISKS ARE PERVASIVE TO THE ENTITY'S COMPLIANCE

b) BECAUSE THEY MAY AFFECT THE ENTITY'S COMPLIANCE WITH MANY COMPLIANCE REQUIREMENTS

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157

RISK ASSESSMENT PROCESS

➔ **DETECTION RISK OF NON-COMPLIANCE:**

a) IS THE RISK THAT THE PROCEDURES PERFORMED BY THE AUDITOR TO REDUCE AUDIT RISK OF NON-COMPLIANCE TO AN ACCEPTABLY LOW LEVEL

b) WILL NOT DETECT NON-COMPLIANCE THAT EXISTS AND THAT COULD BE MATERIAL TO A MAJOR PROGRAM

c) **EITHER INDIVIDUALLY OR WHEN AGGREGATED WITH OTHER INSTANCES OF NON-COMPLIANCE**

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158

RISK ASSESSMENT

DETECTION RISKS –

1) INDEPENDENCE THREATS THAT LEAD TO POOR OR JADED JUDGEMENTS
2) LACK OF KNOWLEDGE ABOUT THE ENTITY, ITS PROGRAMS, AND CONTROL STRUCTURE
3) **INAPPROPRIATE ASSESSMENT OF THE POSSIBILITIES AND CAUSES OF MATERIAL MISSTATEMENTS**
4) LACK OF UNDERSTANDING OF THE COMPLIANCE AND REGULATORY REQUIREMENTS OF THE PROGRAMS

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159

RISK ASSESSMENT

DETECTION RISKS –

5) LACK OF COMPETENCE REGARDING THE APPROPRIATE AUDIT PROCEDURES NECESSARY IN THE CIRCUMSTANCES
6) SAMPLES OF TRANSACTIONS TESTED THAT ARE NOT REPRESENTATIVE OF THE UNIVERSE OF TRANSACTIONS
7) INSUFFICIENT RELIABILITY OF TESTING SCOPE
8) LACK OF SUFFICIENT COVERAGE OF RISK AREAS
9) **LACK OF RELATED EXPERIENCE IN FORMING CONCLUSIONS AS A RESULT OF THE TESTS AND PROCEDURES PERFORMED**

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160

RISK ASSESSMENT

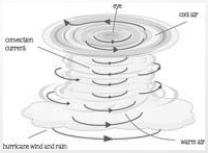
INHERENT RISK –

a) THE SUSCEPTIBILITY OF AN ASSERTION ABOUT A CLASS OF TRANSACTION, ACCOUNT BALANCE, OR DISCLOSURE

b) **TO A MISSTATEMENT THAT COULD BE MATERIAL**

c) EITHER INDIVIDUALLY OR WHEN AGGREGATED WITH OTHER MISSTATEMENTS

d) **BEFORE CONSIDERATION OF ANY RELATED CONTROLS**



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161

RISK ASSESSMENT

CONTROL RISK –

a) THE RISK THAT A MISSTATEMENT THAT COULD OCCUR IN AN ASSERTION ABOUT A CLASS OF TRANSACTION, ACCOUNT BALANCE, OR DISCLOSURE **AND**

b) **THAT COULD BE MATERIAL**

c) EITHER INDIVIDUALLY OR WHEN AGGREGATED WITH OTHER MISSTATEMENTS

d) WILL NOT BE PREVENTED, OR DETECTED AND CORRECTED

e) **ON A TIMELY BASIS BY THE ENTITY'S INTERNAL CONTROL.**

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162

LOW-RISK AUDITEE

➔ **AN AUDITEE THAT MEETS ALL OF THE FOLLOWING CONDITIONS FOR THE PRECEDING TWO YEARS QUALIFIES AS A LOW-RISK AUDITEE:**

1) SINGLE AUDITS WERE PERFORMED ON AN ANNUAL BASIS -
   a) IN ACCORDANCE WITH THE UNIFORM GUIDANCE
   b) **OR OMB CIRCULAR A-133 AS APPLICABLE**
   c) INCLUDING MEETING THE FEDERAL AUDIT CLEARINGHOUSE SUBMISSION DUE DATE

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163

LOW-RISK AUDITEE

2) THE AUDITOR'S OPINION ON WHETHER THE FINANCIAL STATEMENTS ARE FAIRLY PRESENTED IN ACCORDANCE WITH GAAP - OR A BASIS OF ACCOUNTING REQUIRED BY STATE LAW - WAS UNMODIFIED
3) THE IN-RELATION-TO OPINION ON THE SEFA WAS UNMODIFIED
4) THERE WERE NO DEFICIENCIES IN INTERNAL CONTROL OVER FINANCIAL REPORTING THAT WERE IDENTIFIED AS MATERIAL WEAKNESSES UNDER THE REQUIREMENTS OF GOVERNMENT AUDITING STANDARDS

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164

LOW-RISK AUDITEE

5) THE AUDITOR DID NOT REPORT A SUBSTANTIAL DOUBT ABOUT THE AUDITEE'S ABILITY TO CONTINUE AS A GOING CONCERN
6) NONE OF THE FEDERAL PROGRAMS HAD AUDIT FINDINGS IN EITHER OF THE PRECEDING TWO YEARS IN WHICH THEY WERE CLASSIFIED AS TYPE A PROGRAMS FROM ANY OF THE FOLLOWING:

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165

LOW-RISK AUDITEE

i. INTERNAL CONTROL DEFICIENCIES THAT WERE IDENTIFIED AS MATERIAL WEAKNESSES IN THE AUDITOR'S REPORT ON INTERNAL CONTROL FOR MAJOR PROGRAMS
ii. A MODIFIED COMPLIANCE REPORT ON A MAJOR PROGRAM
iii. KNOWN OR LIKELY QUESTIONED COSTS THAT EXCEED 5 PERCENT OF THE TOTAL FEDERAL EXPENDITURES FOR A TYPE A PROGRAM DURING THE AUDIT PERIOD

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166

LOW-RISK AUDITEE

➔ NOTE - A NONFEDERAL ENTITY THAT PREPARES ITS FINANCIAL STATEMENTS ON A CASH BASIS OF ACCOUNTING:

a) DOES NOT QUALIFY AS A LOW-RISK AUDITEE
b) UNLESS THE CASH BASIS IS REQUIRED BY STATE LAW

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167

PROCEDURES

INQUIRE
UNDERSTAND
ASSESS AND RESPOND

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168

PROCEDURES

➔ INQUIRE

1) WHETHER REPORTS OR OTHER WRITTEN COMMUNICATIONS
2) CONTAIN FINDINGS AND RECOMMENDATIONS RESULTING FROM PREVIOUS AUDITS, ATTESTATION ENGAGEMENTS, AND INTERNAL OR EXTERNAL MONITORING
3) THAT DIRECTLY RELATE TO THE OBJECTIVES OF THE COMPLIANCE AUDIT

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169

PROCEDURES

➔ ***UNDERSTAND***

1) *GAIN AN UNDERSTANDING OF MANAGEMENT'S RESPONSE TO FINDINGS AND RECOMMENDATIONS*
2) *THAT COULD HAVE A MATERIAL EFFECT ON THE ENTITY'S COMPLIANCE WITH THE APPLICABLE COMPLIANCE REQUIREMENTS*
3) *FOR EXAMPLE - TAKING CORRECTIVE ACTION*

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170

PROCEDURES

➔ ***ASSESS AND RESPOND***

1) *USE THIS INFORMATION TO ASSESS RISK AND DETERMINE THE NATURE, TIMING, AND EXTENT OF THE AUDIT PROCEDURES FOR THE COMPLIANCE AUDIT*
2) ***INCLUDING DETERMINING THE EXTENT TO WHICH TESTING THE IMPLEMENTATION OF ANY CORRECTIVE ACTIONS IS APPLICABLE TO THE AUDIT OBJECTIVES***

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171

PROCEDURES

➔ ***THE AUDITOR SHOULD PERFORM RISK ASSESSMENT PROCEDURES TO PROVIDE A BASIS FOR THE IDENTIFICATION AND ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT AT:***

a) ***THE FINANCIAL STATEMENT - AND***
b) *RELEVANT ASSERTION LEVELS*

RISK ASSESSMENT PROCEDURES BY THEMSELVES, HOWEVER, DO NOT PROVIDE SUFFICIENT APPROPRIATE AUDIT EVIDENCE ON WHICH TO BASE THE AUDIT OPINION

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172

PROCEDURES

➔ ***THE RISK ASSESSMENT PROCEDURES SHOULD INCLUDE THE FOLLOWING:***

A. ***INQUIRIES OF MANAGEMENT –***
   i. *APPROPRIATE INDIVIDUALS WITHIN THE INTERNAL AUDIT FUNCTION*
   ii. ***AND OTHERS WITHIN THE ENTITY WHO, IN THE AUDITOR'S PROFESSIONAL JUDGMENT, MAY HAVE INFORMATION THAT IS LIKELY TO ASSIST***
   iii. *IN IDENTIFYING RISKS OF MATERIAL MISSTATEMENT DUE TO FRAUD OR ERROR*
B. ***ANALYTICAL PROCEDURES***
C. ***OBSERVATION AND INSPECTION***

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173

PROCEDURES

➔ ***THE PROCEDURES PERFORMED IN RESPONSE TO THE ASSESSED RISKS OF MATERIAL NON-COMPLIANCE SHOULD INCLUDE PERFORMING TESTS OF CONTROLS OVER COMPLIANCE IF:***

a) ***THE AUDITOR'S RISK ASSESSMENT INCLUDES AN EXPECTATION OF THE OPERATING EFFECTIVENESS OF CONTROLS OVER COMPLIANCE RELATED TO THE APPLICABLE COMPLIANCE REQUIREMENTS***

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174

PROCEDURES

b) *SUBSTANTIVE PROCEDURES ALONE DO NOT PROVIDE SUFFICIENT APPROPRIATE AUDIT EVIDENCE* ***- OR***

c) ***SUCH TESTS OF CONTROLS OVER COMPLIANCE ARE REQUIRED BY THE GOVERNMENTAL AUDIT REQUIREMENT - AS IS THE CASE WITH THE UNIFORM GUIDANCE***

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175

PROCEDURES

➔ **THE UNIFORM GUIDANCE REQUIRES THE AUDITOR TO TEST INTERNAL CONTROL OVER COMPLIANCE :**

a) EXCEPT WHEN THE AUDITOR DETERMINES THAT THE INTERNAL CONTROL OVER THE COMPLIANCE REQUIREMENT IS LIKELY TO BE INEFFECTIVE IN PREVENTING OR DETECTING NON-COMPLIANCE

b) WHEN THE AUDITOR DETERMINES THAT INTERNAL CONTROL OVER COMPLIANCE IS LIKELY TO BE INEFFECTIVE - THE AUDITOR MUST REPORT A FINDING

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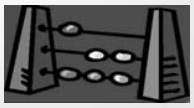
176

MAJOR PROGRAMS

➔ **RISK-BASED APPROACH TO DETERMINING MAJOR PROGRAMS IS ILLUSTRATED BY THE FOLLOWING STEPS:**

1) DETERMINATION OF TYPE A AND TYPE B PROGRAMS
2) IDENTIFICATION OF LOW-RISK TYPE A PROGRAMS
3) IDENTIFICATION OF HIGH-RISK TYPE B PROGRAMS
4) SELECTION OF PROGRAMS TO BE AUDITED AS MAJOR



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177

MAJOR PROGRAMS

➔ **THE AUDITOR MUST SELECT ALL OF THE FOLLOWING AS MAJOR FEDERAL PROGRAMS:**

a) ALL TYPE A PROGRAMS NOT IDENTIFIED AS LOW RISK IN STEP 2
b) ALL HIGH-RISK TYPE B PROGRAMS AS IDENTIFIED IN STEP 3
c) SUCH ADDITIONAL PROGRAMS AS MAY BE NECESSARY TO COMPLY WITH THE PERCENTAGE OF COVERAGE RULE

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178

MAJOR PROGRAMS

➔ **THE PERCENTAGE OF COVERAGE RULE REQUIRES THAT THE AUDITOR:**

i. AUDIT - AS MAJOR PROGRAMS - FEDERAL PROGRAMS WITH FEDERAL AWARDS EXPENDED THAT, IN THE AGGREGATE, ENCOMPASS A MINIMUM PERCENTAGE OF COVERAGE

➔ **FOR AUDITEES WHO DO NOT MEET THE CRITERIA FOR A LOW-RISK AUDITEE –**

i. MINIMUM PERCENTAGE OF COVERAGE IS AT LEAST 40 PERCENT OF TOTAL FEDERAL AWARDS EXPENDED

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179

MAJOR PROGRAMS

➔ **FOR AUDITEES THAT DO MEET THE LOW-RISK AUDITEE CRITERIA –**

i. MINIMUM PERCENTAGE OF COVERAGE IS AT LEAST 20 PERCENT OF TOTAL FEDERAL AWARDS EXPENDED

THE AUDITOR CAN CHOOSE ANY PROGRAMS NOT ALREADY SELECTED AS MAJOR WITHOUT REGARD TO RISK TO REACH THE REQUIRED PERCENTAGE OF COVERAGE

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180

MAJOR PROGRAMS

➔ THE COMPLIANCE SUPPLEMENT PROVIDES GUIDANCE THAT ALLOWS THE AUDITOR TO AUDIT ADDITIONAL MAJOR PROGRAMS IN YEARS ONE AND TWO OF UNIFORM GUIDANCE IMPLEMENTATION

i. TO AVOID A SPIKE IN THE DEMAND FOR AUDIT SERVICES EVERY THIRD YEAR AFTER IMPLEMENTATION

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181

LAWS AND REGULATIONS

➔ **AU-C SECTION 250 - CONSIDERATION OF LAWS AND REGULATIONS IN AN AUDIT OF FINANCIAL STATEMENTS - ADDRESSES THE AUDITOR'S RESPONSIBILITY TO CONSIDER:**

a) THOSE LAWS AND REGULATIONS THAT ARE DIRECTLY RELEVANT TO THE DETERMINATION OF MATERIAL AMOUNTS AND DISCLOSURES IN THE FINANCIAL STATEMENTS

b) THE AUDITOR SHOULD OBTAIN SUFFICIENT APPROPRIATE AUDIT EVIDENCE REGARDING MATERIAL AMOUNTS AND DISCLOSURES IN THE FINANCIAL STATEMENTS THAT ARE DETERMINED BY THE PROVISIONS OF THOSE LAWS AND REGULATIONS

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182

LAWS AND REGULATIONS

➔ **FOR SUCH LAWS AND REGULATIONS THE AUDITOR SHOULD PERFORM THE FOLLOWING AUDIT PROCEDURES THAT MAY IDENTIFY INSTANCES OF NON-COMPLIANCE THAT MAY HAVE A MATERIAL EFFECT ON THE FINANCIAL STATEMENTS:**

i. INQUIRING OF MANAGEMENT - AND WHEN APPROPRIATE THOSE CHARGED WITH GOVERNANCE - ABOUT WHETHER THE ENTITY IS IN COMPLIANCE WITH SUCH LAWS AND REGULATIONS

ii. INSPECTING CORRESPONDENCE, IF ANY, WITH THE RELEVANT LICENSING OR REGULATORY AUTHORITIES

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183

LAWS AND REGULATIONS

iii. INSPECTING CONTRACTS OR AGREEMENTS WITH THOSE PROVIDING ASSISTANCE

iv. READING MINUTES

v. INQUIRING OF IN-HOUSE OR EXTERNAL LEGAL COUNSEL CONCERNING LITIGATION, CLAIMS, AND ASSESSMENTS

vi. PERFORMING SUBSTANTIVE TESTS OF DETAILS OF CLASSES OF TRANSACTIONS, ACCOUNT BALANCES, OR DISCLOSURES

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184

LAWS AND REGULATIONS

➔ **HOWEVER - EVEN WHEN THOSE PROCEDURES ARE PERFORMED:**

a) THE AUDITOR MAY NOT BECOME AWARE OF THE EXISTENCE OF NON-COMPLIANCE

b) UNLESS THERE IS EVIDENCE OF NON-COMPLIANCE IN THE RECORDS, DOCUMENTS, OR OTHER INFORMATION

c) NORMALLY INSPECTED IN AN AUDIT OF FINANCIAL STATEMENTS

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185

LAWS AND REGULATIONS

➔ **DURING THE AUDIT - AU-C SECTION 250 STATES THAT THE AUDITOR SHOULD REMAIN ALERT TO:**

a) THE POSSIBILITY THAT OTHER AUDIT PROCEDURES APPLIED MAY BRING INSTANCES OF NON-COMPLIANCE

b) OR SUSPECTED NON-COMPLIANCE WITH LAWS AND REGULATIONS TO THE AUDITOR'S ATTENTION

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186

INITIAL YEAR AUDITS

➔ **AN AUDITOR ACCEPTING, OR CONTEMPLATING ACCEPTING, A UNIFORM GUIDANCE COMPLIANCE AUDIT ENGAGEMENT –**

✓ MIGHT CONSIDER REQUESTING CERTAIN INFORMATION TO ASSIST IN THE MAJOR PROGRAM DETERMINATION PROCESS – INCLUDING THE FOLLOWING:

1) FEDERAL AWARDS EXPENDED BY FEDERAL PROGRAMS

2) PRIOR-PERIOD FINDINGS AND QUESTIONED COSTS - INCLUDING THE CORRECTIVE ACTION PLAN AND MANAGEMENT DECISION RELATED TO THE FINDINGS AND SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

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187

INITIAL YEAR AUDITS

3) CORRESPONDENCE FROM PROGRAM OFFICIALS INDICATING POTENTIAL PROBLEMS
4) NEW PROGRAMS
5) CHANGES TO PROGRAMS
6) AMOUNT OF FUNDING PASSED THROUGH TO SUBRECIPIENTS, BY INDIVIDUAL FEDERAL PROGRAM
7) FEDERAL PROGRAMS AUDITED AS A MAJOR PROGRAM FOR THE LAST TWO YEARS

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188

DOCUMENTATION

➔ AU-C SECTION 935 PROVIDES THAT THE AUDITOR SHOULD DOCUMENT:

1) THE RISK ASSESSMENT PROCEDURES PERFORMED
2) INCLUDING THOSE RELATED TO GAINING AN UNDERSTANDING OF INTERNAL CONTROL OVER COMPLIANCE
3) RESPONSES TO THE ASSESSED RISKS OF MATERIAL NONCOMPLIANCE
4) THE PROCEDURES PERFORMED TO TEST COMPLIANCE WITH THE APPLICABLE COMPLIANCE REQUIREMENTS - AND
5) THE RESULTS OF THOSE PROCEDURES - INCLUDING ANY TESTS OF CONTROLS OVER COMPLIANCE

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189

DOCUMENTATION

6) MATERIALITY LEVELS AND THE BASIS ON WHICH THEY WERE DETERMINED
7) HOW HE OR SHE COMPLIED WITH THE SPECIFIC GOVERNMENTAL AUDIT REQUIREMENTS THAT ARE SUPPLEMENTARY TO GAAS AND GAGAS

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190

INTERNAL CONTROL

➔ INTERNAL CONTROL IS A PROCESS EFFECTED BY THOSE CHARGED WITH GOVERNANCE, MANAGEMENT, AND OTHER PERSONNEL

a) DESIGNED TO PROVIDE REASONABLE ASSURANCE
b) ABOUT THE ACHIEVEMENT OF THE ENTITY'S OBJECTIVES WITH REGARD TO:
   i. RELIABILITY OF FINANCIAL REPORTING,
   ii. EFFECTIVENESS AND EFFICIENCY OF OPERATIONS
   iii. COMPLIANCE WITH APPLICABLE LAWS AND REGULATIONS

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191

INTERNAL CONTROL

INTERNAL CONTROL OVER SAFEGUARDING OF ASSETS AGAINST UNAUTHORIZED ACQUISITION, USE, OR DISPOSITION MAY INCLUDE CONTROLS RELATING TO FINANCIAL REPORTING AND OPERATIONS OBJECTIVES

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192

INTERNAL CONTROL

➔ INTERNAL CONTROL CONSISTS OF FIVE INTERRELATED COMPONENTS:

- CONTROL ENVIRONMENT
- RISK ASSESSMENT
- INFORMATION AND COMMUNICATION SYSTEMS
- CONTROL ACTIVITIES
- MONITORING

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193

INTERNAL CONTROL

CONTROL ENVIRONMENT

i. SETS THE TONE OF AN ORGANIZATION, INFLUENCING THE CONTROL CONSCIOUSNESS OF ITS PEOPLE

ii. IT IS THE FOUNDATION FOR ALL OTHER COMPONENTS OF INTERNAL CONTROL, PROVIDING DISCIPLINE AND STRUCTURE

RISK ASSESSMENT

i. THE ENTITY'S IDENTIFICATION ANALYSIS - AND MANAGEMENT OF RISKS RELEVANT TO THE ACHIEVEMENT OF ITS OBJECTIVES

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194

INTERNAL CONTROL

INFORMATION AND COMMUNICATION SYSTEMS

✓ CONSISTS OF THE PROCEDURES AND RECORDS

i. DESIGNED AND ESTABLISHED TO SUPPORT THE IDENTIFICATION, CAPTURE, AND EXCHANGE OF INFORMATION

ii. IN A FORM AND TIME FRAME THAT ENABLE PEOPLE TO CARRY OUT THEIR RESPONSIBILITIES

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195

INTERNAL CONTROL

CONTROL ACTIVITIES

i. THE POLICIES AND PROCEDURES THAT HELP ENSURE THAT MANAGEMENT DIRECTIVES ARE CARRIED OUT

MONITORING

i. A PROCESS TO ASSESS THE EFFECTIVENESS OF INTERNAL CONTROL PERFORMANCE OVER TIME

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196

INTERNAL CONTROL

➔ THE UNIFORM GUIDANCE REQUIRES THE AUDITEE TO ESTABLISH AND MAINTAIN EFFECTIVE INTERNAL CONTROL OVER FEDERAL AWARDS THAT PROVIDES REASONABLE ASSURANCE THAT THE AUDITEE IS:

1) MANAGING FEDERAL AWARDS IN COMPLIANCE WITH FEDERAL STATUTES, REGULATIONS, AND THE TERMS AND CONDITIONS OF THE FEDERAL AWARD

2) COMPLYING WITH FEDERAL STATUTES, REGULATIONS, AND THE TERMS AND CONDITIONS OF THE FEDERAL AWARDS

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197

INTERNAL CONTROL

3) TAKING PROMPT ACTION WHEN INSTANCES OF NON-COMPLIANCE ARE IDENTIFIED INCLUDING NON-COMPLIANCE IDENTIFIED IN AUDIT FINDINGS

4) TAKING REASONABLE MEASURES TO SAFEGUARD PROTECTED PERSONALLY IDENTIFIABLE AND OTHER SENSITIVE INFORMATION

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198

INTERNAL CONTROL

➔ THE UNIFORM GUIDANCE STATES THAT IT IS BEST PRACTICE FOR THE AUDITEE TO ESTABLISH INTERNAL CONTROLS THAT ARE IN COMPLIANCE WITH :

a) GUIDANCE IN "STANDARDS FOR INTERNAL CONTROL IN THE FEDERAL GOVERNMENT" - THE GREEN BOOK – ISSUED BY THE COMPTROLLER GENERAL OF THE UNITED STATES

b) OR THE COMMITTEE OF SPONSORING ORGANIZATIONS OF THE TREADWAY COMMISSION (COSO) - INTERNAL CONTROL - INTEGRATED FRAMEWORK

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199

INTERNAL CONTROL

➔ ***AS STATED IN AU-C SECTION 315 - UNDERSTANDING THE ENTITY AND ITS ENVIRONMENT AND ASSESSING THE RISKS OF MATERIAL MISSTATEMENT:***

- ✓ *THE AUDITOR SHOULD OBTAIN AN UNDERSTANDING OF THE FIVE COMPONENTS OF INTERNAL CONTROL*
- ✓ *SUFFICIENT TO ASSESS THE RISK OF MATERIAL MISSTATEMENT OF THE FINANCIAL STATEMENTS*
- ✓ *WHETHER DUE TO ERROR OR FRAUD*
- ✓ *AND TO DESIGN THE NATURE, TIMING, AND EXTENT OF FURTHER AUDIT PROCEDURES*

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200

INTERNAL CONTROL

➔ ***THE AUDITOR SHOULD OBTAIN A SUFFICIENT UNDERSTANDING:***

- ✓ *BY PERFORMING RISK ASSESSMENT PROCEDURES*
- ✓ *TO EVALUATE THE DESIGN OF CONTROLS RELEVANT TO AN AUDIT OF FINANCIAL STATEMENTS*
- ✓ *AND TO DETERMINE WHETHER THEY HAVE BEEN IMPLEMENTED*

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201

INTERNAL CONTROL

➔ ***THE AUDITOR SHOULD USE SUCH KNOWLEDGE TO:***

- ✓ *IDENTIFY TYPES OF POTENTIAL MISSTATEMENTS*
- ✓ *CONSIDER FACTORS THAT AFFECT THE RISKS OF MATERIAL MISSTATEMENT - AND*
- ✓ *DESIGN TESTS OF CONTROLS, WHEN APPLICABLE - AND*
- ✓ *DESIGN SUBSTANTIVE PROCEDURES*

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202

INTERNAL CONTROL

➔ ***THE FOLLOWING ARE THE AUDITOR RESPONSIBILITIES WITH REGARD TO INTERNAL CONTROL:***

1) *PERFORM RISK ASSESSMENT PROCEDURES TO OBTAIN AN UNDERSTANDING OF INTERNAL CONTROL OVER FEDERAL PROGRAMS:*
   - ✓ *SUFFICIENT TO PLAN THE AUDIT TO SUPPORT A LOW ASSESSED LEVEL OF CONTROL RISK OF NON-COMPLIANCE FOR MAJOR PROGRAMS*

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203

INTERNAL CONTROL

2) *PLAN THE TESTING OF INTERNAL CONTROL OVER COMPLIANCE FOR MAJOR PROGRAMS:*
   - a) *TO SUPPORT A LOW ASSESSED LEVEL OF CONTROL RISK OF NON-COMPLIANCE*
   - b) *FOR THE ASSERTIONS RELEVANT TO THE COMPLIANCE REQUIREMENTS FOR EACH MAJOR PROGRAM*

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204

INTERNAL CONTROL

3) *PERFORM TESTING OF INTERNAL CONTROL OVER COMPLIANCE AS PLANNED*
4) *REPORT ON INTERNAL CONTROL OVER COMPLIANCE:*
   - a) *DESCRIBING THE SCOPE OF THE TESTING OF INTERNAL CONTROL*
   - b) *AND, WHERE APPLICABLE, REFERRING TO THE SEPARATE SCHEDULE OF FINDINGS AND QUESTIONED COSTS*

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205

INTERNAL CONTROL

5) THE SCHEDULE OF FINDINGS AND QUESTIONED COSTS INCLUDES - WHERE APPLICABLE:
   a) SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES IN INTERNAL CONTROL OVER COMPLIANCE FOR MAJOR PROGRAMS
   b) THAT WERE IDENTIFIED IN THE AUDIT

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206

INTERNAL CONTROL

ALTHOUGH THE UNIFORM GUIDANCE REQUIRES TESTING AND REPORTING ON INTERNAL CONTROL - IT DOES NOT REQUIRE THE AUDITOR TO EXPRESS AN OPINION ON THE EFFECTIVENESS OF INTERNAL CONTROL USED IN ADMINISTERING FEDERAL AWARDS

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207

INTERNAL CONTROL

➔ TESTS OF CONTROLS - WHICH PROVIDE EVIDENCE OF THE EFFECTIVENESS OF THE CONTROLS AND PROCEDURES - ORDINARILY INCLUDE:
   1) INQUIRIES OF APPROPRIATE PERSONNEL, INCLUDING GRANT MANAGERS
   2) INSPECTION OF DOCUMENTS AND REPORTS
   3) OBSERVATION OF THE APPLICATION OF THE SPECIFIC CONTROL POLICIES AND PROCEDURES
   4) TRANSACTION TESTING

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208

SEFA - SCHEDULE OF EXDPENDITURES OF FEDERAL AWARDS

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209

SEFA

➔ THE SEFA MUST INCLUDE THE FOLLOWING:
   a) INDIVIDUAL FEDERAL PROGRAMS LISTED BY FEDERAL AGENCY
      i. FOR A CLUSTER OF PROGRAMS, PROVIDE THE CLUSTER NAME, LIST INDIVIDUAL FEDERAL PROGRAMS WITHIN THE CLUSTER AND APPLICABLE FEDERAL AGENCY NAME
      ii. FOR RESEARCH AND DEVELOPMENT, TOTAL FEDERAL AWARDS EXPENDED MUST BE SHOWN EITHER BY INDIVIDUAL AWARD OR BY FEDERAL AGENCY AND MAJOR SUBDIVISION WITHIN THE FEDERAL AGENCY
      iii. FOR EXAMPLE - THE NATIONAL INSTITUTES OF HEALTH IS A MAJOR SUBDIVISION IN THE DEPARTMENT OF HEALTH AND HUMAN SERVICES

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210

SEFA

   b) FOR FEDERAL AWARDS RECEIVED AS A SUBRECIPIENT - THE NAME OF THE PASS-THROUGH ENTITY AND IDENTIFYING NUMBER ASSIGNED BY THE PASS-THROUGH ENTITY
   c) TOTAL FEDERAL AWARDS EXPENDED FOR EACH INDIVIDUAL FEDERAL PROGRAM AND THE CFDA NUMBER OR OTHER IDENTIFYING NUMBER WHEN THE CFDA INFORMATION IS NOT AVAILABLE
   d) FOR CLUSTERS - PROVIDE THE TOTAL FOR THE CLUSTER
   e) THE TOTAL AMOUNT PROVIDED TO SUBRECIPIENTS FROM EACH FEDERAL PROGRAM

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211

SEFA

f) FOR LOAN OR LOAN GUARANTEE PROGRAMS THAT HAVE OUTSTANDING BALANCES AT YEAR-END - THE BALANCES OUTSTANDING AT THE END OF THE YEAR IN THE NOTES TO THE SEFA

   i. THIS IS IN ADDITION TO PRESENTING THE TOTAL FEDERAL AWARDS EXPENDED FOR LOAN AND LOAN GUARANTEE PROGRAMS ON THE FACE OF THE SEFA

g) NOTES THAT DESCRIBE SIGNIFICANT ACCOUNTING POLICIES USED IN PREPARING THE SEFA

   i. AND WHETHER OR NOT THE AUDITEE ELECTED TO USE THE 10 PERCENT DE MINIMIS COST RATE

212

REPORTING ON THE SEFA

➔ AU-C SECTION 725 - SUPPLEMENTARY INFORMATION IN RELATION TO THE FINANCIAL STATEMENTS AS A WHOLE - INCLUDES REQUIREMENTS AND GUIDANCE FOR REPORTING ON SUPPLEMENTARY INFORMATION - SUCH AS THE SEFA

WHEN ISSUING AN IN-RELATION-TO OPINION ON THE SEFA - THE AUDITOR NEED NOT APPLY PROCEDURES AS EXTENSIVE AS WOULD BE NECESSARY TO EXPRESS AN OPINION ON THE SEFA ON A STAND-ALONE BASIS

213

PROCEDURES

➔ IN ORDER TO OPINE ON WHETHER THE SEFA IS FAIRLY STATED, IN ALL MATERIAL RESPECTS, IN RELATION TO THE FINANCIAL STATEMENTS AS A WHOLE - THE AUDITOR SHOULD DETERMINE THAT ALL OF THE FOLLOWING CONDITIONS ARE MET:

a) THE INFORMATION CONTAINED IN THE SEFA WAS DERIVED FROM, AND RELATES DIRECTLY TO, THE UNDERLYING ACCOUNTING AND OTHER RECORDS USED TO PREPARE THE FINANCIAL STATEMENTS

b) THE INFORMATION CONTAINED IN THE SEFA RELATES TO THE SAME PERIOD AS THE FINANCIAL STATEMENTS

214

PROCEDURES

c) THE FINANCIAL STATEMENTS WERE AUDITED - AND THE AUDITOR REPORTING ON THE SEFA AUDITED THOSE FINANCIAL STATEMENTS

d) NEITHER AN ADVERSE OPINION NOR A DISCLAIMER OF OPINION WAS ISSUED ON THE FINANCIAL STATEMENTS

e) THE SEFA WILL ACCOMPANY THEN ENTITY'S FINANCIAL STATEMENTS - OR SUCH FINANCIAL STATEMENTS WILL BE MADE READILY AVAILABLE

215

PROCEDURES

➔ IN ADDITION TO THE PROCEDURES PERFORMED DURING THE AUDIT OF THE FINANCIAL STATEMENTS - THE AUDITOR SHOULD PERFORM THE FOLLOWING PROCEDURES USING THE SAME MATERIALITY LEVEL USED IN THE AUDIT OF THE FINANCIAL STATEMENTS:

a) INQUIRE OF MANAGEMENT ABOUT THE CRITERIA USED BY MANAGEMENT IN ITS PREPARATION OF THE SEFA

b) DETERMINE WHETHER THE FORM AND CONTENT OF THE SEFA COMPLIES WITH THE UNIFORM GUIDANCE

c) OBTAIN AN UNDERSTANDING ABOUT THE METHODS USED IN PREPARING THE SEFA - AND DETERMINE WHETHER THEY CHANGED FROM THOSE USED IN THE PRIOR PERIOD AND, IF SO, THE REASONS FOR SUCH CHANGES

216

PROCEDURES

d) COMPARE AND RECONCILE THE SEFA TO THE UNDERLYING ACCOUNTING AND OTHER RECORDS USED IN PREPARING THE FINANCIAL STATEMENTS OR TO THE FINANCIAL STATEMENTS THEMSELVES

e) INQUIRE OF MANAGEMENT ABOUT ANY SIGNIFICANT ASSUMPTIONS OR INTERPRETATIONS UNDERLYING THE MEASUREMENT OR PRESENTATION OF THE SEFA

f) EVALUATE THE APPROPRIATENESS AND COMPLETENESS OF THE SEFA - CONSIDERING THE RESULTS OF THE PROCEDURES PERFORMED AND OTHER KNOWLEDGE OBTAINED DURING THE AUDIT OF THE FINANCIAL STATEMENTS

g) OBTAIN THE WRITTEN REPRESENTATIONS FROM MANAGEMENT SPECIFIED IN PARAGRAPH .07G OF AU-C SECTION 725

217

GROUP AUDITS

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218

GROUP AUDITS

➔ ***IN A GROUP AUDIT - DETECTION RISK INCLUDES THE RISK THAT A COMPONENT AUDITOR MAY NOT DETECT:***

1) ***A MISSTATEMENT IN THE FINANCIAL INFORMATION OF A COMPONENT***
2) ***THAT COULD CAUSE A MATERIAL MISSTATEMENT OF THE GROUP FINANCIAL STATEMENTS***
3) ***AND THE RISK THAT THE GROUP ENGAGEMENT TEAM MAY NOT DETECT THIS MISSTATEMENT***

RISTAINO

219

SCOPE

➔ ***AU-C SECTION 600 - SPECIAL CONSIDERATIONS - AUDITS OF GROUP FINANCIAL STATEMENTS - INCLUDING THE WORK OF COMPONENT AUDITORS***

✓ ***THE SCOPE OF GROUP AUDITS HAS BEEN EXPANDED BEYOND THOSE ENGAGEMENTS THAT UTILIZE THE CONCEPT OF "PRINCIPAL AUDITOR" AND "OTHER AUDITORS"***

✓ ***GROUP AUDITS INVOLVE AN AUDIT OF FINANCIAL STATEMENTS THAT INCLUDE THE FINANCIAL INFORMATION OF MORE THAN ONE COMPONENT***

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220

SCOPE

➔ ***AN AUDIT OF GROUP FINANCIAL STATEMENTS INVOLVES:***

1) ***IDENTIFYING THE COMPONENTS THAT ARE PART OF THE GROUP AND***
2) ***CONSIDERING THE EFFECT OF THE COMPONENTS ON THE OVERALL GROUP AUDIT STRATEGY AND GROUP AUDIT PLAN***
3) ***INCLUDING THE EXTENT TO WHICH THE GROUP ENGAGEMENT TEAM WILL USE THE WORK OF COMPONENT AUDITORS***

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221

COMPONENTS

➔ ***THE CONCEPT OF GROUP FINANCIAL STATEMENTS IS BROADER THAN CONSOLIDATED OR COMBINED FINANCIAL STATEMENTS***

a) ***BECAUSE IT ENCOMPASSES BUSINESS ACTIVITIES IN ADDITION TO SEPARATE ENTITIES***

➔ ***ADDITIONALLY - THIS STANDARD APPLIES IN ALL AUDITS OF GROUP FINANCIAL STATEMENTS***

a) ***REGARDLESS OF WHETHER OR NOT DIFFERENT AUDITORS ARE INVOLVED IN THE AUDIT***

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222

COMPONENTS

➔ ***A COMPONENT IS DEFINED AS:***

a) ***AN ENTITY OR BUSINESS ACTIVITY***
b) ***FOR WHICH GROUP OR COMPONENT MANAGEMENT PREPARES FINANCIAL INFORMATION***
c) ***THAT IS REQUIRED TO BE INCLUDED IN THE GROUP FINANCIAL STATEMENTS***

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223

COMPONENTS

➔ *A COMPONENT MAY INCLUDE - BUT IS NOT LIMITED TO:*

- ✓ *SUBSIDIARIES*
- ✓ *GEOGRAPHICAL LOCATIONS*
- ✓ *DIVISIONS*
- ✓ *INVESTMENTS*
- ✓ *PRODUCTS OR SERVICES*
- ✓ *FUNCTIONS*
- ✓ *PROCESSES*
- ✓ *COMPONENT UNITS OF STATE OR LOCAL GOVERNMENTS*

RISTAINO

224

GUIDANCE

➔ *AU-C SECTION 600 PROVIDES GUIDANCE:*

1) *WHEN THE AUDITOR OF THE GROUP FINANCIAL STATEMENTS ASSUMES RESPONSIBILITY FOR THE WORK OF A COMPONENT AUDITOR*
2) *AND ALSO WHEN THE AUDITOR OF THE GROUP FINANCIAL STATEMENTS MAKES REFERENCE TO THE WORK OF A COMPONENT AUDITOR*

RISTAINO

225

REQUIREMENTS

➔ *AU-C SECTION 600 INDICATES THAT THE GROUP ENGAGEMENT PARTNER IS RESPONSIBLE FOR:*

1) *THE DIRECTION, SUPERVISION, AND PERFORMANCE OF THE GROUP AUDIT ENGAGEMENT IN COMPLIANCE WITH:*
   - i. *PROFESSIONAL STANDARDS*
   - ii. *APPLICABLE REGULATORY AND LEGAL REQUIREMENTS*
   - iii. *THE FIRM'S POLICIES AND PROCEDURES*
2) *DETERMINING WHETHER THE AUDITOR'S REPORT THAT IS ISSUED IS APPROPRIATE IN THE CIRCUMSTANCES*

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226

REQUIREMENTS

➔ *AU-C SECTION 600 INDICATES THAT THE GROUP ENGAGEMENT PARTNER IS RESPONSIBLE FOR:*

3) *DETERMINING WHETHER SUFFICIENT APPROPRIATE AUDIT EVIDENCE CAN REASONABLY BE EXPECTED TO BE OBTAINED REGARDING:*
   - i. *THE CONSOLIDATION PROCESS AND THE FINANCIAL INFORMATION OF THE COMPONENTS*
   - ii. *ON WHICH TO BASE THE GROUP AUDIT OPINION*

RISTAINO

227

REQUIREMENTS

➔ *AU-C SECTION 600 INDICATES THAT THE GROUP ENGAGEMENT PARTNER IS RESPONSIBLE FOR:*

4) *ESTABLISHING AN OVERALL GROUP AUDIT STRATEGY AND SHOULD DEVELOP A GROUP AUDIT PLAN*
5) *ASSESS THE EXTENT TO WHICH THE GROUP ENGAGEMENT TEAM WILL USE THE WORK OF COMPONENT AUDITORS*
   - i. *AND WHETHER THE AUDITOR'S REPORT ON THE GROUP FINANCIAL STATEMENTS WILL MAKE REFERENCE TO THE AUDIT OF A COMPONENT AUDITOR*

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228

REQUIREMENTS

➔ *AU-C SECTION 600 INDICATES THAT THE GROUP ENGAGEMENT PARTNER IS RESPONSIBLE FOR:*

6) *THE GROUP ENGAGEMENT PARTNER SHOULD REVIEW AND APPROVE THE OVERALL GROUP AUDIT STRATEGY AND GROUP AUDIT PLAN*

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229

MATERIALITY

➔ ***AU-C SECTION 600 REQUIRES THAT THE GROUP ENGAGEMENT AUDITOR DETERMINE:***

1) *MATERIALITY - INCLUDING PERFORMANCE MATERIALITY - FOR THE GROUP FINANCIAL STATEMENTS AS A WHOLE WHEN ESTABLISHING THE OVERALL GROUP AUDIT STRATEGY*
2) *THE THRESHOLD ABOVE WHICH MISSTATEMENTS CANNOT BE REGARDED AS CLEARLY TRIVIAL TO THE GROUP FINANCIAL STATEMENTS*

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230

MATERIALITY

➔ ***AU-C SECTION 600 REQUIRES THAT THE GROUP ENGAGEMENT AUDITOR DETERMINE:***

3) *WHETHER, IN THE SPECIFIC CIRCUMSTANCES OF THE GROUP:*
   - i. *PARTICULAR CLASSES OF TRANSACTIONS, ACCOUNT BALANCES, OR DISCLOSURES IN THE GROUP FINANCIAL STATEMENTS EXIST*
   - ii. *FOR WHICH MISSTATEMENTS OF LESSER AMOUNTS THAN MATERIALITY FOR THE GROUP FINANCIAL STATEMENTS AS A WHOLE*
   - iii. *COULD REASONABLY BE EXPECTED TO INFLUENCE THE ECONOMIC DECISIONS OF USERS TAKEN ON THE BASIS OF THE GROUP FINANCIAL STATEMENTS*

RISTAINO

231

MATERIALITY

➔ ***AU-C SECTION 600 REQUIRES THAT THE GROUP ENGAGEMENT AUDITOR DETERMINE:***

- iv. *IN SUCH CIRCUMSTANCES - THE GROUP ENGAGEMENT TEAM SHOULD DETERMINE MATERIALITY TO BE APPLIED TO THOSE PARTICULAR CLASSES OF TRANSACTIONS, ACCOUNT BALANCES, OR DISCLOSURES*

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232

MATERIALITY

➔ ***AU-C SECTION 600 REQUIRES THAT THE GROUP ENGAGEMENT AUDITOR DETERMINE:***

4) *COMPONENT MATERIALITY FOR THOSE COMPONENTS ON WHICH THE GROUP ENGAGEMENT TEAM WILL PERFORM, OR FOR WHICH THE AUDITOR OF THE GROUP FINANCIAL STATEMENTS WILL ASSUME RESPONSIBILITY FOR THE WORK OF A COMPONENT AUDITOR WHO PERFORMS, AN AUDIT OR A REVIEW*
5) *COMPONENT MATERIALITY SHOULD BE DETERMINED TAKING INTO ACCOUNT ALL COMPONENTS, REGARDLESS OF WHETHER REFERENCE IS MADE IN THE AUDITOR'S REPORT ON THE GROUP FINANCIAL STATEMENTS TO THE AUDIT OF A COMPONENT AUDITOR*

RISTAINO

233

MATERIALITY

➔ ***AU-C SECTION 600 REQUIRES THAT THE GROUP ENGAGEMENT AUDITOR DETERMINE:***

5) *TO REDUCE THE RISK THAT THE AGGREGATE OF UNCORRECTED AND UNDETECTED MISSTATEMENTS IN THE GROUP FINANCIAL STATEMENTS:*
   - i. *EXCEEDS THE MATERIALITY FOR THE GROUP FINANCIAL STATEMENTS AS A WHOLE*
   - ii. *COMPONENT MATERIALITY SHOULD BE LOWER THAN THE MATERIALITY FOR THE GROUP FINANCIAL STATEMENTS AS A WHOLE*
   - iii. *AND COMPONENT PERFORMANCE MATERIALITY SHOULD BE LOWER THAN PERFORMANCE MATERIALITY FOR THE GROUP FINANCIAL STATEMENTS AS A WHOLE*

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234

COMPONENT AUDITOR

➔ ***REGARDLESS OF WHETHER REFERENCE WILL BE MADE IN THE AUDITOR'S REPORT ON THE GROUP FINANCIAL STATEMENTS TO THE AUDIT OF A COMPONENT AUDITOR - THE GROUP ENGAGEMENT TEAM SHOULD OBTAIN AN UNDERSTANDING OF THE FOLLOWING:***

a) *WHETHER A COMPONENT AUDITOR UNDERSTANDS AND WILL COMPLY WITH THE ETHICAL REQUIREMENTS THAT ARE RELEVANT TO THE GROUP AUDIT AND, IN PARTICULAR, IS INDEPENDENT*

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235

COMPONENT AUDITOR

b) THE COMPONENT AUDITOR'S PROFESSIONAL COMPETENCE

c) THE EXTENT, IF ANY, TO WHICH THE GROUP ENGAGEMENT TEAM WILL BE ABLE TO BE INVOLVED IN THE WORK OF THE COMPONENT AUDITOR

d) WHETHER THE GROUP ENGAGEMENT TEAM WILL BE ABLE TO OBTAIN INFORMATION AFFECTING THE CONSOLIDATION PROCESS FROM A COMPONENT AUDITOR

e) WHETHER A COMPONENT AUDITOR OPERATES IN A REGULATORY ENVIRONMENT THAT ACTIVELY OVERSEES AUDITORS

236

COMPONENT AUDITOR

➔ THE GROUP ENGAGEMENT TEAM SHOULD COMMUNICATE ITS REQUIREMENTS TO A COMPONENT AUDITOR ON A TIMELY BASIS - THIS COMMUNICATION SHOULD INCLUDE THE FOLLOWING:

a) A REQUEST THAT THE COMPONENT AUDITOR - KNOWING THE CONTEXT IN WHICH THE GROUP ENGAGEMENT TEAM WILL USE THE WORK OF THE COMPONENT AUDITOR - CONFIRM THAT THE COMPONENT AUDITOR WILL COOPERATE WITH THE GROUP ENGAGEMENT TEAM

237

COMPONENT AUDITOR

b) THE ETHICAL REQUIREMENTS THAT ARE RELEVANT TO THE GROUP AUDIT AND, IN PARTICULAR, THE INDEPENDENCE REQUIREMENTS

c) IDENTIFIED SIGNIFICANT RISKS OF MATERIAL MISSTATEMENT OF THE GROUP FINANCIAL STATEMENTS, DUE TO FRAUD OR ERROR, THAT ARE RELEVANT TO THE WORK OF THE COMPONENT AUDITOR

238

COMPONENT AUDITOR

d) A LIST OF RELATED PARTIES PREPARED BY GROUP MANAGEMENT AND ANY OTHER RELATED PARTIES OF WHICH THE GROUP ENGAGEMENT TEAM IS AWARE

i. THE GROUP ENGAGEMENT TEAM SHOULD REQUEST THE COMPONENT AUDITOR TO COMMUNICATE ON A TIMELY BASIS RELATED PARTIES NOT PREVIOUSLY IDENTIFIED BY GROUP MANAGEMENT OR THE GROUP ENGAGEMENT TEAM

ii. THE GROUP ENGAGEMENT TEAM SHOULD IDENTIFY SUCH ADDITIONAL RELATED PARTIES TO OTHER COMPONENT AUDITORS

239

COMPONENT AUDITOR

➔ THE GROUP ENGAGEMENT TEAM SHOULD REQUEST A COMPONENT AUDITOR TO COMMUNICATE MATTERS RELEVANT TO THE GROUP ENGAGEMENT TEAM'S CONCLUSION WITH REGARD TO THE GROUP AUDIT - INCLUDING THE FOLLOWING:

a) WHETHER THE COMPONENT AUDITOR HAS COMPLIED WITH ETHICAL REQUIREMENTS RELEVANT TO THE GROUP AUDIT, INCLUDING INDEPENDENCE AND PROFESSIONAL COMPETENCE

b) IDENTIFICATION OF THE FINANCIAL INFORMATION OF THE COMPONENT ON WHICH THE COMPONENT AUDITOR IS REPORTING

c) THE COMPONENT AUDITOR'S OVERALL FINDINGS, CONCLUSIONS, OR OPINION

240

REFERENCE

➔ THE DECISION ABOUT WHETHER THE AUDITOR'S REPORT ON THE GROUP FINANCIAL STATEMENTS WILL MAKE REFERENCE TO THE AUDIT OF A COMPONENT AUDITOR SHOULD BE MADE BY THE GROUP ENGAGEMENT PARTNER

a) WHEN THE AUDITOR OF THE GROUP FINANCIAL STATEMENTS ASSUMES RESPONSIBILITY FOR THE WORK OF A COMPONENT AUDITOR –

b) NO REFERENCE IS MADE TO THE COMPONENT AUDITOR IN THE AUDITOR'S REPORT ON THE GROUP FINANCIAL STATEMENTS

241

REFERENCE

- ALTERNATIVELY - THE AUDITOR OF THE GROUP FINANCIAL STATEMENTS MAY DECIDE TO MAKE REFERENCE TO THE COMPONENT AUDITOR IN THE AUDITOR'S REPORT ON THE GROUP FINANCIAL STATEMENTS IF TWO CONDITIONS ARE MET:
  1) THE GROUP ENGAGEMENT PARTNER HAS DETERMINED THAT THE COMPONENT AUDITOR HAS PERFORMED AN AUDIT OF THE FINANCIAL STATEMENTS OF THE COMPONENT IN ACCORDANCE WITH THE RELEVANT REQUIREMENTS OF GAAS - AND
  2) THE COMPONENT AUDITOR HAS ISSUED AN AUDITOR'S REPORT THAT IS NOT RESTRICTED REGARDING USE

242

REFERENCE

- REFERENCE IN THE AUDITOR'S REPORT ON THE GROUP FINANCIAL STATEMENTS TO THE FACT THAT PART OF THE AUDIT WAS CONDUCTED BY A COMPONENT AUDITOR
  a) IS NOT TO BE CONSTRUED AS A QUALIFICATION OF THE OPINION
- RATHER - SUCH REFERENCE IS INTENDED TO COMMUNICATE:
  1) THAT THE AUDITOR OF THE GROUP FINANCIAL STATEMENTS IS NOT ASSUMING RESPONSIBILITY FOR THE WORK OF THE COMPONENT AUDITOR - AND
  2) THE SOURCE OF THE AUDIT EVIDENCE WITH RESPECT TO THOSE COMPONENTS FOR WHICH REFERENCE TO THE AUDIT OF COMPONENT AUDITORS IS MADE

243

AUDIT FINDINGS IN UNIFORM GUIDANCE

244

AUDIT FINDINGS

- SPECIFIC INFORMATION TO BE INCLUDED, AS APPLICABLE, IN AUDIT FINDINGS PER THE UNIFORM GUIDANCE:
  1) IDENTIFICATION OF THE FEDERAL PROGRAM AND SPECIFIC FEDERAL AWARD, INCLUDING:
     i. THE CATALOG OF FEDERAL DOMESTIC ASSISTANCE (CFDA) TITLE AND NUMBER
     ii. THE FEDERAL AWARD IDENTIFICATION NUMBER AND YEAR
     iii. THE NAME OF THE FEDERAL AGENCY
     iv. THE NAME OF THE APPLICABLE PASS-THROUGH ENTITY
     v. WHEN INFORMATION SUCH AS THE CFDA TITLE AND NUMBER OR THE FEDERAL AWARD IDENTIFICATION NUMBER IS NOT AVAILABLE, THE AUDITOR MUST PROVIDE THE BEST INFORMATION AVAILABLE TO DESCRIBE THE FEDERAL AWARD

245

AUDIT FINDINGS

2) THE CRITERIA OR SPECIFIC REQUIREMENTUPON WHICH THE AUDIT FINDING IS BASED – INCLUDING THE FEDERAL STATUTES, REGULATIONS, OR TERMS AND CONDITIONS OF THE FEDERAL AWARD

3) THE CONDITION FOUND – INCLUDING FACTS THAT SUPPORT THE DEFICIENCY IDENTIFIED IN THE AUDIT FINDING

4) A STATEMENT OF CAUSE THAT IDENTIFIES THE REASON OR EXPLANATION FOR THE CONDITION OR THE FACTORS RESPONSIBLE FOR THE DIFFERENCE BETWEEN THE SITUATION THAT EXISTS (CONDITION) AND THE REQUIRED OR DESIRED STATE (CRITERIA), WHICH MAY ALSO SERVE AS A BASIS FOR RECOMMENDATIONS FOR CORRECTIVE ACTION

246

AUDIT FINDINGS

5) THE POSSIBLE ASSERTED EFFECT TO PROVIDE SUFFICIENT INFORMATION TO THE AUDITEE AND FEDERAL AGENCY, OR PASS-THROUGH ENTITY IN THE CASE OF A SUBRECIPIENT, TO PERMIT THE DETERMINATION OF THE CAUSE AND EFFECT TO FACILITATE PROMPT AND PROPER CORRECTIVE ACTION. A STATEMENT OF THE EFFECT OR POTENTIAL EFFECT SHOULD PROVIDE A CLEAR, LOGICAL LINK TO ESTABLISH THE IMPACT OR POTENTIAL IMPACT OF THE DIFFERENCE BETWEEN THE CONDITION AND THE CRITERIA

6) IDENTIFICATION OF QUESTIONED COSTS AND HOW THEY WERE COMPUTED. KNOWN QUESTIONED COSTS MUST BE IDENTIFIED BY APPLICABLE CFDA NUMBER(S) AND APPLICABLE FEDERAL AWARD IDENTIFICATION NUMBER(S)

247

AUDIT FINDINGS

7) *INFORMATION TO PROVIDE A PROPER PERSPECTIVE FOR JUDGING THE PREVALENCE AND CONSEQUENCES OF THE AUDIT FINDINGS (FOR EXAMPLE, WHETHER THE AUDIT FINDINGS REPRESENT AN ISOLATED INSTANCE OR A SYSTEMIC PROBLEM). WHEN APPROPRIATE, THE INSTANCES IDENTIFIED MUST BE RELATED TO THE UNIVERSE AND THE NUMBER OF CASES EXAMINED AND BE QUANTIFIED IN TERMS OF THE DOLLAR VALUE. THE AUDITOR SHOULD (RECOMMENDED APPROACH) REPORT WHETHER THE SAMPLING WAS A STATISTICALLY VALID SAMPLE*

8) ***IDENTIFICATION OF WHETHER THE AUDIT FINDING WAS A REPEAT OF A FINDING IN THE IMMEDIATELY PRIOR AUDIT AND, IF SO, ANY APPLICABLE PRIOR YEAR AUDIT FINDING NUMBERS***

248

AUDIT FINDINGS

9) *RECOMMENDATIONS TO PREVENT FUTURE OCCURRENCES OF THE DEFICIENCY IDENTIFIED IN THE AUDIT FINDING*

10) ***VIEWS OF RESPONSIBLE OFFICIALS OF THE AUDITEE***

249

AUDIT FINDINGS

EACH AUDIT FINDING IN THE SCHEDULE OF FINDINGS AND QUESTIONED COSTS MUST INCLUDE A REFERENCE NUMBER IN THE FORMAT MEETING THE REQUIREMENTS OF THE DATA COLLECTION FORM SUBMISSION TO ALLOW FOR EASY REFERENCING OF THE AUDIT FINDINGS DURING FOLLOW-UP

250

251

QUESTIONS?????

Section 4

HCV Program Update

Urlaub & Co., PLLC
Certified Public Accountants
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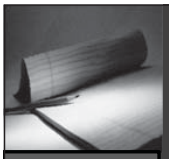
ronald@urlaubaccounting.com

SESSION OVERVIEW

2



Overview

2018 Funding Notice

Offset Calculation

HAP Procedures

VMS Review

Urlaub & Co., PLLC
CERTIFIED PUBLIC ACCOUNTANT

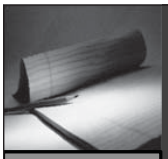
Session Overview

- Review of the 2018 CY Funding Notice
- Understanding the Offset Calculation
- Documenting & Understanding the HAP Process
- Preparing for a VMS Review

3

2018 FUNDING NOTICE

4



Overview

2018 Funding Notice

Offset Calculation

HAP Procedures

VMS Review

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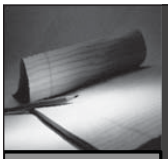
2018 Funding Notice

- 2018 Appropriations enacted on March 23, 2018
- PIH Notice 2018-09 was released on May 21, 2018
- Outlines funding for the following:
  - HAP
  - Admin/Special Fees
  - Set-Aside Funding

5



Overview

2018 Funding Notice

Offset Calculation

HAP Procedures

VMS Review

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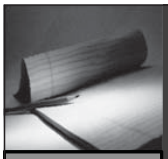
2018 Funding Levels

- HAP funding for 2018 will be funded at 99.745%
  - The 2017 proration level was 97%
- Currently, HUD has projected a proration level of approximately 76% for admin fees.
  - The 2017 final reconciliation of administrative fees used a proration level of 77.988%

Program	*2018 Appropriations*	*2017 Appropriations*	*Variance*
HAP Renewal Funding	19,600,000,000	18,355,000,000	1,245,000,000
Tenant Protection Vouchers	85,000,000	110,000,000	(25,000,000)
Administrative Fees	1,760,000,000	1,650,000,000	110,000,000
Mainstream Program	505,000,000	120,000,000	385,000,000
Tribal HUD-VASH Renewals	5,000,000	7,000,000	(2,000,000)
VASH	40,000,000	40,000,000	-
Family Unification Program	20,000,000	10,000,000	10,000,000
Total Appropriations	**$ 22,015,000,000**	**$ 20,292,000,000**	**$1,723,000,000**

6



Overview

2018 Funding Notice

Offset Calculation

HAP Procedures

VMS Review

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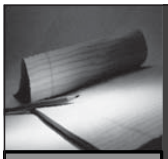
2018 HAP Funding

- The 2018 HAP funding formula was based on HAP costs reported in the Voucher Management System (VMS) for the 2017 calendar year (CY)
- The formula used the following five step process

7



Overview

2018 Funding Notice

Offset Calculation

HAP Procedures

VMS Review

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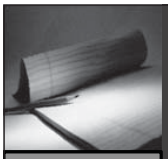
2018 HAP Funding

- Step 1: HAP funding baseline based on validated leasing and cost data in VMS for the 2017 calendar year
- Step 2: Record adjustments for first-time renewal of certain vouchers
  - Includes tenant protection vouchers and special purpose vouchers such as VASH
- Step 3: Inflation Factor applied
  - Adjusted for localities

8



Overview

2018 Funding Notice

Offset Calculation

HAP Procedures

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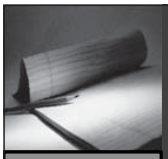
2018 HAP Funding

- Step 4: Proration
  - Eligibility compared to total available renewal funding
  - Applied to each PHA's CY 2018 eligibility
- Step 5: Apply Excess HAP Equity Balance Offset
  - Excess HAP equity is defined to include HUD-held program reserves and PHA's RNP balances
  - The offset was to bring the national HAP proration to or above 99.5% and prevent termination of rental assistance for families

9



Overview

2018 Funding Notice

Offset Calculation

HAP Procedures

VMS Review

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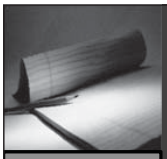
Set-Aside Funds

- Up to $75 million provided in the Appropriation Act
- Awards made to eligible PHAs with need as determined by HUD
- Awards could be reduced if PHAs have available reserves
- Awards may be prorated if funding is insufficient to cover all awards
- Four categories

10



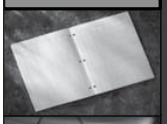
Overview

2018 Funding Notice

Offset Calculation

HAP Procedures

VMS Review



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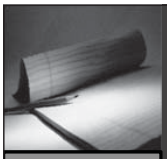
Set-Aside Funds

- Category 1: Prevention of terminations due to insufficient funding
- Category 2a: Unforeseen circumstances
- Category 2b: Portability cost increases
- Category 3: Project-based vouchers
- Category 4: HUD-VASH
  - Per unit cost increase
  - Leasing increase

11



Overview

2018 Funding Notice

Offset Calculation

HAP Procedures

VMS Review

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Set-Aside Funds

- Shortfall funds applications are open throughout the calendar year.
- Categories 2, 3, and 4 can be applied for by completing attachment B of the Notice with a mandatory receipt date to HUD of June 29, 2018.

12

Use of HAP RNP/HUD Held Reserves

- HAP funding can only be used for eligible HAP needs in the current CY.
- HAP funds can not be used for any other purpose, such as to cover administrative expenses, or to be loaned, advanced or transferred to other component units.
- Use of HAP funding for any purpose other than eligible HAP needs is a violation of law, and such illegal uses or transfers may result in sanctions and possible declaration of breach of the ACC.

13

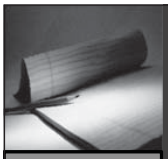
Overview
2018 Funding Notice
Offset Calculation
HAP Procedures
VMS Review

2018 HAP Funding Example

Calculation of Calendar Year 2018 Renewal Funding
Housing Choice Voucher Program

1	HA Number:		
2	HA Name:		
	CY 2018 Renewal Funding		
3	CY 2018 HCV Renewal Funding after Offset and Amounts Owed HUD	$6,499,040	
	CY 2018 Non-Renewal Funding		
4	CY 2018 Non-Renewal Funding (TPVs, VASH, etc.) to Date	$27,136	
5	CY 2018 Estimated RAD 1 Funding For First Full Year After Conversion	$0	
6	CY 2017 Proration Increase	$5,735	
7	Total CY 2018 HCV Renewal and Non-Renewal Funding		$6,531,911
	ELIGIBILITY		
8	Total Unit Months Leased per VMS - CY 2017	11,882	
9	Total Unit Months Available - CY 2017	14,172	
10	Capping Percentage	100%	
11	Total CY 2017 HAP Expenses per VMS	$6,563,770	
12	Total CY 2017 Capped HAP Expenses (Line 11 x Line 10)	$6,563,770	
13	Renewal Funding Inflation Factor	1.019	
14	Inflated Eligibility Sub-Total (Line 12 x Line 13)	$6,688,482	
15	First Time Renewals - Appendix II	$0	
16	Transfers In or Out	$0	
17	Total DHAP Eligibility	$0	
18	Total Renewal Eligibility (Line 14 + Line 15 + Line 16 + Line 17)	$6,688,482	
19	Proration Factor		0.99745
20	Prorated Eligibility (Line 18 x Line 19)		$6,671,426
	OFFSET		
	Calculation on Apendix I		
21	Offset Amount (Calculations on Apendix I)		$172,386
22	Total CY 2018 Renewal Funding after Offset (Line 20 - Line 21)		$6,499,040
	FUNDING		
23	Total CY 2018 Renewal Funding after Offset		$6,499,040
24	Renewal Funding Obligations, January through July 2018		$3,837,672
25	Remaining to Obligate for CY 2018 prior to reduction for funds due HUD (Line 23 - Line 24)		$2,661,368
26	Reduction for Funds due HUD		$0
27	Remaining to Obligate for CY 2018 after reduction for funds due HUD (Line 25 - Line 26)		$2,661,368
28	Total Obligations Due Through July, 2018		$3,791,107
29	Additional Obligations Due Through August, 2018 (Line 28 - Line 24, if Line 28 is higher; else 0)		$0
30	Excess Obligations Through August, 2017 (Line 24 - Line 28, if Line 24 is higher; else 0)		$46,565
31	CY 2018 Inflated Per Unit Cost		$552.26
	This value is calculated as total inflated VMS Expenses, minus HAP Costs After the First of the Month, divided by total Unit Months Leased.		

14



Overview

2018 Funding Notice

Offset Calculation

HAP Procedures

VMS Review

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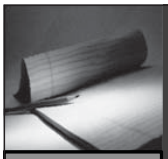
2018 HAP Funding Offset

CY 2018 Offset Reallocation		Appendix I
	HA Number:	[redacted]
	HA Name:	
	CY 2017 End of Year Reserves	$1,428,915
	PROTECTED CATEGORIES	
A.	Difference between the PHA's Eligibility and Prorated Eligibiliy	$17,056
B.	CY 2018 Amounts needed to fully lease VASH units	$0
C.	Difference between higher of December 2017 UMLs x 12 or CY 2017 UMLs up to baseline on units under CACC	$85,048
D.	CY 2017 New incremental BA- 1/2 of Eligibility	$0
E.	CY 2017 Set Aside Protection- 1/2 of Eligibility	$0
F.	Portion of CY 2018 Renewal Eligibility (Based on units under CACC):	$267,539
	4% - 500 and above units	
	6% - 250 to 499 units	
	12% - Less than 250 units	
	Total Funds Available for Offset	$1,059,272
	Offset Amount *(Total Funds Available for Offset x 16.274%)*	$172,386
	Prorated Eligibility After Offset	$6,499,040

PHA's that received 2017 Shortfall Set-Aside funds are exempt from this offset.
Disaster impacted PHAs are also exempt from this offset.

15



Overview

2018 Funding Notice

Offset Calculation

HAP Procedures

VMS Review

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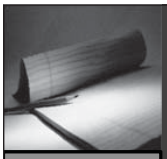
Administrative Fees

- Administrative fees are provided for each voucher under HAP contract as of the first of the month.
- Administrative fee eligibility is reconciled each quarter with a final reconciliation completed at the end of the calendar year.
  - Let's look at an example

16



Overview

2018 Funding Notice

Offset Calculation

HAP Procedures

VMS Review

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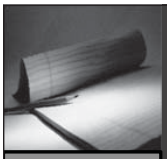
Example 2017 Admin. Fee Reconciliation

Calculation of January - December 2017 Administrative Fees
Housing Choice Voucher Program

HA Number: [redacted]
HA Name: [redacted]

1	VMS Unit Months Leased	11,882	
2	Unleased PBV UMLs	0	
3	Total UMLs (Line 1 + Line 2)	11,882	
4	Unit Months Available	14,172	
5	Overleased UMLs (Line 3 - Line 4 if overleased)	0	
6	Lesser of UMLs or UMAs (Minimum of Line 3 and Line 4)	11,882	
7	Unit Months Eligible for Column A Rate	7,200	
8	Column A Rate	$66.10	
9	Eligibility - Column A Unit Months (Line 7 x Line 8)		$475,920
10	Unit Months Eligible for Column B Rate (Line 6 - Line 7)	4,682	
11	Column B Rate	$61.69	
12	Eligibility - Column B Unit Months (Line 10 x Line 11)		$288,833
13	Total Eligibility (Line 9 + Line 12)		$764,753
14	Pro-Ration Factor		0.77988
15	Pro-Rated Eligibility (Line 13 x Line 14)		$596,416
16	Fees Obligated		$600,892
17	Calendar Year 2016 Overdisbursements		$19,250
18	Total Obligated + CY 2016 Overdisbursements Line 16 + Line 17		$620,142
19	Shortfall in Fees Obligated Line 15 - Line 18, if positive		$0
20	Excess Fees Obligated Line 15 - Line 18, if negative		-$23,726

17



Overview

2018 Funding Notice

Offset Calculation

HAP Procedures

VMS Review

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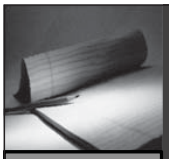
Use of Administrative Fees

- HUD refers back to PIH Notice 2015-17 related to the proper use of administrative fee funds.
- Basically Post-2003 Administrative fees earned can be used only for the following:
  - Activities related to the HCV Program
  - Development activities related to modification of HCV units to provide accessibility features or project-based voucher development costs

18



Overview

2018 Funding Notice

Offset Calculation

HAP Procedures

VMS Review

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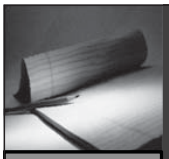
Special Fees

- Homeownership fees will be provided at a rate of $200 for each homeownership closing reported in PIC.
- Multifamily Housing Conversion Action fees of $200 will be provided for each unit occupied on the date of the eligibility event.
- Special fees for portability will be provided for PHAs that administer a number of port-in vouchers equal to 20% or more of the PHAs total number of leased units as of December 31, 2017.
  - For each eligible port-in voucher, the receiving PHA will receive 12 months of funding equal to 15% of the PHA's column A rate for administrative fees.
  - 2017 funding was at 5%.

19



Overview

2018 Funding Notice

Offset Calculation

HAP Procedures

VMS Review

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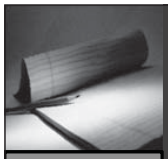
Eligible Administrative Cost?

Item	Eligible	Ineligible
The purchase of an inspection vehicle used for the HCV program only	★	
The cost of providing homeownership classes for HCV tenants and the public		★
Salary cost charged to HCV for managing a TBRA program		★

20



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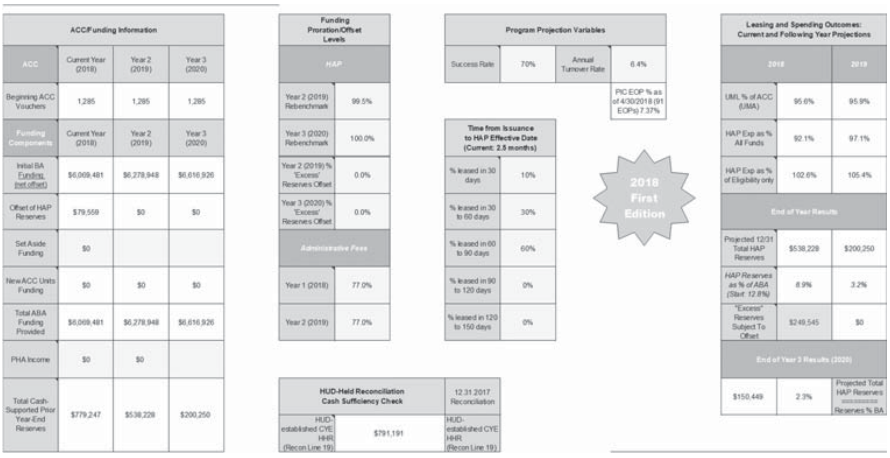
Release of Two-Year Tool

- HUD released two year tool on June 8, 2018
- The tool was updated to include the 2018 HAP Funding ABA



ACC/Funding Information			
ACC	Current Year (2018)	Year 2 (2019)	Year 3 (2020)
Beginning ACC Vouchers	1,285	1,285	1,285
Funding Components	Current Year (2018)	Year 2 (2019)	Year 3 (2020)
Initial BA Funding (net offset)	$6,009,481	$6,278,948	$6,616,926
Offset of HAP Reserves	$79,559	$0	$0
Set Aside Funding	$0		
New ACC Units Funding	$0	$0	$0
Total ABA Funding Provided	$6,009,481	$6,278,948	$6,616,926
PHA Income	$0	$0	
Total Cash Supported Prior Year End Reserves	$779,247	$538,228	$200,250

Funding Proration/Offset Levels	
HAP	
Year 2 (2019) Rebenchmark	99.5%
Year 3 (2020) Rebenchmark	100.0%
Year 2 (2019) % 'Excess' Reserves Offset	0.0%
Year 3 (2020) % 'Excess' Reserves Offset	0.0%
Administrative Fees	
Year 1 (2018)	77.0%
Year 2 (2019)	77.0%

HUD-Held Reconciliation Cash Sufficiency Check	12.31.2017 Reconciliation
HUD-established CYE HHR (Recon Line 19)	$791,191

Program Projection Variables			
Success Rate	70%	Annual Turnover Rate	6.4%
		PIC EOP % as of 4/30/2018 (91 EOPs)	7.37%

Time from Issuance to HAP Effective Date (Current: 2.5 months)	
% leased in 30 days	10%
% leased in 30 to 60 days	30%
% leased in 60 to 90 days	60%
% leased in 90 to 120 days	0%
% leased in 120 to 150 days	0%

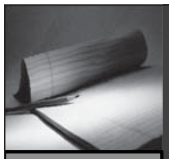
2018 First Edition

Leasing and Spending Outcomes: Current and Following Year Projections		
	2018	2019
UML % of ACC (UMA)	95.6%	95.9%
HAP Exp as % All Funds	92.1%	97.1%
HAP Exp as % of Eligibility only	102.6%	105.4%
End of Year Results		
Projected 12/31 Total HAP Reserves	$538,228	$200,250
HAP Reserves as % of ABA (Stat: 12.8%)	8.9%	3.2%
"Excess" Reserves Subject To Offset	$249,545	$0
End of Year 3 Results (2020)		
$150,449	2.3%	Projected Total HAP Reserves / Reserves % BA

21

HAP EQUITY OFFSET

22



Overview

2018 Funding Notice

Offset Calculation

HAP Procedures

VMS Review

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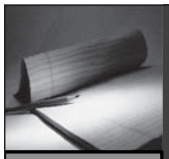
2018 HAP Funding Offset

- As performed in the 2017 appropriations year, HUD has established an offset policy in the 2018 appropriations year to recapture excess HAP equity reserves.
- Steps to the offset calculation:
  - Step 1: Calculate the HAP equity reserves
  - Step 2: Calculate the sum of protected categories
  - Step 3: Subtract the sum of the protected categories from the HAP equity reserves
  - Step 4: Apply percentage factor

23



Overview

2018 Funding Notice

Offset Calculation

HAP Procedures

VMS Review

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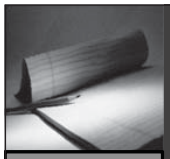
Step 1: Calculate HAP Equity

- HAP equity is taken from the following combination of the previous calendar year balances:
  - HUD Held Reserve
  - Restricted Net Position (HAP Equity)

24



Overview

2018 Funding Notice

Offset Calculation

HAP Procedures

VMS Review

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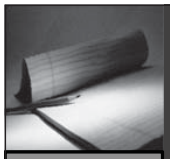
Step 2: Calculate Sum of Protected Categories

- Calculate Sum of Protected Categories:
  - **A.** Difference between the PHA's total eligibility and prorated eligibility
  - **B.** CY 2018 amounts needed to fully lease VASH units
  - **C.** Difference in unit months leased
  - **D.** CY 2017 new incremental BA
  - **E.** CY 2017 set aside protection
  - **F.** Portion of CY 2018 renewal eligibility (based on number of HCV units under CACC)

25



Overview

2018 Funding Notice

Offset Calculation

HAP Procedures

VMS Review

Urlaub & Co., PLLC
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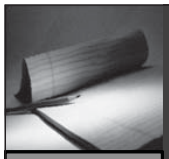
Step 2: Prorated Eligibility Adjustment

- HUD calculates the difference between the total renewal eligibility and the amount actually prorated.

Line 18: Total Renewal Eligibility	6,688,482
Line 20: Prorated Eligibility	6,671,426
Net Difference	17,056

26



Overview

2018 Funding Notice

Offset Calculation

HAP Procedures

VMS Review

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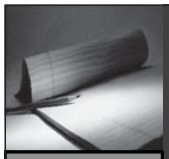
Step 2: Difference in Units Months Leased

- Category C takes the difference between the following items times the funded per unit cost:
  - December 2017 unit months leased times 12 months
  - Units leased reported in VMS per the 2017 calendar year

December, 2017 Units Leased per VMS	1,003
Times 12 months	12,036
Unit Months Leased during CY 2017	11,882
Net Difference (Unit months)	154
Funded Per Unit Cost (PUC) Line 31	552
Total Adjustment	85,048

27



Overview

2018 Funding Notice

Offset Calculation

HAP Procedures

VMS Review

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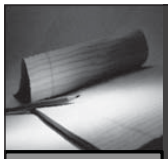
Step 2: Size of HCV Program

- HUD has designed a benchmark for protecting a portion of the existing HAP equity balance based on the size of the HCV brogram based on the number of ACC units.

Program Size	Percent
Less 250 units	12%
Between 250 & 499 units	6%
500 and above units	4%

- Different categories were established to accommodate the needs of smaller PHAs.

28



Overview

2018 Funding Notice

Offset Calculation

HAP Procedures

VMS Review

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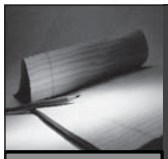
Step 2: Size of HCV Program

- The protected category is calculated as follows:

ACC Units	1,181
2018 CY Renewal Eligibility	6,688,482
Size Category Percent	4%
Portion Percentage	267,539

29



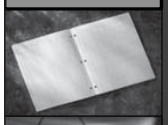
Overview

2018 Funding Notice

Offset Calculation

HAP Procedures

VMS Review



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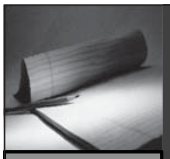
Step 2: Sum of Protected Categories

- Sum the protected categories

Difference between the PHA's total eligibility and prorated eligibility	17,056
Difference in unit months leased	85,048
Portion of CY 2018 renewal eligibility	267,539
Total of Protected Categories	**369,643**

30



Overview

2018 Funding Notice

Offset Calculation

HAP Procedures

VMS Review

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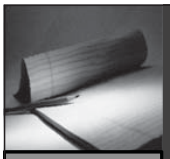
Step 3 & 4: Offset Calculation

- The sum of the protected categories is subtracted from the HAP equity to arrive at the funds available for offset.
- Apply the offset percentage times the funds available for offset.

HAP Equity	1,428,915
Less Total of Protected Categories	(369,643)
Amount Subject to Recapture	1,059,272
HUD Recapture Rate	16.274%
Offset Amount	**172,386**

31



Overview

2018 Funding Notice

Offset Calculation

HAP Procedures

VMS Review

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Offset Percentages

- The past two offsetting rates for prior and current calendar years are as follows:

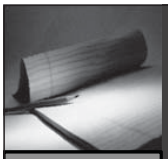
Item	*2018 Appropriations*	*2017 Appropriations*
Offset Percentage	16.274%	14.601%
Amount of Recapture	$ 172,386	$ 139,364

- Based on this analysis, the PHA has had $311,750 recaptured over two years.
- The risk is that a PHA may attempt to over lease in the current year to prevent future offsets being applied.

32

HAP PROCEDURES

33



Overview

2018 Funding Notice

Offset Calculation

HAP Procedures

VMS Review

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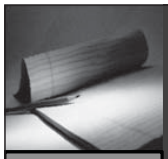
HAP Processing

- HAP processing represents the process of providing rental assistance payments made within compliance with HUD regulations and budgetary requirements.
- Internal control objectives can be segregated into the following categories:
  - Compliance
  - Reporting
  - Operations

34



Overview

2018 Funding Notice

Offset Calculation

HAP Procedures

VMS Review

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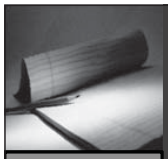
HAP Processing Controls

- **Compliance** – Compliance with applicable laws and regulations
  - Accuracy of Housing Assistance Payment calculations
  - Eligibility of tenants
  - Processing of portability HAP payments
- **Reporting** – Reliability of reporting for internal and external use
  - Effective procedures provide accurate data that can be used for reporting requirements, including both financial and nonfinancial, to properly report financial statements, VMS reporting, etc.
- **Operations** – Effectiveness and efficiency of operations
  - Effective operations produce results in a manner that provides assurance of program requirements in a manner that does not waste resources.
    - Approval process of payments
    - Quality control

35



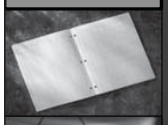
Overview

2018 Funding Notice

Offset Calculation

HAP Procedures

VMS Review



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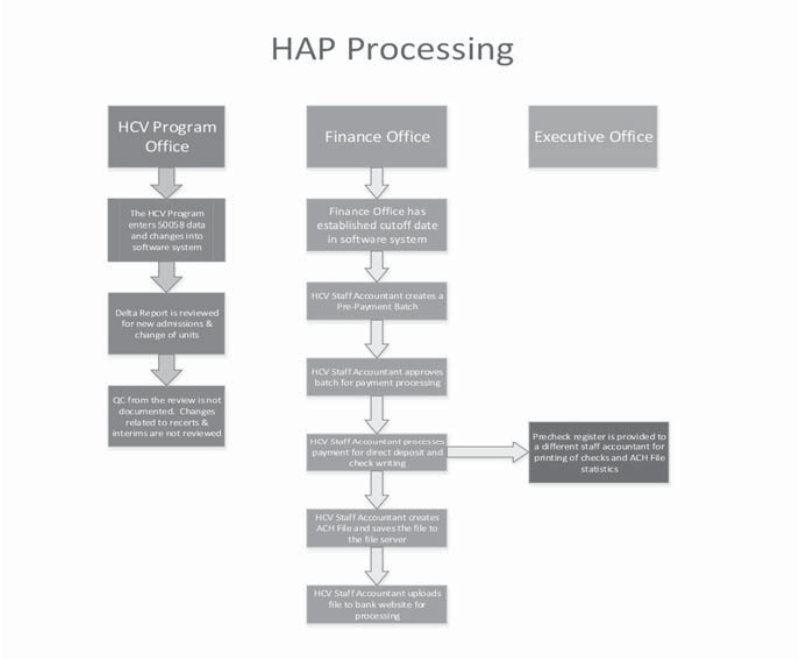
HAP Processing (Example)



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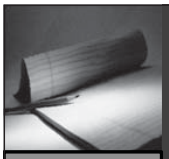
PREPARING FOR A VMS REVIEW

37



Overview

2018 Funding Notice

Offset Calculation

HAP Procedures

VMS Review

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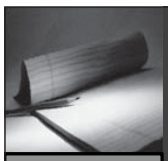
VMS Reviews

- VMS reviews are conducted to validate unit months leased and Housing Assistance Payments (HAP) for typically a one year period.
- Reviews can take the form of one of the following items:
  - Remote review
  - On-site review
- In many cases, the reviewer is looking at the RNP calculation to determine its accuracy.

38



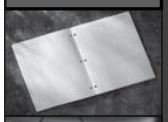
Overview

2018 Funding Notice

Offset Calculation

HAP Procedures

VMS Review



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VMS Review Letter

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-5000

OFFICE OF PUBLIC AND INDIAN HOUSING
Quality Assurance Division

May 9, 2018

[redacted]

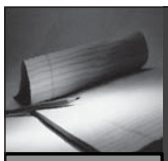
The [redacted] has been selected for a Voucher Management System (VMS) data validation review. The review will be conducted by the Department of Housing and Urban Development (HUD), Office of Public and Indian Housing, Quality Assurance Division (QAD). The primary purpose of this review will be to validate the Unit Months Leased (UML) and Housing Assistance Payments (HAP) recorded in VMS for June 1, 2017 through May 31, 2018. The data to be reviewed will be downloaded from VMS as of July 13, 2018. If subsequent changes are made to VMS after this date, please be prepared to provide source documentation for these adjustments.

During the review, we will also provide technical assistance and guidance related to VMS reporting. Within 45 days of the review conclusion, you will receive a report detailing the results of our review and any required corrective actions. If the PHA has over reported data which exceeds 3% for the 12 month review period, this would result in a finding and possible recalculation of funding.

The review is expected to last no more than 5 working days and has been scheduled to begin **July 17, 2018 with an entrance conference beginning at 10:00am.** We would appreciate all appropriate staff members being available at this time. The QAD review team will include:

[redacted]

39



Overview

2018 Funding Notice

Offset Calculation

HAP Procedures

VMS Review

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Supporting Documentation

Supporting Documents Required for VMS Review

Please have the following documents available to the QAD Staff upon their arrival at the Agency. Source documentation should be relative to the HCV program only. When applicable the PHA should have available any and all types of source documentation their staff uses to gather VMS data. The following list is *not* all inclusive:

- All source documents, off-line or system generated reports, used to support VMS data entry
- Monthly Utilization Reports (for all voucher types); or the system generated report showing all vouchers under lease during the review period.
- Monthly financial Records (general ledger detail, subsidiary ledgers, trial balances, income statements, balance sheets, check registers, etc.).
- Housing Assistance Payment (HAP) Registers.
- Tenant payment history to correspond with QAD selected files
- FSS Escrow Deposit Reports:
  - Source documentation should clearly show any FSS Escrow Forfeitures if applicable.

Additional information may be requested during the review as necessary to accomplish our objective.

Documents may be provided electronically or in hard copy.

Any privacy information or Personally Identifiable Information (PII) that can be linked to a specific person must be protected – such as name, social security number, date of birth, etc. If your documents contain such information that is not easily redacted, please contact me to arrange encryption standards that are acceptable to HUD security policies.

Space accommodations will be needed for the Quality Assurance staff while on-site. If possible, we would appreciate access to a telephone.

Our goal is to minimize disruption to the Agency's operations to the extent possible by completing the review within one week. You can help us meet this goal by ensuring required supporting documents are available upon QAD Staff arrival.

Thank you

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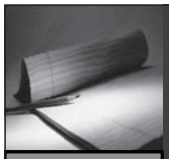

Overview

2018 Funding Notice

Offset Calculation

HAP Procedures

VMS Review

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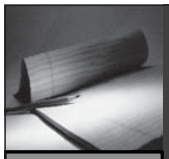
VMS Reviews

- The review letter will provide the date that VMS data will be downloaded.
- Items that the reviewer may request include the following:
  - Units leased documentation
  - HAP registers
  - Check registers with documentation of any payments that are not related to the current month (prior month payments)
  - Tenant payment history for QAD identified tenant files
  - Financial reports
  - FSS documentation

41



Overview

2018 Funding Notice

Offset Calculation

HAP Procedures

VMS Review

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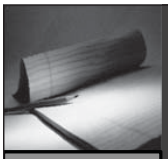
VMS Reviews

- Things you can do to prepare for a VMS review:
  - Prepare a list of procedures used by the fee accountant and/or PHA personnel which includes the approval process, the process for changes to VMS data, and whether a hard close of financial data is used each month.
  - If it is an on-site review, have files readily available for the reviewer to access.
  - While preparing for the review, if discrepancies are found, update VMS data prior to the date of the review to lessen the possibility of a finding.
  - Understand the processes fully so that you can relate them to the reviewer.

42



Overview

2018 Funding Notice

Offset Calculation

HAP Procedures

VMS Review

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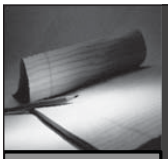
VMS Reviews

- Once the reviewer has competed the review, a conference call will be completed with the PHA discuss any items of concern.
- The reviewer will follow up with a written report. The report may contain items of concern or findings for which a corrective action plan is required. Data showing discrepancies between VMS data and QAD validated data will also be presented.
- If QAD changes the RNP balance, the PHA cannot make any changes to data prior to that date without discussing changes with Financial Analyst. Any changes must be reported after the date of validated RNP balances.

43



Overview

2018 Funding Notice

Offset Calculation

HAP Procedures

VMS Review

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Questions?

44

Section 5

19th Annual Public Housing Authority (PHA) Conference
June 21 - June 22

Quincy Riley
Assessment Manager, HUD-REAC

Brian Edwards
Auditor/Financial Analyst, HUD-REAC

1

Today's Topics

1. Submission Due Dates
2. Extension/Waiver Requests
3. Understanding the Unaudited Submission Process
4. Understanding the Audited Submission Process
5. Required Audit Attachments
6. Common Reporting Issues
7. Submission Decision
8. Helpful Tips to Avoid A Rejection

REMINDER: Submission Due Dates

Financial Reporting Schedule Due Date

	06/30	09/30	12/31	03/31
Unaudited (due 2 months after FYE)	08/31	11/30	02/28	05/31
Audited (due 9 months after FYE)	03/31	06/30	09/30	12/31

3

TIP: Submission Due Dates

- Approximately 21 days after receipt of the financial submission, REAC will either accept, conditionally accept or reject the financial submission.
- To avoid a Late Presumptive Failure (LPF) score of zero and a Substandard Financial Public Housing Assessment System (PHAS) designation, REAC encourages Public Housing Agencies to review their Financial Submission In-box on an ongoing basis.
- Some LPF scores of zero and PHAS Substandard Financial designations commonly occur as a result of a PHAs failure to correct Rejection issues by the submission due date.
- Accordingly, we encourage early submission of financial data in order to solve rejection issues well before the financial submission due date.

4

Extension Request

- When requesting additional time for an unaudited submission, PHA must submit in the iNtegrated Assessment SubSystem (NASS).
- Request is Due 15 days prior to the Submission Due Date

5

Waiver Request

- Request Additional Time for an **Audited** Submission
- PIH Notice 2009-41 (October 5, 2009)
- Hard Copy Request:
  - Request is Due 30 days prior to Submission Due Date.
  - Include Verifiable Justification, i.e. issues out of the control of the PHA, such as, seized books by the I.G., natural disasters, for example, hurricanes, tornados, fires, floods.
  - Include Reference to Applicable Regulation.

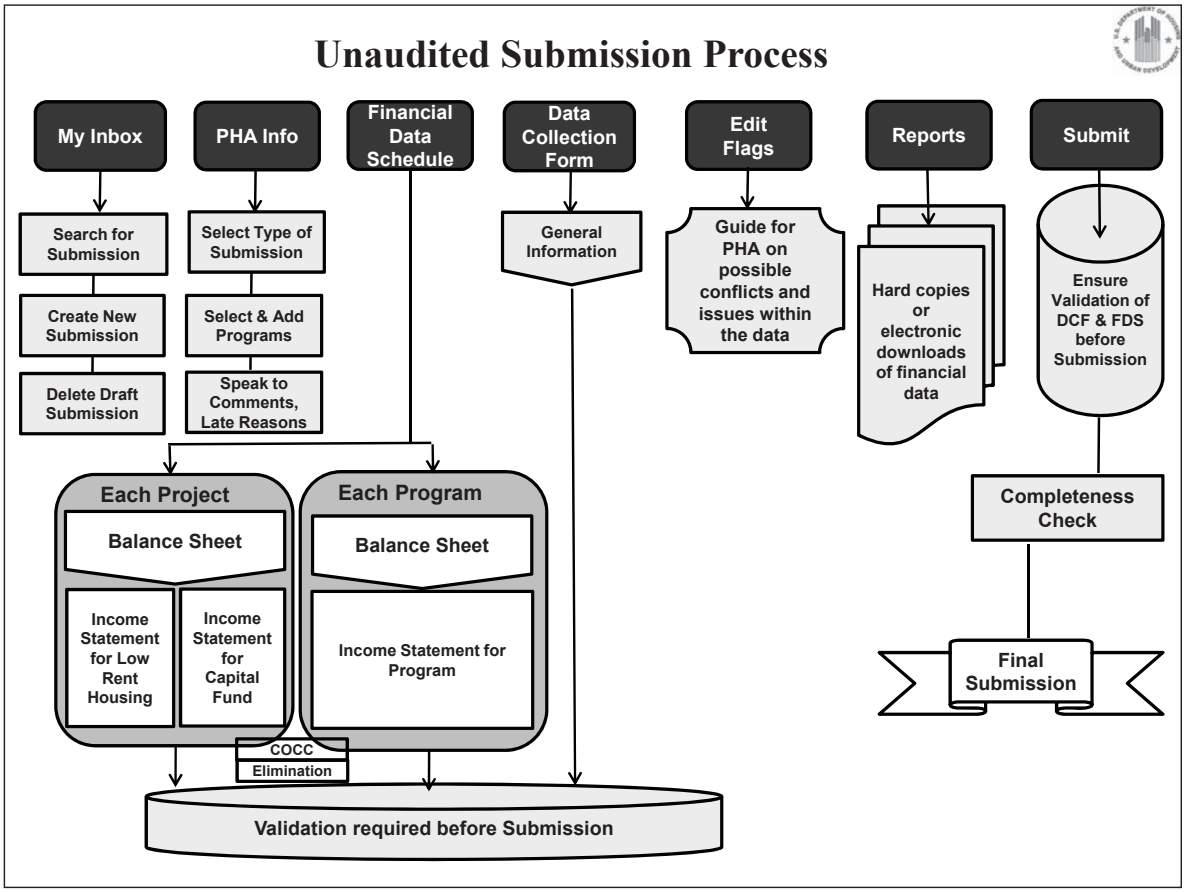
6

Understanding the Unaudited Submission Process

Unaudited Submission Overview

- All PHAs are required to submit unaudited financial data to HUD
- The unaudited submission generally consists of:
  - Financial Data Schedule (FDS)
  - Data Collection Form (DCF) – General Information tab only
  - Submission Comments
- Submission Comments
  - We strongly suggest that the PHA address any issues that were questioned in prior REAC reviews and any other items that may cause the submission to be rejected

8



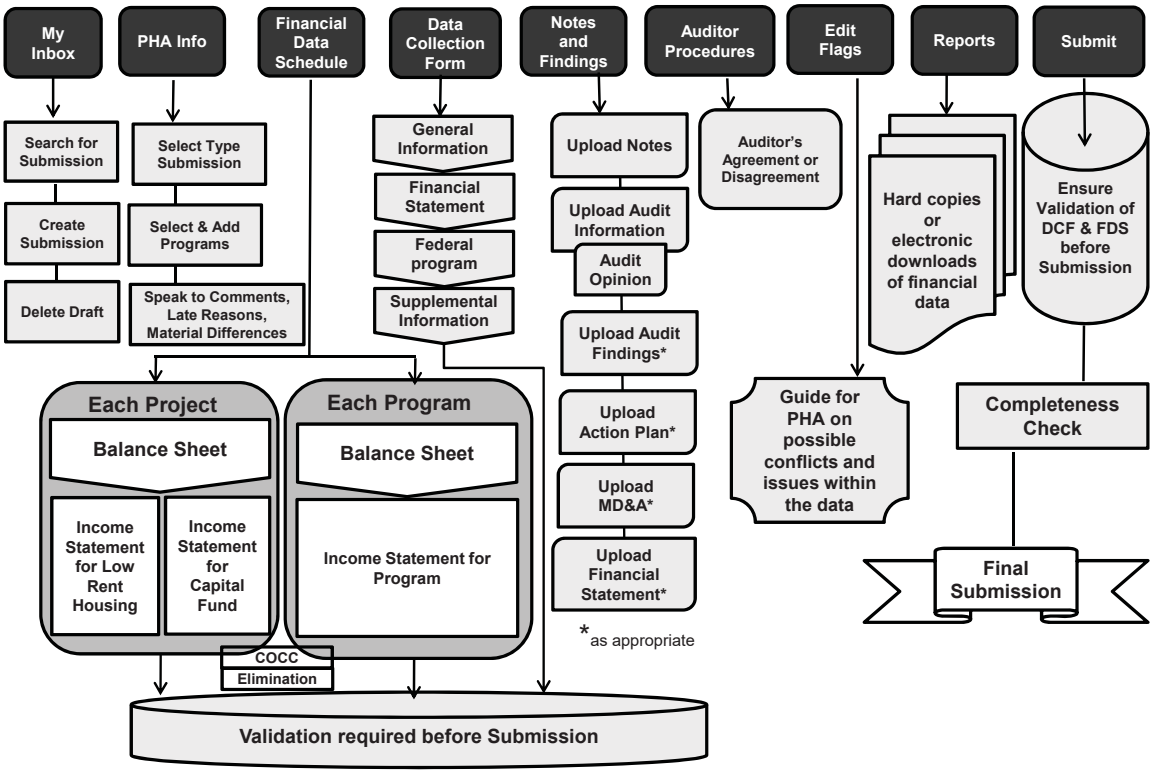
Understanding the Audited Submission Process

Audited Submission: 3-Step Procedure

1. **Draft Status**
   - PHA creates a draft and submits draft to Independent Public Accountant (IPA)
   - Status changes to "IPA Review"
2. **IPA Review Status**
   - IPA performs Agreed Upon Procedures (AUP)
   - Status changes to "IPA Agree" or "IPA Disagree"
   - If IPA disagrees, PHA must edit "IPA Disagree Submission"
3. **Submission to HUD**
   - Once CPA approves the AUP (Step 2), PHA must Submit the Audited Statements
4. **HUD Review and Acceptance**
   - PIH-REAC reviews and approves or rejects submission
   - Process is complete once audited submission is approved

11

Audited Submission Process



Required Audit Attachments

Required Audit Attachments: Uniform Guidance (UG) Audit

- **Uniform Guidance Audit**:
  1. Required Supplementary Information (RSI) (MD&A and GASB 68)
  2. Basic Financial Statements: Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, Statement of Cash Flows
  3. Notes to the Basic Financial Statements
  4. Auditor's Report on Financial Statements
  5. Auditor's Report on Compliance and Internal Control (Government Auditing Standards)
  6. Auditor's Report on Compliance and Internal Control (Major Program)
  7. Schedule of Expenditure of Federal Awards
  8. Schedule of Findings and Questioned Costs
  9. **Schedule of Prior Audit Findings**
  10. **Corrective Action Plan**

14

Required Audit Attachments: Non UG Audit

- Non Non-Single Audit (Yellow Book Audit):
  1. Required Supplemental Data (MD&A and GASB 68)
  2. Basic Financial Statements: Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, Statement of Cash Flows
  3. Notes to the Basic Financial Statements
  4. Auditor's Report on Financial Statements
  5. Auditor's Report on Compliance and Internal Control (Financial Reporting)

15

HUD's Requirement Audit Reporting

- A PHA that expends $750,000 or more in federal awards is required to have a Single Audit performed
- If a PHA expends less than the Single Audit threshold, currently $750,000 in federal awards, and has **not** received Operating Subsidy for an audit, the PHA need only submit an unaudited submission. The PHA selects unaudited/no audit in the FASS system
- If a PHA received audit costs (audit add-on) as part of the operating subsidy, HUD expects a non Single Audit to be performed

HUD's Requirement Audit Reporting, Cont.

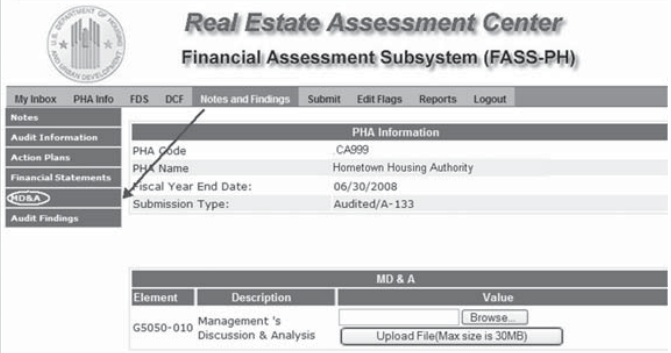
- A non Single Audit is a financial statement audit and does not include the compliance portion of the Single Audit. The rationale is that if the PHA chooses to have a financial statement audit performed, HUD will subsidize it through operating subsidy (good business practice).
- If the audit add-on line on the Operating Fund Calculation of Operating Subsidy **52723** Form Part A line 12 contains an amount, a financial statement audit (non Single Audit) is expected to be performed since HUD paid for the audit. The audit add-on does not represent a reimbursement for a prior year. The audit add-on is a proxy for the cost to operate in the current fiscal year.
- If the audit cost add-on is blank, then the PHA can submit as unaudited/no audit.

Required Audit Attachments

- Audit Information must be attached to the appropriate section of the Notes & Findings page
  1. RSI (MD&A and GASB 68)
  2. Financial Statements
  3. Notes to the Financial Statements
  4. Audit Information
  5. Audit Findings
  6. Action Plan

18

Required Audit Attachments: MD&A



- Provides an analytical overview of the PHA's financial activities
- Topics prescribed by GASB 34 to be included in the **MD&A:**
  - Brief discussion of basic financial statements
  - Comparative analysis of current and prior year financial information
  - Known information expected to impact financial operations
  - Reported totals and data must be consistent with FDS, F/S, DCF

19

Required Audit Attachments: GASB 68

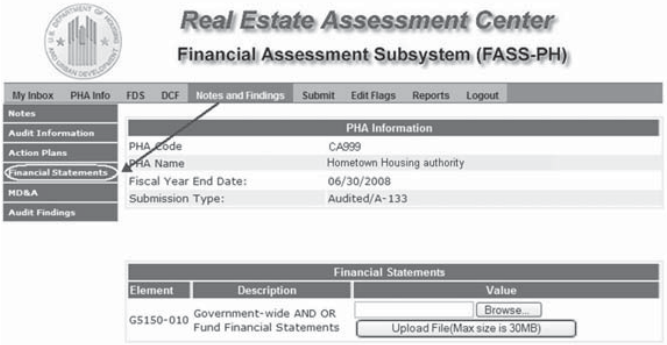
- Not yet shown in REAC template
- Schedules regarding:
  - Sources of changes in the components of NPL
  - Ratios that assist in the assessing the magnitude of the NPL
  - Comparisons of actual employer contributions to actuarially required amounts

20

GASB 68 Allocation/ Reporting

- Public Housing Authority (PHA) must report pension expense and pension liability in accordance with Standards established under Governmental Accounting Standards Board(GASB) Statement No. 68 Accounting and Financial Reporting for Pensions.
- Since the Financial Data Schedule (FDS) is based upon entity-reporting, the PHA must report the applicable pension expense/liability for each program and each Low Rent Project.
- Additionally, in accordance with UFRS and the Asset Management Rule, FASS requires each PHA to allocate (its share from the State report) the Net Plan Asset/Liability, any deferred inflows and outflows of net assets as well as annual benefit expense to the applicable projects and other programs.
- This allows for the FDS to represent the respective financial position of each project/program as accurately as possible.

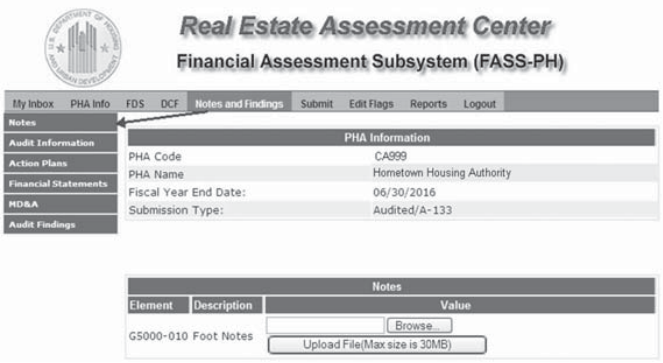
Required Audit Attachments: Financial Statements



- **Government-wide Financial Statements**
  - Statement of Net Position
  - Statement of Activities
  - Statement of Cash Flows (full accrual)
- **Fund Financial Statements**
  - Statement of Net Position
  - Statement of Revenues, Expenses, and Changes in Net Position
  - Statement of Cash Flows

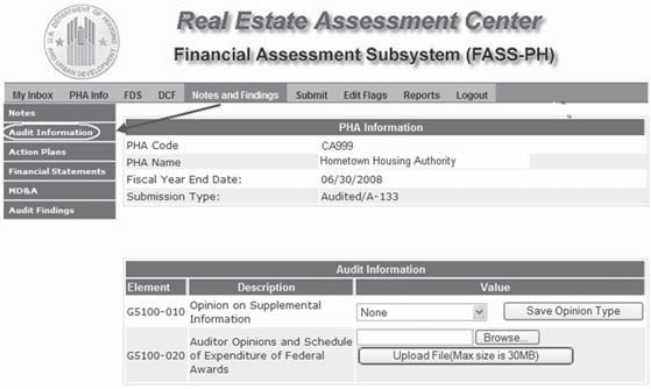
22

Required Audit Attachments: Notes to Financial Statements



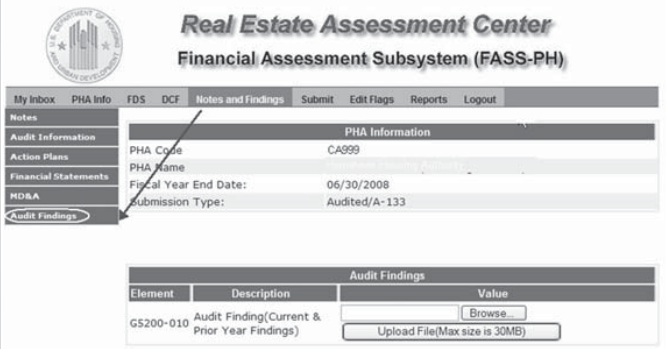
- **The attached Notes tab:**
  - Should be Completed and Properly Presented
  - Amounts should tie to FDS and/or F/S
- **Topics include:**
  - Summary of Significant Accounting Policies
  - All Other Disclosures

Required Audit Attachments: Audit Information



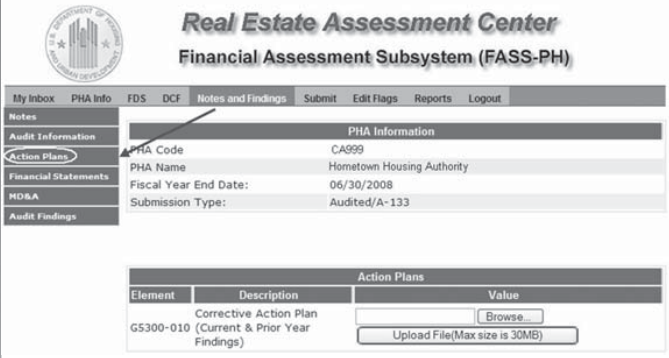
- **The following attachments belong in the Audit Information Tab:**
  - Auditor's opinion and Financial Statements
  - Auditor's Report on Compliance Internal Controls (Yellowbook Report)
  - Auditor's Report on Internal Compliance and Internal Control (Major Programs)
  - SEFA should match Total Federal Awards & Expenditures (TFAE) (including CFDA #) on DCF

Required Audit Attachments: Audit Findings



- **Summary Schedule of Prior Audit Findings**
- **Auditor's Schedule of Findings and Questioned Costs**
  - Summary
  - Financial Statement Findings
  - Federal Program Findings
- Verify that all opinions and findings agree to DCF

Required Audit Attachments: Action Plan



- Required if findings are reported for financial reporting and (or) federal programs
- **Corrective Action Plan** should include:
  - Identification of each finding and reference
  - Description of action taken or explanation
  - Name of contact person responsible for corrective action
  - Anticipated completion date of corrective action

Be sure

Auditor Attestation

Supplementary Information

- Supplementary Information (SI) is presented for purposes of additional analysis and is not a required part of the financial statements:
  - SEFA – required by Uniform Guidance
  - FDS – required by HUD
- SI should be presented based on *Reporting Information Accompanying the Basic Financial Statements in Auditor-Submitted Documents*

28

Auditor Attestation

- Auditors are required to perform the Agreed Upon Procedures (AUP) in order to determine whether the electronic information submitted to PIH-REAC agrees with hard copy documents included within the audit reporting package.
- As a part of the financial assessment of the PHA, the Department relies on the auditor and his or her judgment to perform the audit in accordance with the professional standards established by the American Institute of Certified Public Accountants and the Office of Management and Budget. The Department also relies on the Fairly Stated "in –relation to" opinion on the FDS indicating the "hard copy" audited financial statements agrees to the FDS.

Common Reporting Issues: Unaudited & Audited Submissions

Common Reporting Problems: Unaudited Submission

- FASS Data is Materially Different than Other Independent Data Sets
  - Voucher Management System (VMS) examples include:
    - Housing Assistance Payments
    - Vouchers Leased
    - Interest Income
    - Port-in Information
    - Restricted Net Assets (NRA), Unrestricted Net Assets (UNA), and Cash Balances
  - HUD Central Accounting Program System (HUDCAPS)
    - HAP and Administrative Fees Disbursed

31

Common Reporting Problems: Unaudited Submission, cont'd.

- HCV Compliance Issues may not result in a Rejected Submission, i.e. PHA Correctly reported the Compliance Issue.
    - Due From's and Operating Transfers Out
    - Negative Equities
    - Unit months leased greater than unit months available (generally for 12/31 PHAs)

32

Common Reporting Problems: Unaudited Submission, cont'd.

- Other General Reporting Problems
  - PHA failed to report programs or programs are comingled with other programs;
  - PHA failed to report Low Rent Units – UMA/UML
  - NRP Adjustment is not reflected in submission.

33

Common Reporting Problems: Audited Submission

- "In Relation to" opinion on FDS is missing
- PHA submission type is incorrect, therefore, the wrong attachments were submitted
- Federal Awards Expended reported in Audit Report is different that what was reported on the Data Collection Form in the system
- Financial Statements and associated information do not meet minimum presentation and format

34

Common Reporting Problems: Audited Submission, cont'd.

- Auditors Reports do not reconcile to the Data Collection Form (opinions, findings, federal awards expended)
- Financial Statements do not reconcile to the FDS and the differences are material
- MD&A, Financial Statements, and Notes to the Financial Statements do not reconcile to each other

35

Submission Decision

Submission Decision

- REAC's goal is to approve a financial submission that is properly classified and shows data that is a fair reflection of the PHA's financial condition

Recommendation	Description
Accept	No errors noted and all prior issues corrected
Conditionally Accept	Issues noted, but deemed immaterial
Reject	Errors and/or issues noted that are material or a significant number of small issues are present that cause the submission to be unreliable

37

Submission Decision, cont'd.

- Submissions are generally accepted/conditionally accepted unless the errors identified are material, meaning the FDS may not provide a fair presentation or the issue(s) impact(s) the PHA's FASS score
- Conditionally accepted issues need to be addressed on the audited submission (or next submission)
- Rejected submissions need to be corrected and re-submitted within 15 days of rejection

38

Notification and Follow-Up

- PHAs receive notification of conditional acceptance and rejections via NASS
- These notifications are sent using the PHA's email address as reported in PIC

39

Helpful Tips to Avoid A Rejection

COMMENT, COMMENT, COMMENT

PHA Info

- Under G6000-030 Submission Comments
- Under G6000-040 Upload Submission Comments

40

Helpful Tips to Avoid A Rejection, cont'd.

Add comments to your submission for:

- Unusual/significant relationships or activities
- Descriptions of activity recorded in Business Activities if significant or confusing
- Recurring REAC analyst questions
- Details of transfers if significant or confusing
- Pre-2004/Post-2003 Administrative Fee Equity
- Differences between VMS & FDS

41

Helpful Tips to Avoid A Rejection, cont'd.

- **The more information you provide with your initial submission reduces the chance of receiving phone calls, emails, etc. asking for clarification and/or additional information**
- **Most importantly, it reduces the chance of a REJECTED SUBMISSION**

42

Section 6

Using Analytical Review to Evaluate PHA Performance

AHACPA LAS VEGAS

JUNE 22, 2018

Topics

1. PHA Solvency Concerns
2. Trend Analysis
3. Audit Considerations
4. Questions

PHA Solvency Concerns

INDUSTRY NEGATIVE TRENDS

Number of PHAs Operating in U.S.

Type	Number
Section 9 only	1,616
Section 8 only	862
Combined	1,325
Total	**3,803**

PHA's Primary Sources of Revenue

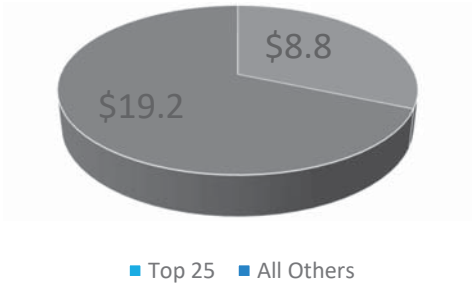
Section 9		Section 8
Operating Fund	**Capital Fund**	**HCVP**
• Operating Subsidy • Rental income	• Capital Fund Grant	• Administrative Fees • HAP

FFY 2018 HUD Budget PHA Programs

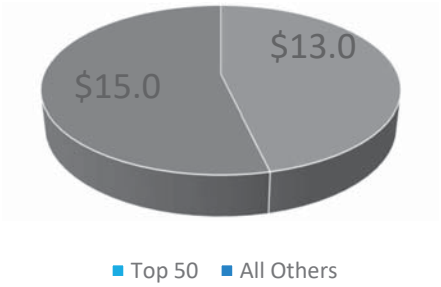
Program	FFY 2017 Enacted	FFY 2018	% Change
Sec 9 Operating Fund	$4.40 Billion	$4.55 Billion	3.4%
Sec 9 Capital Fund	$1.94 Billion	$2.75 Billion	41.6%
Housing Choice Vouchers	$20.29 Billion	$22.01 Billion	8.5%
TOTAL	**$26.63 Billion**	**$29.31 Billion**	**10%**

Total HUD Grants 2016 = $28B

25 Largest PHAs ($ Billions)



50 Largest PHAs ($ Billions)



Root Causes of Solvency Concerns

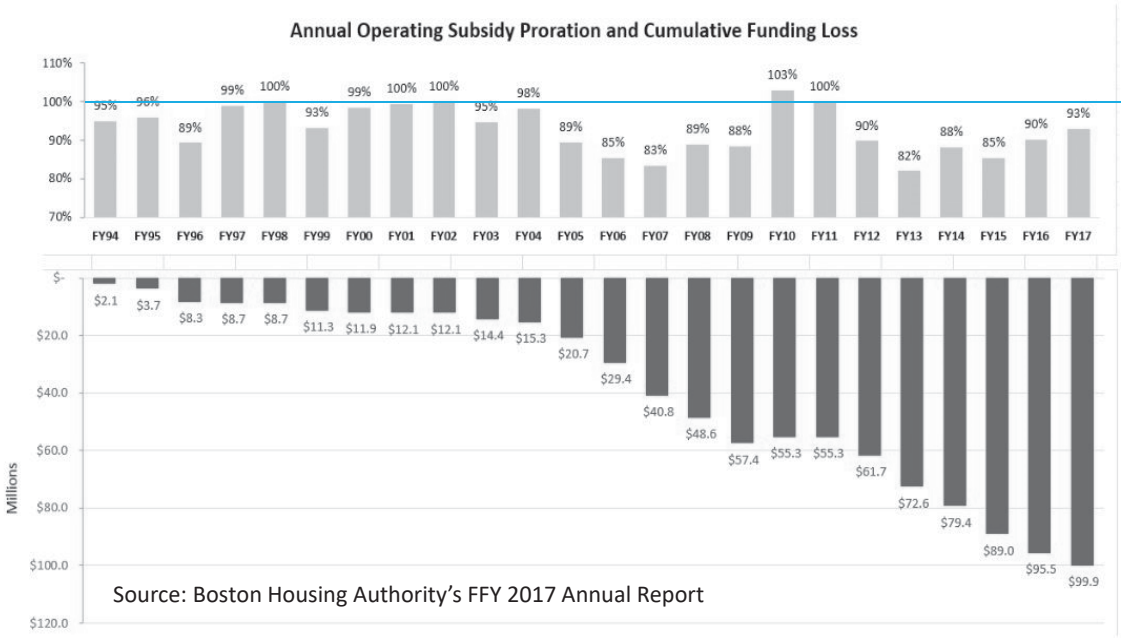
Operating fund proration

Decreased capital fund investment

Prorated HCVP administrative fees

Divestiture of public housing units

Fixed operating cost



Source: Boston Housing Authority's FFY 2017 Annual Report

Capital Fund

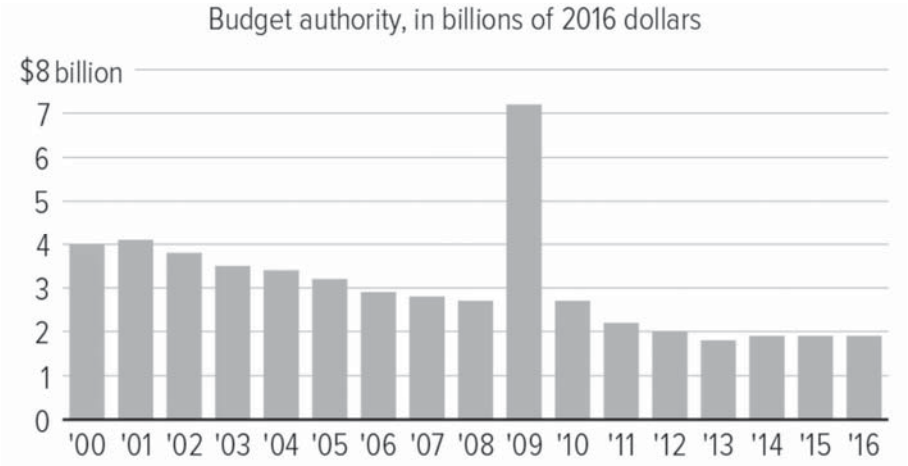
Intended for modernization, substantial rehabilitation, or new construction

Under CFFP PHAs can pledge a portion of its grant to repay private borrowing for capital improvements

Small PHAs (<250 units) can spend up to 100% of the grant on operations

20% of capital funds may be used for operating expenses

Capital Funds Cut Substantially



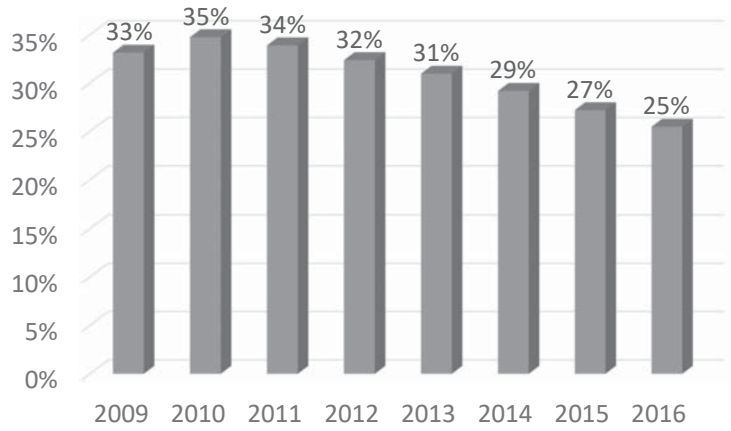
2010 Capital Need Assessment

Category of Need	Estimate
Inspection-based estimate of need	$20,653,780,000
Additions for Alaska, Hawaii, Guam, and USVI	$233,514,000
Additions for lead paint abatement	$306,788,000
Additions for accommodating persons with disabilities	$264,473,000
Additions for improving energy and water efficiency	$4,149,439,000
TOTAL	**$25,607,994,000**

Remaining Useful Life

1. Measures the remaining useful life of the PHA's capital assets
2. Based on the cost assumption that an asset's useful life expires when it is fully depreciated
3. Higher the % of remaining useful life, generally the longer the asset will be able to remain in service
4. As the % approaches 0 capital assets typically require repositioning or additional capital investment

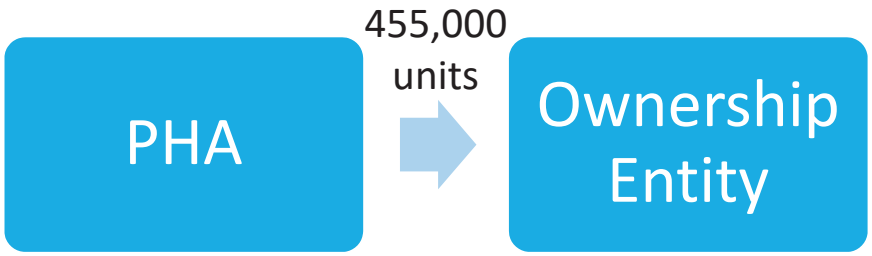
Remaining Useful Life of Capital Assets



Rental Assistance Demonstration (RAD)

1. Authorized by the Consolidated and Further Continuing Appropriations Act of 2012 and expanded by the Bipartisan Budget Act of 2018
2. Cap raised from 225,000 units (2017) to 455,000 units (by 2024)
3. Goal is to convert 1.1 million public housing Sec. 9 units to finance replacement/renovation
4. Converting revenue stream from Sec. 9 funding to Sec. 8 PBV and/or PBRA
5. Impacts PHAS financial indicator score
6. Decreases revenue streams available to service legacy costs

Divestiture of Public Housing Units



Fixed Operating Costs

Salaries and benefits based on union contracts

Pension costs based on PERS

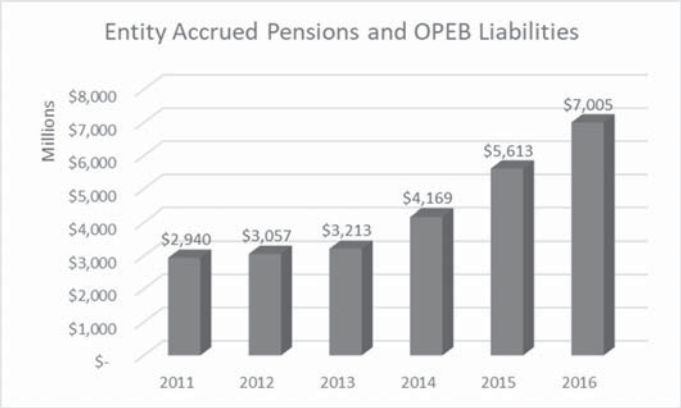
High maintenance costs

COCC's operating at a loss

Unfunded Pension and OPEBs 2016

Liability	# of PHAs	Total Amount	% of Total
> $4 billion	1	$ 4,047,577,640	0.0%
> $100 million and < $4 billion	3	$ 427,958,469	0.1%
> $50 million and < $100 million	3	$ 222,083,058	0.1%
> $25 million and < $50 million	11	$ 387,629,560	0.3%
> $10 million and < $25 million	35	$ 547,705,989	0.9%
> $5 million and < $10 million	53	$ 491,354,365	1.4%
> $1 million and < $5 million	287	$ 633,239,080	7.5%
> $1 dollar and <$1 million	831	$ 247,325,757	21.7%
No reported 357 liability	2,603	$ -	68.0%
Totals	**3,827**	**$ 7,004,873,918**	**100%**

Pension and OPEB Liabilities



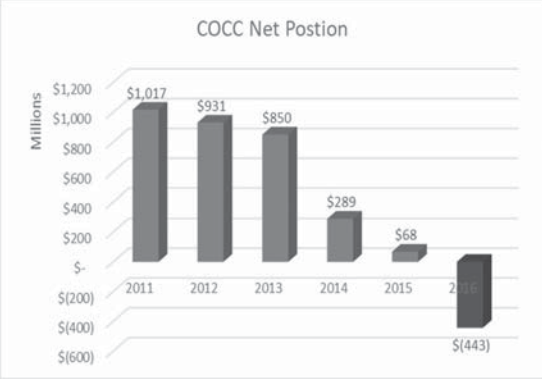
Unfunded Pension and OPEBs 2016 RAD

Liability	# of PHAs	Total Amount	% of Total
> $4 billion	1	$ 4,047,577,640	0.3%
> $100 million and < $4 billion	2	$ 315,983,887	0.5%
> $50 million and < $100 million	2	$ 139,064,784	0.5%
> $25 million and < $50 million	2	$ 61,267,847	0.5%
> $10 million and < $25 million	16	$ 246,186,800	4.2%
> $5 million and < $10 million	30	$ 216,051,835	7.8%
> $1 million and < $5 million	64	$ 158,282,172	16.7%
> $1 dollar and <$1 million	79	$ 30,593,910	20.6%
No reported 357 liability	187	$ -	48.8%
Totals	**383**	**$ 5,215,008,875**	**100%**

Net Position

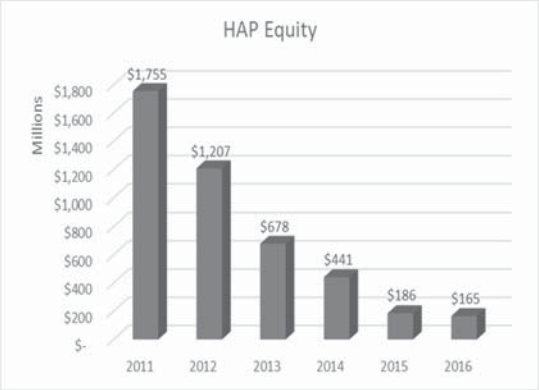
1. Measures the net position of the PHA and its associated programs
2. Entity-wide net position represents the PHA's worth (i.e. net position equals assets minus liabilities)
3. Increase in net position over time generally suggests that financial position has improved
4. Decrease suggests that financial position has deteriorated
5. Consistent trend suggests financial stability

Decrease in COCC Net Position



Net Positon	PHAs	Total	% of PHAs
<0	147	($1,861,821,910)	24%
Zero	7	0	1%
>0 and <$1 million	256	$111,445,276	42%
> $1 million	203	$1,307,329,462	33%
Totals	613	($443,047,172)	100%

Decrease in Sec 8 Net Position



Decrease in Sec 8 Net Position

Net Positon	PHAs	Total	% of PHAs
<0	440	($307,893,382)	20%
Zero	73	$ -	3%
>0 and <$1 million	1,518	$241,288,595	70%
> $1 million	124	$371,493,661	6%
Totals	2,155	$304,888,874	100%

Decrease in PHA Net Position Over Time

Trend Analysis

KEY FINANCIAL TRENDS

26

Objectives of Trend Analysis

Determine the financial position of the:

- Section 9
- Section 8
- All other programs
- Entity

Identify cause of financial distress

Accounts Included in Trend Analysis

Cash and Investments

Current Ratio

Due From/Due To

Remaining Useful Life

Net Position

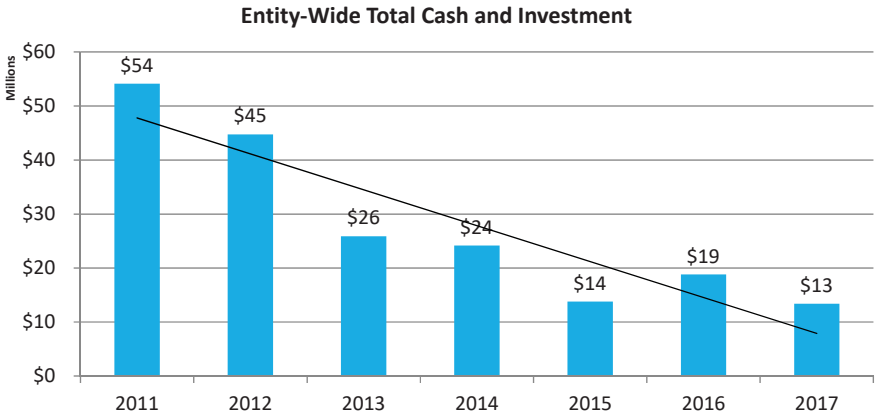
Surplus/Deficit

28

Cash and Investments

1. Measures all cash and investments held by the PHA and its associated programs
2. Includes both restricted and unrestricted funds
3. Increase in cash and investment balance over time generally suggests that financial position has improved
4. Decrease suggests that it has deteriorated
5. Consistent trend suggests financial stability

Entity-Wide Cash and Investments

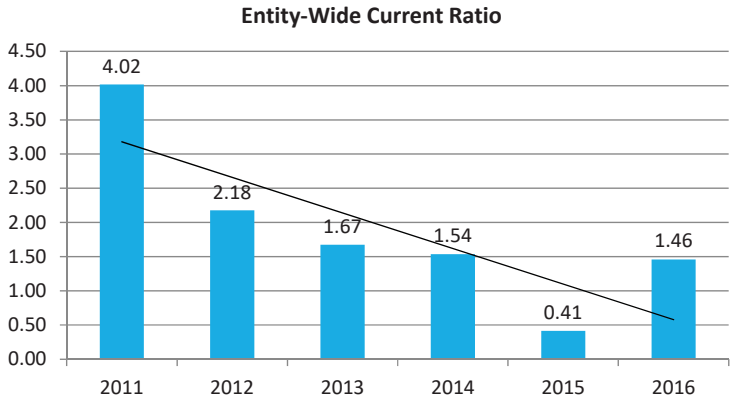


30

Current Ratio

1. Measures the fiscal viability of the PHA and its associated programs
2. Computed by dividing current assets by current liabilities
3. Reflects the current assets available to pay current obligations
4. Consistent or increasing current ratio over time generally suggests an improvement in fiscal viability
5. Decreasing ratio, or a ratio <1 than one suggests potential insolvency

Entity-Wide Current Ratio



32

Due from/Due to

1. Measures the net funds loaned (due from) or borrowed (due to) by a program to other programs in the portfolio
2. Positive balance means the program is owed funds from other programs
3. Negative balance means the program owes funds

Entity-Wide Due From/Due To

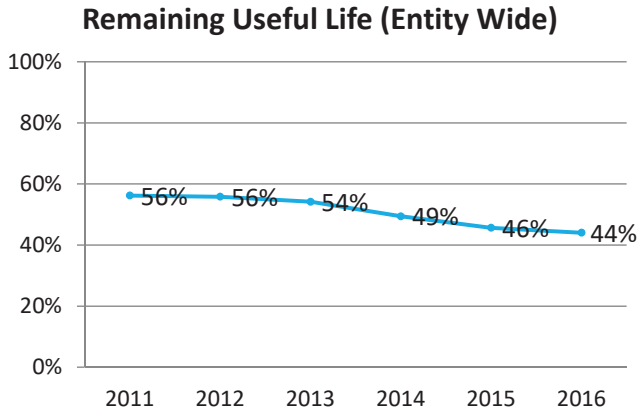
	2011	2012	2013	2014	2015	2016
Entity Wide	$0	$0	$0	$0	$0	$0
Public Housing	($5,608,233)	($7,015,970)	($10,410,471)	$0	$805,717	$154,667
Housing Choice Vouchers	$1,929,435	$1,585,983	$1,349,204	$0	$1,176,044	$947,820
COCC	$1,051,560	$2,493,908	$4,992,666	$0	($805,717)	$0
Others	$2,627,238	$2,936,079	$4,068,601	$0	($1,176,044)	($1,102,487)

34

Remaining Useful Life

1. Measures the remaining useful life of the PHA's capital assets
2. Based on the cost assumption that an asset's useful life expires when it is fully depreciated
3. Higher the % of remaining useful life, generally the longer the asset will be able to remain in service
4. As the % approaches 0 capital assets typically require repositioning or additional capital investment

Entity-Wide Remaining Useful Life



36

Net Position

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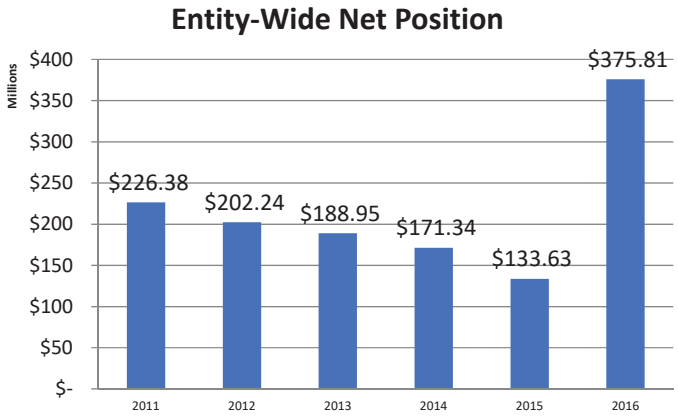
5. Consistent trend suggests financial stability

Entity-Wide Net Position

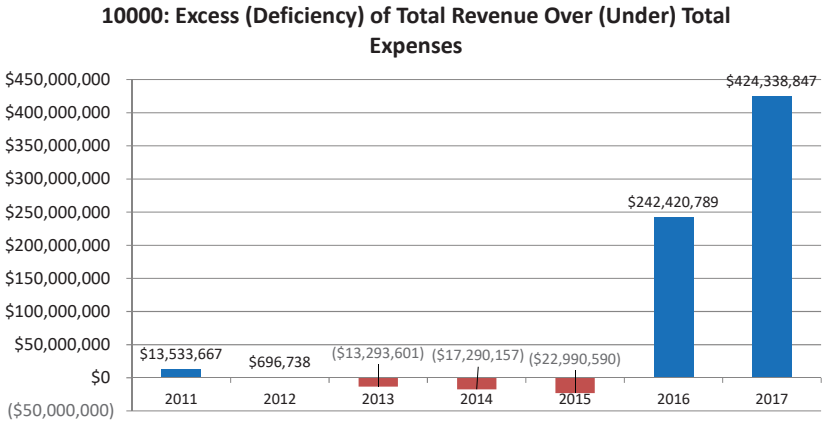


38

Net Surplus/Deficit

1. Measures the net surplus (deficit) of the PHA and its associated programs
2. All revenue and expense items (including depreciation) are included in this measure
3. Consistent or increasing surpluses over time generally suggest that the PHA (or program) is well managed operating within its financial means
4. Periodic surpluses and slight deficits generally suggests that the PHA's financial operations are stable
5. Consistent or increasing deficits suggests that the PHA's financial operations are deteriorating

Entity-Wide Surplus/Deficit



Audit Considerations

USE OF ANALYTICAL PROCEDURES

Assessing Risks of Material Misstatement

AU-C Section 315

.05 The auditor should perform risk assessment procedures to provide a basis for the identification and assessment of risks of material misstatement at the financial statement and relevant assertion levels. Risk assessment procedures by themselves, however, do not provide sufficient appropriate audit evidence on which to base the audit opinion.

42

Assessing Risks of Material Misstatement

AU-C Section 315

.06 The risk assessment procedures should include the following:

a. Inquiries of management, appropriate individuals within the internal audit function (if such function exists), others within the entity who, in the auditor's professional judgment, may have information that is likely to assist in identifying risks of material misstatement due to fraud or error (Ref: par. .A6–.A13)

b. Analytical procedures (Ref: par. .A14–.A17)

c. Observation and inspection (Ref: par. .A18)

43

Consideration of Fraud

AU-C Section 240

.05 An auditor conducting an audit in accordance with GAAS is responsible for obtaining reasonable assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error. Due to the inherent limitations of an audit, an unavoidable risk exists that some material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed in accordance with GAAS.

44

Consideration of Fraud

AU-C Section 240

.03 Although fraud is a broad legal concept, for the purposes of generally accepted auditing standards (GAAS), the auditor is primarily concerned with fraud that causes a material misstatement in the financial statements. Two types of intentional misstatements are relevant to the auditor—misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets. Although the auditor may suspect or, in rare cases, identify the occurrence of fraud, the auditor does not make legal determinations of whether fraud has actually occurred.

45

Interim PHAS Scoring

Indicator	Points
Physical	40
Financial	25
Management Operations	25
Capital Fund	10
TOTAL	**100**

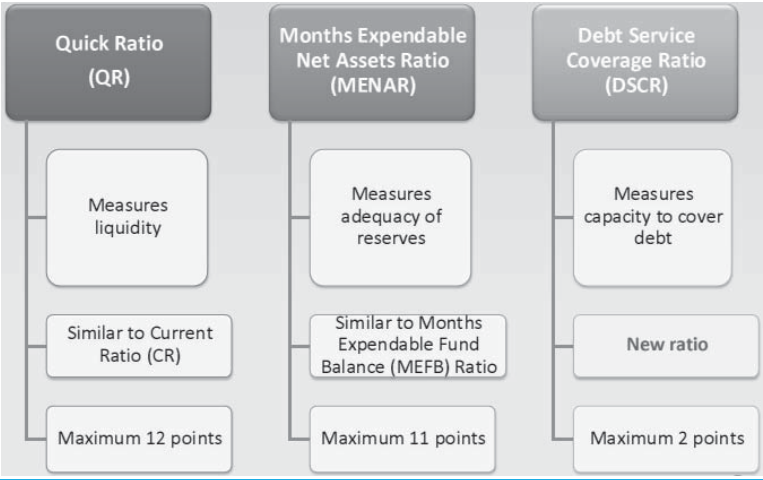
PHAS Designation Status

PHAS Status Designation	Composite PHAS Score	Individual Indicator Score
High Performer	Overall PHAS score of 90% or higher	At least 60% of total points available in PASS(24), MASS(15), FASS(15) and 50% of the total points for CFP(5)
Standard Performer	Overall PHAS score of at least 60%	Not less than 60% of total points available in PASS(24), MASS(15), FASS(15) and 50% of the total points for CFP(5)
Substandard Performer	Overall PHAS score of at least 60%	Less than 60% in one or more of the PASS, FASS, or MASS indicators
Troubled	Less than 60% of the overall PHAS score	---
Capital Fund Program (CFP) Troubled	---	Less than 50% on CFP indicator

MASS Indicators

Occupancy Rate	•16 points
Tenant Accounts Receivable	•5 points
Accounts Payable	•4 points
Total MASS	25 points

Financial Ratios



Going Concern Considerations

AU-C Section 570

.03 …..the auditor's responsibilities to perform the following:

a. Conclude, based on the audit evidence obtained, whether substantial doubt exists about an entity's ability to continue as a going concern for a reasonable period of time

b. Evaluate the possible financial statement effects, including the adequacy of disclosure regarding the entity's ability to continue as a going concern for a reasonable period of time

EOM and Other Matter Paragraphs(AU-C 706)

Emphasis of Matter

Going concern

Contractual or regulatory reporting frameworks

Consistency

-Litigation uncertainty
-Major catastrophe
-Significant related parties
-Subsequent events

Other Matter

Audit reports of prior periods presented

Materially inconsistent "other information"

"In relation to" opinion

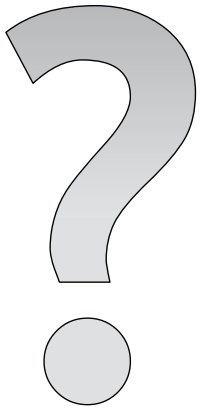
RSI

General use regulatory F/S

"In connection with" compliance reporting

-"Other" supplementary information

Questions?



Section 7

Optimizing RAD for Strategic Development

AHACPA Conference
Las Vegas, Nevada
June 22, 2018

RECTOR & LOFTON REEDER PC

What is RAD ?

- Rental Assistance Demonstration Program
- Takes Public Housing units and converts them to one of two other rental assistance platforms:
  1. Project Based Vouchers - PBV
  2. Project Based Rental Assistance - PBRA

What is RAD?

The Rental Assistance Demonstration Program was created in order to give public housing authorities a tool to improve public housing properties to address a backlog of billions in deferred maintenance.

1. The ability to leverage debt and equity in order to reinvest in public housing.
2. Allow for a more stable funding through long-term Section 8 contracts which must be renewed.
3. Continued Public Housing Stewardship.
4. Maintain the same 30% of income towards rent, and residents maintain same basic rights.
5. The program was sold to be revenue neutral.

Brief History

- U.S. Housing Act – 1937
- Housing and Community Development Act of 1974
- Tax Reform Act of 1986
- Uniform Guidance – 1998
- Asset Management Rules – passed in 2005, rules published April 2007
- RAD – Public Law 112-35 November 2011

Summary of HUD Assisted Rental Housing – Budget 2018

Program	Units	Percent	Budget	Percent	Per Unit
Public Housing	1,100,000	24.4%	6.342 Billion	16.94%	$5,765
Project Based Assistance	1,200,000	26.7%	10.816 Billion	28.88%	$9,013
Tenant Based Assistance	2,200,000	48.9%	20.292 Billion	54.18%	$9,224
TOTAL	4,500,000		37.450 Billion		

Source: HUD website

Summary of HUD Assisted Rental Housing – Budget 2019

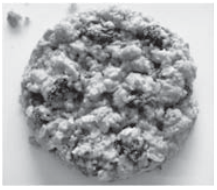
Program	Units	Percent	Budget	Percent	Per Unit
Public Housing	1,000,000	22.7%	7.300 Billion	18.19%	$7,300
Project Based Assistance	1,200,000	27.3%	11.515 Billion	28.68%	$9,596
Tenant Based Assistance	2,200,000	50.0%	21.330 Billion	53.13%	$9,695
TOTAL	4,400,000		40.145 Billion		

Source: NAHRO website

RAD is like Cookies

Summary RAD Batches of Cookies

Year	RAD Units	Funding Percent
2017	230,000	93.10%
2016	40,000 (2014)[1]	90.21%
2015		85.36%
2014	125,000	88.79%
2013		81.86%
2012	60,000	94.97%



[1] The PIH Notice conflicts with the August 23, 2017 Federal Register – allows for 2016 funding.

RAD is like Cookies

- Momma (HUD) is making cookies in the kitchen – sometimes she is using our help – but she is in charge. However there has been two batches of cookies – 60,000 and 125,000 out of the 1,100,000 units nationwide.
- The 2017 Appropriations Act – increased the number of cookies in the second batch to 165,000 which turned into the third batch of cookies. All new approved RAD deals received the funding from the 2014 Appropriations Act.

RAD is like Cookies

- The 2018 Omnibus Appropriations Act – increased the number of cookies and somewhat introduced a fourth batch of cookies with an additional 230,000 units. At this time it is unclear which year the funding will be tied to.
- The rationale for the increased units was the number of Housing Authorities with units on the waiting list, which as of January 2018 was 85,000 over the 225,000 allocated.

At some point this will not be "demonstration."
Will there be a fifth batch? (59% without cookies)

The 5th Batch?

11

The RAD gifts!!!

- Removal of Declaration of Trusts
- Surplus Cash flexibility
- Organizational diversity

Rector, Reeder & Lofton, P.C. 12

The risk of RAD!!!

- What about the ACC? Who guarantees the units to be modernized?
- Increased debt – decreases margin
- New regulations limiting the use of Surplus Cash
- Decreased funding
- Mobility

Lack of clarity on regulations

Under the Rental Assistance Demonstration Conversion Commitment it clearly or unclearly states:

> "With regard to any Project covered by this Commitment, Applicable HUD Regulations and Requirements means (1) all applicable statues and any regulations issued by HUD pursuant thereto that apply to the Project..., and (2) all current requirements in HUD handbooks and guides, notices, and Mortgagee letters that apply to the Project, and all future updates…."

Lack of clarity on regulations

15

The Flexibility of Surplus Cash

"HUD defines 'Residual Receipts' as Multifamily Housing project funds in excess of amounts needed for project operations, required reserves, and permitted distributions."

Rector, Reeder & Lofton, P.C.

The Flexibility of Surplus Cash

- The Section 880.205 "Limitation on distributions" is stricken through – (PIH Notice 2012-32 – PBRA, page 69 – Distributions)
- Surplus Cash must first be used to liquidate debt – 811.108
- 888.315 gives the restrictions on surplus cash distributions for retroactive payments and physical condition of the property

Rector, Reeder & Lofton, P.C.

The Flexibility of Surplus Cash

- The RAD Conversion Commitment document contains the following wording "The Owner shall not be entitled to earn or receive any cash flow distributions from the Project until after completion of the Repairs, and written HUD acceptance of the completed Repairs."
- Under the PIH Notice 2012-32 it states under paragraph E – Distributions (PBRA). "Converted projects will not be subject to any limitation on distributions, contingent on the availability of surplus cash as determined by year-end audited or certified financial statements."

Rector, Reeder & Lofton, P.C.

The Flexibility of Surplus Cash

The RAD HAP Contract states –

1. "Project funds must be used for the benefit of the project, to make mortgage payments, to pay operating expenses, to make required deposits to the replacement reserve… and to provide distributions to the Owners."

2. "For the life of the Contract, surplus cash may be distributed to the Owner only at the end of each fiscal year of project operation following the effective date of the Contract after all project expenses have been paid, or funds have been set aside for payment, and all reserve requirements have been met."

Surplus Cash Computation

Multi-family definition – HUD 93486

1. Cash – Unrestricted Cash, Security Deposit Cash, Rental Assistance Receivable, amounts receivable from HUD.
2. Current Obligations – Accrued mortgage interest – current – non-HUD, current maturities of debt, delinquent funding for replacement reserves, accounts payable, delinquent escrow payments, accrued expenses, prepaid rents and tenant security deposits.

Surplus Cash Computation

Account	Amount
Unrestricted Cash	75,000
Restricted Security Deposits	10,000
Rental Assistance Receivable	8,000
Total Cash Available	93,000

Rector, Reeder & Lofton, P.C.

Surplus Cash Computation – with Debt

Account	Amount
Accounts payable	15,000
Security Deposits payable	10,000
Accrued interest payable	1,500
Tenants prepaid rent	1,000
Notes payable – within 30 days	5,000
Delinquent reserve for replacements	12,500
Accrued expenses	5,000
Total Current Obligations	50,000
Surplus Cash	43,000

Rector, Reeder & Lofton, P.C.

Surplus Cash Computation – no Debt or delinquent reserves

Account	Amount
Accounts payable	15,000
Security Deposits payable	10,000
Tenants prepaid rent	1,000
Accrued expenses	5,000
Total Current Obligations	31,000
Surplus Cash	62,000

Rector, Reeder & Lofton, P.C.

PBV or PBRA?

Category	Project Based Vouchers	Project Based Rental Assistance
Replacement Reserves	Yes	Yes
Surplus Cash	Yes	Yes – more regulated
Mobility	Yes - Greater risk	Yes but limited
Reporting	FASPHA	FASSUB & FASPHA?
Funding stability	OCAF – limited	OCAF
Project flexibility	Yes	Multi-family

Rector, Reeder & Lofton, P.C.

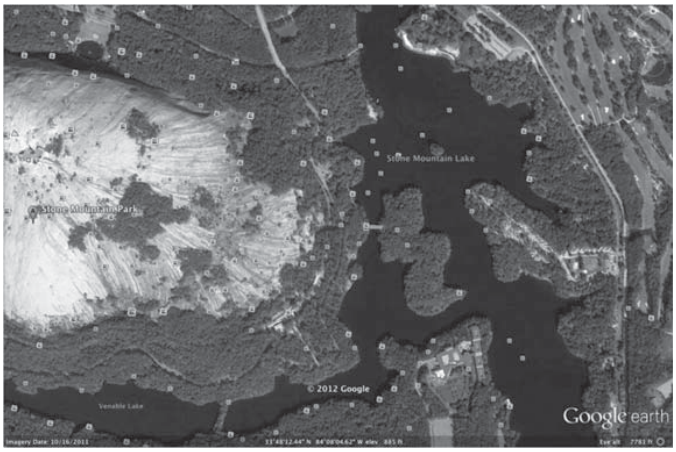
Highest Growth in Affordable Housing?

Low Income Housing Tax Credits

- Developed 2.78 million units in 43,092 projects placed into service from 1987 to 2014.
- Created by the 1986 Tax Reform Act allocating nearly $8 billion in annual budget authority.

Where are the tax credit properties?

- https://lihtc.huduser.gov/



What Are Low Income Housing Tax Credits?

- Tax Credits Are Used To Reduce Federal Income Tax
  - Individuals
  - Corporations
- Federal Government Allocates Credits To Each State Annually
  - $1.95 Multiplied By State Population (2007)
  - State Credit Ceiling

What Are Low Income Housing Tax Credits?

- Available For Rental Housing Only
- Tax Credits Are Claimed By Investors Over A 10 Year "Credit Period"
- 15 Year "Compliance Period" - Project Must Be Rented To Low-Income Tenants
- Extended Use Requirements - 30 Years+
- EB x LIOP x CP x 10 = Credits

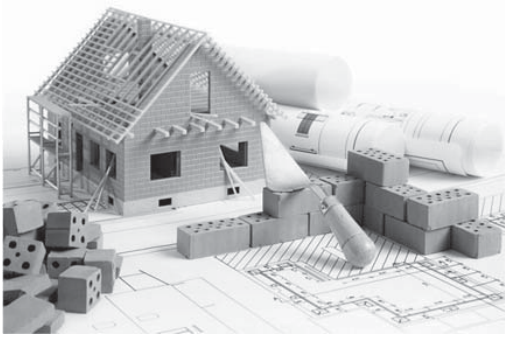
* *EB = Eligible Basis, LIOP = Low Income Occ. % & CP = Current %*

How Are LIHC Projects Funded?

- Equity Sources
  - Public Funds
  - Private Funds
  - Corporations
  - 30-65% Of Project Funded From Equity

How Are LIHTC Projects Funded?

- Balance Of Cost Funded From Debt
  - For-Profit Lenders
  - Federal, State And Local Programs
    - HOME Funds
    - Community Development Block Grants
    - Affordable housing Program
    - Other State And Local Programs



What Does The Developer or Housing Agency Retain?

- Developer Fees
- Contractor Overhead And Profit
- Property Management Fees
- Incentive Management Fees
- Operating Cash Flow
- Sale Or Refinancing Proceeds
- Land
- First Right of Refusal

Typical Tax Credit Waterfall

- Reserves not funded
- Accrued interest
- Repayment of capital loans
- Unpaid Asset Management Fees
- Accrued Management Fees
- Development Fees
- Repayment of operating loans
- Supervisory Management Fees
- Incentive Management Fees
- Distributions to Partners

Why Supervisory & Incentive Fees

- Rewards the entity that initiated the project – oversees the development, and responsible for the developments success verses the tax credit investor who shows up with lawyers and a checkbook.
- Supervisory Fees – oversees the operational success of the partnership operations, provides office space, monitors day-to-day management, maintains books and records.
- Incentive Fees – oversees the financial success.

For a RAD deal without Tax Credit Partners – what could you earn?

- Property Management Fees
- Incentive & Supervisory Fees
- Fully available and fungible Surplus Cash – to the limit of debt obligations

Surplus Cash Computation – no Debt or delinquent reserves

How many RAD properties – or AMPs – converted to being "fully flexible with Surplus Cash can we get to build more affordable housing?

Account	Amount
Accounts payable	15,000
Security Deposits payable	10,000
Tenants prepaid rent	1,000
Accrued expenses	5,000
Total Current Obligations	31,000
Surplus Cash	62,000

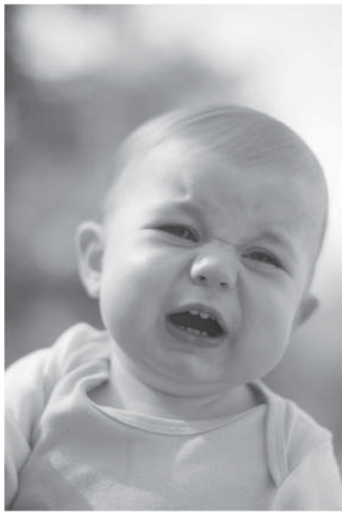
Rector, Reeder & Lofton, P.C.

Organizational Structure

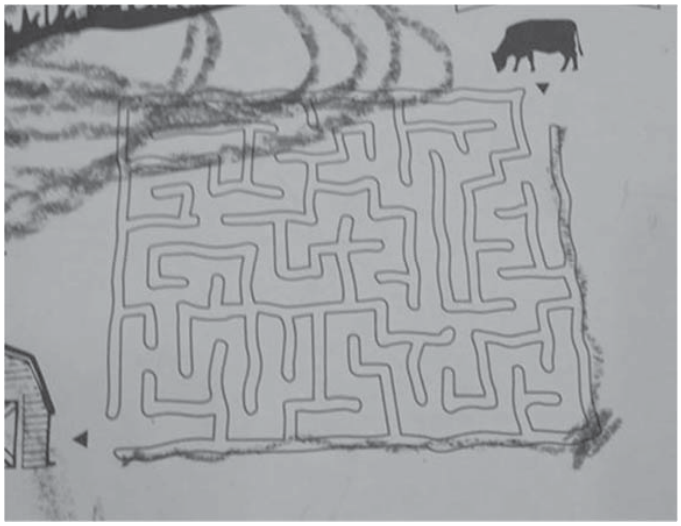
Rector, Reeder & Lofton, P.C.

What Advantage does a PHA have in developing affordable housing?

- Guarantee of the Annual Contributions Contract
- Flexibility with QHWRA
- Automatic tax exemption under the IRS Code
- Receive priority for tax credits
- Receive priority for certain state and federal grants
- Existing relationship with local municipality
- Designated oversight and governance



Strategic Planning for the future



Strategic Planning for the future

- Understand all the tools in the tool shed
- Diversify portfolio – get involved in management of tax credits and other affordable housing
- Pursue tax credits – even without RAD
- Have positive cash flow in ALL properties
- Consolidate and unify with other PHA's in the development of affordable housing nationwide
- Lobby Congress

Section 8

GASB UPDATE

June 2018

GASB UPDATES

- GASB View of Revenue Recognition (Operating/Non-Operating)
- GASB 74/75 in Relation to GASB 84 - Do you have a Fiduciary Fund
- GASB 61 Component Units
- GASB 87 Leases No Easy Way Out

Revenue Recognition

Exchange or Non-Exchange Revenue

GASB FUNDS

- Business Type Activity Proprietary Fund
- GASB Models - We are a small portion of what they deal with on regular basis.
- Common BTA are Hospitals, Housing Authorities and Transit Authorities.

Operating Revenues	
Rental revenues, net	$ 1,288,450
Government grants	**5,282,984**
Other income	1,071,785
Total Operating Revenues	7,643,219

Non-Operating Revenues (Expenses)	
Interest income	82,448
Government grants	**5,282,984**
Interest expense	(776,144)
Total Non-Operating Revenues (Expenses)	4,589,288

Operating Revenue

A – Top Presentation

B – Bottom Presentation

GASB Revenue Definitions

- Exchange or Exchange Type Revenue
  - Each party receives and gives up essentially equal values
- Non-Exchange Type Revenue
  - Government gives (or receives) value without directly receiving (or giving) equal value in return
- Tenant Rent considered Exchange Type Revenue and reported in Operating Revenues
- Grants are Non-Exchange Type Revenue

Grant Revenue

- Non Exchange Type Revenue generally reported as **Non-Operating Revenue**
  - Housing Assistance Payments and Section 8 Admin Fees
  - Public Housing Subsidy
  - Capital Fund Grants
  - ROSS
- GASB 34 Paragraph 102

- Governments should establish a policy that defines operating revenues and expenses that is appropriate to the nature of the activity being reported, disclose it in the summary of significant accounting policies, and use it consistently from period to period. A consideration for defining a proprietary fund's operating revenues and expenses is how individual transactions would be categorized for purposes of preparing a statement of cash flows using Statement 9. Transactions for which cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities normally would *not* be reported as components of operating income.[42] This includes most revenues considered to be nonexchange and exchange-like, such as tax revenues and, in some cases, fees and charges (such as passenger facilities charges).

GASB 34 Paragraph 102 Foot Note #42

Revenue and expense transactions normally classified as other than operating cash flows from operations in most proprietary funds may be classified as operating revenues and expenses if those transactions constitute the reporting proprietary fund's principal ongoing operations. For example, interest revenue and expense transactions should be reported as operating revenue and expense by a proprietary fund established to provide loans to first-time homeowners.

- Cash inflows from operating activities include
  - Cash receipts from grants for specific activities that are considered to be operating activities of the grantor government. (A grant arrangement of this type is essentially the same as a contract for services.)

GASB 9 Paragraph 17

Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds

Revenue Operating or Non-Operating

Operating

Operating Revenues	
Rental revenues, net	$ 1,288,450
Government grants	**5,282,984**
Other income	1,071,785
Total Operating Revenues	7,643,219
Operating Expenses	
Administration	752,036
Tenant services	18,831
Utilities	183,625
Maintenance and operations	518,370
General expense	913,303
Housing assistance payments	4,471,712
Depreciation and amortization	217,586
Total Operating Expenses	7,075,463
OPERATING INCOME (LOSS)	**567,756**
Non-Operating Revenues (Expenses)	
Interest income	82,448
Interest expense	(776,144)
Total Non-Operating Revenues (Expenses)	(693,696)
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	(125,940)
Capital Contributions and Transfers	
Capital contribution	125,000
Total Capital Contributions and Transfers	125,000
CHANGE IN NET POSITION	(940)

Non-Operating

Operating Revenues	
Rental revenues, net	$ 1,288,450
Other income	1,071,785
Total Operating Revenues	2,360,235
Operating Expenses	
Administration	752,036
Tenant services	18,831
Utilities	183,625
Maintenance and operations	518,370
General expense	913,303
Housing assistance payments	4,471,712
Depreciation and amortization	217,586
Total Operating Expenses	7,075,463
OPERATING INCOME (LOSS)	**(4,715,228)**
Non-Operating Revenues (Expenses)	
Interest income	82,448
Government grants	**5,282,984**
Interest expense	(776,144)
Total Non-Operating Revenues (Expenses)	4,589,288
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	(125,940)
Capital Contributions and Transfers	
Capital contribution	125,000
Total Capital Contributions and Transfers	125,000
CHANGE IN NET POSITION	(940)

Statement of Cash Flows

Operating

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from tenants and users	$ 2,058,580
Receipts from operating grants	5,282,984
Payments to suppliers	(1,578,895)
Payments for housing assistance payments	(4,471,712)
Payments to personnel	(1,012,969)
NET CASH FLOW PROVIDED (USED) BY OPERATING ACTIVITIES	277,988
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchases and construction of capital assets	(8,020,437)
Loan proceeds	(365,259)
Investments proceeds	8,823,885
Capital contributions	125,000
Principal and interest payments on debt	(876,144)
NET CASH FLOW PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(312,955)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	82,448
NET CASH FLOW PROVIDED (USED) BY INVESTING ACTIVITIES	82,448
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	47,481
BEGINNING CASH AND CASH EQUIVALENTS	393,434
ENDING CASH AND CASH EQUIVALENTS	$ 440,915

Non-Operating

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from tenants and users	$ 2,058,580
Payments to suppliers	(1,578,895)
Payments for housing assistance payments	(4,471,712)
Payments to personnel	(1,012,969)
NET CASH FLOW PROVIDED (USED) BY OPERATING ACTIVITIES	(5,004,996)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Receipts from operating grants	5,282,984
NET CASH FLOW PROVIDED (USED) BY INVESTING ACTIVITIES	5,282,984
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchases and construction of capital assets	(8,020,437)
Loan proceeds	(365,259)
Investments proceeds	8,823,885
Capital contributions	125,000
Principal and interest payments on debt	(876,144)
NET CASH FLOW PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(312,955)
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BEGINNING CASH AND CASH EQUIVALENTS	393,434
ENDING CASH AND CASH EQUIVALENTS	$ 440,915

- *Revenues.* All revenues are accrued. These revenues consist of user charges for rents, utilities, repairs and other miscellaneous charges. Monies received from customers for security deposits are recorded as a liability upon receipt. Grants, which finance current operations, are reported as operating revenues. Grants, which finance capital purchases, gain/loss on sale of fixed assets, and interest income/expense, are reported as non-operating revenues.

Revenue Note

The key is to state in the notes to the financial statements that grants are operating in nature.

GASB 84 Fiduciary Funds

OPEB could trigger a Fiduciary Fund

GASB 74/75 OPEB

- Effective Dates:
  - GASB 74 - Fiscal Year End June 30, 2017
  - GASB 75 - Fiscal Year End June 30, 2018
- Similar to GASB 67/68 (Net Pension Liability if you have a Trust)
- Big Difference who is holding the assets? Are there any assets?

GASB 74 Trust or Trust Equivalent Arrangement

- Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the OPEB plan administrator. If the plan is a defined benefit OPEB plan, plan assets also are legally protected from creditors of the plan members.

GASB 74

- *Most of GASB 74 only applies for plans administered through trusts in which contributions are irrevocable, trust assets are dedicated to providing OPEB to plan members, and trust assets are legally protect from creditors. If there are assets accumulated, but not through trusts meeting the above criteria, only paragraphs 58 and 59 apply. Those paragraphs indicate that any such assets should continue to be reported as assets of the employer or non-employer contributing entity.*

Fiduciary Fund

- *If you have the assets in a trust fund as just described; then you would have to follow GASB 74 and report those assets and related liabilities of the OPEB as a Fiduciary Fund of the Housing Authority. (new financial statements)*
  - *Stand alone BTA's fiduciary activities should be report in separate fiduciary fund financial statement.*
- *Good news is the NET liability then would appear on your Housing Authority Financial Statements.*
- *If no Trust; then no Netting – Gross Asset and Gross Liability report on the Housing Authority Financial Statements*

GASB 87 Leases

GASB

- Long Term Liabilities that were not being reported on statement of financial position.
- Early Implementation encouraged starts December 31, 2020
  - March 31, 2021 - June 30, 2021 - September 30, 2021

Housing Authority Lease Type Transaction

- Housing Assistance Payments
  - Lease is between HCV tenant and private landlord
- Public Housing Leases
  - Generally 12 month lease renewed annual (tricky)
- LIHTC Land Leases
  - Generally 99 or 50 year lease agreements with LIHTC Partnership
- Government Non-Profit (BCU) Facility Lease
  - Range of lease periods but with related party BCU for office space for federal programs.

Lease Activity and Reporting

Lessor	Lessee
▪ Lease Receivable	▪ Right to Use (Intangible Asset)
▪ Deferred Inflow of Resources	▪ Lease Liability
▪ Interest Income	▪ Interest Expense
▪ Lease Income (amortized of lease period)	▪ Amortization of Right to Use

GASB – Short Term Lease Loophole

- Paragraph #16 Short term lease is 12 months (or less)
- Max life of the lease is the noncancelable period.
- Be careful, if you keep renewing leases - Is your lease really a short term lease?
  - Paragraph #90 Leases between related parties
  - For example, if the lease contract is structured to meet the definition of a short-term lease but the related parties have a mutual understanding that the lease contract will stay in effect for several more years, that lease should not be accounted for as a short-term lease.
- Fiscal funding/cancelation clause not taken into consideration unless reasonably certain of being exercised.

HCV HAP Leases

- No effect

  Lease is between HCV tenant and private landlord, not the housing authority.

Public Housing Leases

- 12 months leases that are regularly extended; time and time again.
- However, since these leases are cancelable, at any time by tenant, they qualify as short term leases. Rolling month to month lease.

Land Leases

- Generally long term noncancelable lease that would make Housing Authority the Lessor.
- Record Lease Receivable for the present value of the payments and corresponding Deferred Inflow of Resources.
- No effect on leased assets, Don't remove or reclass the land.
- Disclosures about general terms of lease, types of assets leased by categories, amortized amounts of lease receivable, amounts of deferred inflow of resources during the period, and 5 year and each five years after amortization schedule.

Related Party Lease with Blend Component Unit

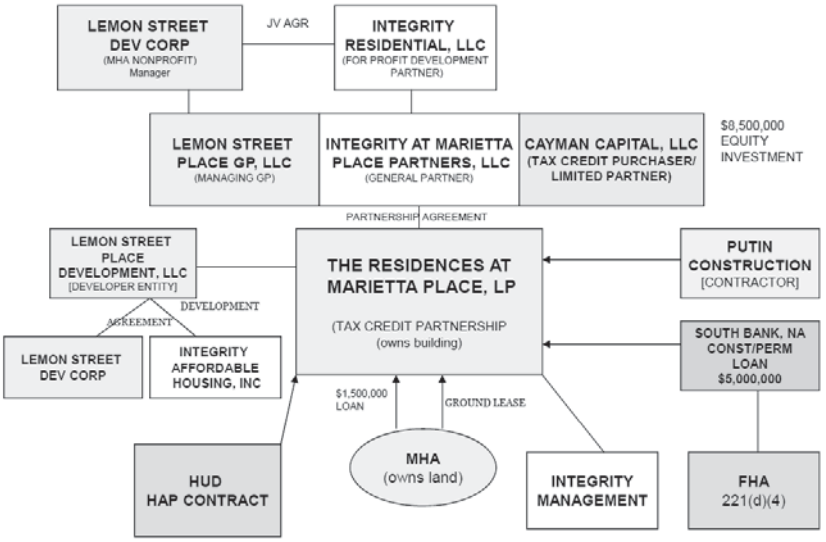
- Generally long term lease that would make Housing Authority the Lessee.
- Record Right to Use for the present value of the payments and corresponding Lease Liability.
- Disclosures about general term of lease, type of assets leased by categories, amortized amounts of lease receivable, and 5 year and each five years after amortization schedule.
- Eliminations during consolidation of BCU with PG.

Effects to the Financial Statements

- New Assets and Liabilities accounts - Statement of Financial Position
- Amortization expenses - Statement of Revenues and Expenses
- Moves activity on Statement of Cash Flows from Operating to Financing Capital Assets.
- Disclosures about term of lease and maturities

GASB 61 Component Unit

Ownership Structure Example



GASB 14 Requirements

- Fiscal dependency – now expanded to financial benefit or burden.
- Blended component units now have additional requirements to be considered “Blended.”

First Decision Tree

- Potential Component Unit – Legally Separate?
  - Non-profit Organization
  - Partnership
- Does the Entity have it's own EIN Number?

BOARD OF DIRECTORS

- Does the Housing Authority appoint the majority of the Board or are the Boards identical?
  - Non-profit Organization (common)
  - PARTNERSHIP (Don't have boards)

Primary Government (HA) Is Financially Accountable If It:

- Appoints Board (NPO)
- Is Able To Impose Its Will On Organization, (GP) or
- Is Potentially Liable For Financial Benefits Or Burden (funding and loans)

Board Override

- If Component Unit is Fiscally Dependent On PG And PG is Potentially Liable For Financial Benefits Or Burdens
  - Operating Loss
  - Operating Revenue

No Board Requirement

Financial Benefit Or Burden

- Any One of the Following:
  - Primary Government (HA) can access organization resources.
  - PG is Legally Obligated to finance deficits or provide support to organization.
  - PG is obligated in some other manner for debt of organization.

Management Override

- If Criteria is Met or it would be misleading to exclude organization (n managements opinion) the entity is a Component Unit.

Blend vs. Discrete

- The Overriding Presumption of GASB is that a Component Unit is a Discretely Presented Component Unit.
- To become a “Blended” Component Unit, it must meet specific requirements to move from Discretely Presented To Blend.

4 Tests To Be “Blended”

1. Organization’s Governing Body substantively the same as PG – PG Decisions Cannot Be Overridden By Organization, or
2. Provides Service Entirely to PG (Internal Service Fund), Or
3. Component Unit’s total debt outstanding is expected to be repaid by Resources Of PG, or
4. Wholly Owned NPO

Only need one

NOTES TO FINANCIAL STATEMENTS

- Brief Description Of Relationship Of Component Unit To Primary Government.
- Discussion Of Rationale For Including CU And Whether It's A Blended Or Discretely Present.
- Finally, How A Separately Issued FS Of CU Can Be Obtained.
- If There Is A Different Fiscal Year End Disclose
  - Go Back 11 Months Or Forward 3 Months

Section 9

Yellow Book Theory

2

HUD / Single Audit

Generally Accepted Government Auditing Standards

Generally Accepted Auditing Standards

Requirements: General

3

- All audit work must be independent and remain objective and impartial.
- Except under limited circumstances, auditors should be independent from an audited entity during:
  - Any period of time covered by the financial statements or subject matter of the engagement
  - Period of professional engagement
- Independence is comprised of:
  - Independence of Mind
  - Independence of Appearance

Conceptual Framework

4

- GAGAS's consideration of independence consists of 4 related sections, providing
  - A conceptual framework for making determinations unique to specific environments; requirements
  - Guidance on independence for organizations structurally located within the entities; requirements
  - Guidance on independence for auditors providing non-audit services; and requirements
  - Guidance on documentation necessary to support adequate consideration of independence

Conceptual Framework, continued

5

- GAGAS's conceptual framework helps auditors identify, evaluate, and apply safeguards to address threats to independence.
- Auditors should reevaluate threats to independence, including safeguards, whenever new information rises or changes.
- If the work of specialists are used, their independence should be assessed.
- Auditors should conclude that independence is impaired if the safeguards are not effective.
- If impaired, auditors should decline engagement.

Identifying & Evaluating Threats to Independence

6

- At a minimum, auditors should identify, assess, and evaluate the following broad categories of threats to independence:
  - Self-interest threat
  - Self-review threat
  - Bias threat
  - Familiarity threat
  - Undue influence threat
  - Management participation threat
  - Structural threat (not applicable to CPA firms)

Applying Safeguards to Eliminate or Reduce Threats

7

- Safeguards are controls designed to eliminate or reduce to an acceptable level threats to independence.
- Under the conceptual framework, the auditor applies safeguards that address the specific facts and circumstances under which threats to independence exist.
- The Yellow Book lists two safeguard categories:
  - Safeguards in the work environment
  - Safeguards created by the profession, legislation, or regulation

Examples of Circumstance Threats

8

Self –Interest Threats	Self-Review Threats	Bias Threats	Familiarity Threats
Audit organization having undue dependence on income from a particular audited entity.	Audit organization issuing a report on the effectiveness of the operation of the systems after design or implement.	Member of the engagement team having preconceptions about the objectives of a program under audit that are strong enough to affect the auditor's objectivity.	Member of engagement team having a close/immediate family member who is a principal or senior manager of the audited entity.
Member of audit team entering employing negotiations with audited entity.	Audit organization having prepared data used to generate records that are the subject of the engagement.		Member of engagement team having close/immediate family who's employed by the entity in a position of significant influence.
Significant error found when evaluating results of previous service provided by auditor's audit organization.	Audit organization providing service or audited entity directly affecting the subject matter of the engagement.	Member of the engagement team having biases associated with political, ideological, or social convictions that result from membership or employment in, or loyalty to, a particular type of policy, group, entity, or level of government that could affect the auditor's objectivity.	Principal/employee of audited entity recently served on the engagement team.
Member of the audit team has direct financial interest in the audited entity.	A member of the engagement team being/recently been, employed by audited entity in a position to significantly influence the subject matter of the engagement.		Auditor accepting gifts or preferential treatment from an audited entity.
			Senior audit personnel having a long association with the entity.

Examples of Circumstance Threats, continued

9

Undue Influence Threats	Management Participation Threats
Influence that could improperly limit/modify the scope of an engagement or threaten to do so, including pressure to reduce the extent of work performed to reduce costs/fees.	Member of the engagement team being, have been, a principal or senior manager of the audited entity.
External interference with selection/application of audit procedures or the selection of transactions examined.	Audit organization principal or employee serving as a voting member, making policy decisions affecting future direction of the program.
Unreasonable restrictions on time allotted to complete an engagement or issue the report.	Audit organization principal/employee recommending a single individual for a specific position key to the entity or program under audit.
External interference over assignment, appointment, compensation, and promotion of audit personnel.	Auditor preparing management's corrective action plan to deal with deficiencies detected in the engagement.
Restrictions on funds or resources provided to the audit organizations adversely affecting the ability to fulfill responsibilities.	**Structural Threats**
Authority to overrule/inappropriately influence auditors' judgment as to the appropriate content of the report.	External/internal auditor organizations, structural placement of the audit function within the reporting line of the areas under audit.
Threat of replacing the auditors over audit report disagreement, conclusions, or application of accounting principle or other criteria.	For internal audit organizations, administrative direction from the audited entity's management.
Influences that jeopardize the auditors' employment for reasons other than incompetence, misconduct, or the audited entity's need for GAGAS engagement.	

Acceptable Threat Level

10

- A threat to independence is not an acceptable level if it either:
  - Could affect the auditors' ability to conduct an engagement without being affected by influences compromising judgment or
  - Could expose the auditors/audit organization to circumstances that would cause a third party to conclude the organization has been compromised.
- Auditors may place limited reliance on client safeguards but they should not rely solely on then to eliminate or reduce threats.

Requirements: Identifying Prohibited Non-audit Services

11

- Before providing non-audit service to an audited entity, auditors should determine if the service provided is a threat to independence and if the entity has an individual that can assume the responsibilities.
- If the entity is unable/unwilling to assume these responsibilities, auditors should conclude that these services are an impairment to independence.
- Auditors should conclude that management responsibilities are impairments to independence.

Application: Identifying Prohibited Non-audit Services

12

- Auditors, while having a range of nonaudit services consistent with their skills/expertise, may create threats to independence.
- Effectively overseeing the service provided is a critical component of determining independence.
- The individual responsible for overseeing the management is required to have sufficient expertise, however, the management is not required to possess a specific skill to re-perform the service

Management Responsibilities

13

- Management responsibilities include:
  - Setting policies and strategic direction for the audited entity;
  - Directing and accepting responsibility for the actions of the audited entity's employees in the performance of their routine, recurring activities;
  - Having custody of an audited entity's assets;
  - Reporting to those charged with governance on behalf of management;
  - Deciding which of the audit organization's or outside third party's recommendations to implement;
  - Accepting responsibility for designing, implementing, or maintaining internal control;
  - Providing services intended for use as management's primary basis for making decisions significant to the engagement;
  - Developing an audited entity's performance measurement system when significant to the engagement; and
  - Serving as a voting member of an audited entity's management committee or board of directors

Routine Activities

14

- Routine activities typically are insignificant in terms of time incurred or resources expended and generally do not result in a specific project/engagement or formal report.
- Routine activities include:
  - Providing advice to the audited entity on accounting matters
  - Providing advice on routine business matters
  - Educating the audited entity on matters within technical expertise
  - Providing information to the entity that is readily available to the auditors

Non-Audit Services

15

- For recurring engagements, having another independent audit organization audit areas affected by the non audit service may provide a safeguard to mitigate a threat to independence.
- A non-audit service otherwise prohibited by GAGAS during the period covered by financial statements may not threaten auditors' independence provided that the following exist:
  - Non-audit service was provided before the period of professional engagement;
  - Non-audit service related only to period prior to the time covered by the financial statements; and
  - The financial statements for the period to which the non-audit service relates were audited by other auditors

Non-Audit Services, continued

16

Auditors providing services for entities conducting GAGAS engagements need assurance that the following functions are performed in connection with non-audit services:	In connection with non-audit services, auditors should establish & document their understanding of the management regarding:
Assumes all management responsibilities	Objectives of the non-audit service
Oversees services, designating an individual, with suitable experience	Services provided
Evaluate the adequacy and results of the services provided	Entity's acceptance of responsibilities
Accept responsibilities for the results of the services	Auditors' responsibilities
	Limitations on the provision of non-audit services

Non-Audit Services, continued

17

- Some non-audit services directly support an entity's operation, and may threaten the auditor's ability to maintain independence.
- Auditors may provide non-audit services without impairing independence: (1) services are not prohibited by GAGAS, (2) specific requirements are met, and (3) significant threats have been eliminated/reduced to an acceptable level.

Preparing Accounting Records and Financial Statements

18

- The following services involving preparation of accounting records impair independence:
  - Determining or changing any records without approval; authorizing/approving the entities transactions; and preparing or making changes to source documents without approval
- Apart from those defined as impairments, related services create significant threats and should be documented to eliminate/reduce. These include:
  - Recording transactions or posting coded transactions; preparing financial statements based on trial balance; posting entries approved to the entity's trial balance; and **preparing account reconciliations that identify reconciling items for evaluation**.
- Management is responsible for the preparation and fair presentation of financial statements.
- Consequently, an auditor's acceptance of responsibility would impair the auditor's independence.

Preparing Accounting Records and Financial Statements, continued

19

- The following internal audit assistance activities impair independence:
  - Setting internal audit policies/strategic direction of activities; performing procedures that form part of the internal control; and determining the scope of the internal audit function and resulting work.
- Providing/supervising ongoing monitoring procedures impairs independence because of the management participation threat is significant.
- Some non-audit services are provided by individuals not directly involved in the operation, making possible for the auditor to provide an objective analysis.

Information Technology Services

20

- IT services impair independence if they include:
  - Designing/developing an entity's financial information or IT system that will play a significant role in the management;
  - Making significant modifications to source code;
  - Supervising audited entity personnel in the daily operation; or
  - Operating an audited entity's network, financial information system, or other IT system
- IT services may aggregate data, form part of internal control, or generate information affecting the subject matter of the engagement.

Appraisal, Valuation, and Actuarial Services

21

- Auditors should conclude independence is impaired (if services involve significant subjectivity, or when combined with other services are material to the financial statements) if activities include:
  - Advisory service
  - Benefit plan administration
  - Business risk consulting
  - Executive or employee recruiting
  - Investment advisory or management

DOCUMENTATION

Documentation

23

- While insufficient documentation does not impair independence, auditors should prepare appropriate documentation under GAGAS requirements. Independence standard includes:
  - Document threats to independence requiring safeguards;
  - Document specific safeguards if an audit organization is located within a government entity and considered independent of said safeguards;
  - Document consideration of management's ability to effectively oversee the service; and
  - Document the auditor's understanding with an audited entity for which the auditor provides non-audit service

PROFESSIONAL JUDGEMENT

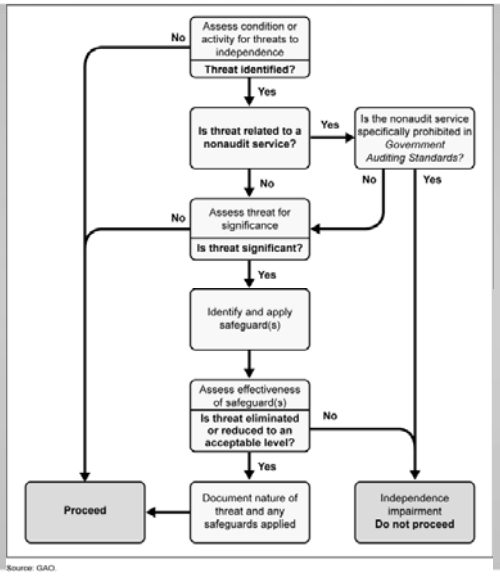
Professional Judgment

25

- Professional judgment includes exercising reasonable care and professional skepticism.
- Professional judgment represents the application of all involved individuals.
- Professional judgment is important in:
  - Carrying out all professional responsibilities
  - Applying the conceptual frame work to determine independence
  - Determining the necessary level of understanding of the subject matter and circumstances
- Professional judgment does not mean eliminating all limitations/weaknesses, but rather identifying, assessing, mitigating, and concluding on them.

GAGAS Conceptual Framework for Independence

26



Section 9a

Independence Evaluation Worksheet

Part I—General Information

Are there threats to independence? Consider the following. Highlight areas with SIGNIFICANT risk in Yellow

Threats					
Self-Interest	**Self Review**	**Bias**	**Familiarity**	**Undue Influence**	**Management Participation**
Audit organization having undue dependence on income from a particular audited entity.	Audit organization issuing a report on the effectiveness of the operation of the systems after design or implement.	Member of the engagement team having preconceptions about the objectives of a program under audit that are strong enough to affect the auditor's objectivity.	Member of engagement team having a close/immediate family member who is a principal or senior manager of the audited entity.	External interference or influence that could improperly limit or modify the scope of an engagement or threaten to do so, including exerting pressure to inappropriately reduce the extent of work performed in order to reduce costs or fees.	A member of the engagement team being, or having recently been, a principal or senior manager of the audited entity.
Member of audit team entering employing negotiations with audited entity.	Audit organization having prepared data used to generate records that are the subject of the engagement.	Member of the engagement team having biases associated with political, ideological, or social convictions that result from membership or employment in, or loyalty to, a particular type of policy, group, entity, or level of government that could affect the auditor's objectivity.	Member of engagement team having a close/immediate family member who is a principal or senior manager of the audited entity.	External interference with the selection or application of audit procedures or in the selection of transactions to be examined.	An audit organization principal or employee serving as a voting member of an entity's management committee or board of directors, making policy decisions that affect future direction and operation of an entity's programs, supervising entity employees, developing or approving programmatic policy, authorizing an entity's transactions, or maintaining custody of an entity's assets.
Significant error found when evaluating results of previous service provided by auditor's audit organization.	Audit organization providing service or audited entity directly affecting the subject matter of the engagement.		Principal/employee of audited entity recently served on the engagement team.	Unreasonable restrictions on the time allowed to complete an engagement or issue the report.	An audit organization principal or employee recommending a single individual for a specific position that is key to the entity or program under audit, or otherwise ranking or influencing management's selection of the candidate.

Threats					
Self-Interest	**Self Review**	**Bias**	**Familiarity**	**Undue Influence**	**Management Participation**
Member of the audit team has direct financial interest in the audited entity.	A member of the engagement team being/recently been, employed by audited entity in a position to significantly influence the subject matter of the engagement.		Auditor accepting gifts or preferential treatment from an audited entity.	External interference over the assignment, appointment, compensation, and promotion of audit personnel.	An auditor preparing management's corrective action plan to deal with deficiencies detected in the engagement.
			Senior audit personnel having a long association with the entity. *There is no specific time limit listed. CPAs make this choice after 4-6 years, in general*	Restrictions on funds or other resources provided to the audit organization that adversely affect the audit organization's ability to carry out its responsibilities.	
				Authority to overrule or to inappropriately influence the auditors' judgment as to the appropriate content of the report.	
				Threat of replacing the auditors over a disagreement with the contents of an audit report, the auditors' conclusions, or the application of an accounting principle or other criteria.	
				Influences that jeopardize the auditors' continued employment for reasons other than incompetence, misconduct, or the audited entity's need for GAGAS engagements.	

Independence Evaluation Worksheet

Part II - Select from the safeguards below that will be applied to eliminate or reduce the threat.

Safeguards	Applied (Yes or No)	Comments
Consulting a professional organization or regulatory authority.	Yes	Contacted Mike Olsen at AHACPA. Also contacted the the AIPCA helpline.
Consulting another auditor.		
Discussing independence issues with those charged with governance of the entity.	Yes	See memo at W/P XXX
Disclosing to those charged with governance the nature of the audit and the nonaudit services provided. The 2011 Yellow Book requires that this be done for all nonaudit services as part of establishing and documenting the understanding of the nonaudit services to be performed prior to the performance of those services (paragraph 3.39 of the 2011 Yellow Book)	Yes	See engagement letter
Assigning separate engagement personnel for the audit and nonaudit service.		
Obtaining secondary reviews of the nonaudit services by professional personnel who were not involved in planning or supervising the audit engagement.	Yes	Secondary review partner is Les Sparks. Reviews are performed on the AFS before release.
Obtaining secondary reviews of audit areas affected by the nonaudit services by professional personnel who were not members of the audit engagement team.	Yes	Secondary review partner is Les Sparks. Reviews are performed on the AFS before release.
Discussing the significance of the threats to management participation or self-review with the engagement team and emphasizing the risks associated with such threats.	Yes	Secondary review partner is Les Sparks. Reviews are performed on the AFS before release.
Educating management on the nonaudit services performed by reviewing and explaining the reason and basis for all significant transactions, as well as authoritative standards, so that management is in a position to determine or approve all assumptions and judgments and take responsibility for the nonaudit services.		
When financial statement preparation is the nonaudit service being performed, determining that there has been review of the financial statements and successful completion of a disclosure checklist by the audited entity.		
For recurring audits, having another independent audit organization perform an audit of the areas affected by the nonaudit service (a "cleansing" audit; see paragraph 3.43 of the 2011 Yellow Book).		
Including the audit engagement as a required engagement quality control review (EQCR) under the audit firm's system of quality control.		

Documentation of Decision

		Additional Comments
Do the safeguards described above, combined with the client SKE documented On the Non-Audit Services tab eliminate or reduce to an acceptable levelthe indicated threats to independence?	**YES or NO**	

Prepared by - Dated

Reviewed by Dated

Sample Housing Project

Nonaudit Services - Documenting Management Responsibilities & SKE

1	1(a)	2	3	4	5
Detailed description of nonaudit services		**Is the nonaudit service specifically prohibited?**	**Will the nonaudit service involve assuming management responsibilities.**	**Threats significant, If "Yes," identify significant threats below and proceed to 5. If "No," indicate N/A in 5 and do not include on independence tab.**	**Are safeguards beyond client SKE required? If yes, document safeguards on the independence tab. REMEMBER, CLIENT SKE ALONE IS AN INSUFFICIENT SAFEGUARD.**
Prepare FS	We will prepare the financial statements, including note disclosure. The client will provide a trial balance to be used in the preparation of the financial statements	No	No	Yes, management participation and self-review threats are significant	See independence tab
Preparing journal entries **other than** proposed audit entries	We will propose and prepare year-end adjusting entries for client. Client management will review and approve all journal entries	No	No	Yes, management participation and self-review threats are significant	See independence tab
Preparing Tax Returns	We will prepare and submit a draft copy of the returns and related returns for management review and approval	No	No	No	No
Complete REAC Submission	We will complete and submit the Electronic submission to management for review and approval	No	No	Yes, management participation and self-review threats are significant	No
Prepare Corrective Action Plan	We provided a draft of the CAP for the client				
Other:					
Other:					

6	7	8	9	10	11
Identify the individual(s) BY NAME designated by the audited entity to oversee nonaudit services.	**Document SKE of the designated individual(s), or provide a working paper reference to separate documentation. (no SKE - No Independence)**	**Document that the audited entity agrees to each of the following: a. Agrees to assume all management responsibilities. b. Will evaluate the adequacy and results of the nonaudit services performed. c. Will accept responsibility for the results of the nonaudit services. Provide a working paper reference to document.**	**List documention showing that the understanding with the audited entity regarding the objectives of the nonaudit services is accepted.**	**List documentation of the understanding established with the audited entity regarding the auditor's responsibilities.**	**Documentation of the understanding established with the audited entity regarding the limitation, if any, on the nonaudit services to be provided.**
Name of Person	Toby has exstensive experience in financial reporting, including 5 years with the entity.	Engagement Letter / Rep Letter	Engagement Letter / Rep Letter	Engagement Letter / Rep Letter	Engagement Letter / Rep Letter
Name of Person	See above. Additionally, we observed here abilities to review and approve JE in prior years.	Engagement Letter / Rep Letter	Engagement Letter / Rep Letter	Engagement Letter / Rep Letter	Engagement Letter / Rep Letter
Name of Person	Toby has significant real estate and tax experience and is designated to review and approve all tax returns and related schedules. Toby has the necessary SKE's to oversee these services.	Engagement Letter / Rep Letter	Engagement Letter / Rep Letter	Engagement Letter / Rep Letter	Engagement Letter / Rep Letter
Name of Person	Toby s familiar with the REAC submitions and has the necessary SKE's to oversee these services.	Engagement Letter / Rep Letter	Engagement Letter / Rep Letter	Engagement Letter / Rep Letter	Engagement Letter / Rep Letter