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PROGRAM GUIDANCE

PROGRAM: ALL PROGRAMS

FOR: Tribal Government Leaders and Tribally Designated Housing Entities

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TOPIC: Suggestions For Procuring an Independent Public Accounting Review

PURPOSE: This Guidance provides suggestions to HUD grant program participants to assist them in procuring Independent Public Accountant (IPA) reviews of financial statements. Program participants in the Indian Housing Block Grant (IHBG), Indian Community Development Block Grant (ICDBG), and other programs, e.g., Rural Housing and Economic Development, are required to obtain an IPA review when they expend more than \$500,000 in federal funds in a single fiscal year. Office of Management and Budget (OMB) Circular A-133, 'Audits of States, Local Governments, and Non-Profit Organizations' and the Single Audit Act of 1984 provide the statutory and regulatory requirements for financial statement reviews. It is to be noted that IHBG recipients are allowed by 24 CFR 1000.546 to use IHBG funds to pay for the costs of having a periodic financial review conducted in those years the recipient is not covered by, or exempt from, the Single Audit Act.

Any inquiries regarding the audit requirements of Circular A-133 should be referred to your Area ONAP.

Attachment

Procuring a Quality Audit

Some of the audit reports reviewed by Area ONAPs have been deficient or below standards. To avoid a substandard audit, the tribe and TDHE may want to consider the following suggestions on how to procure a quality audit (the selection of a qualified auditor is only part of this process):

Step 1: Determine the type of audit needed or possible

There are three types of audit reports that may be obtained. They are the Single Audit (or A-133 audit), Government Auditing Standards (GAS) audit (or a “Yellow Book” audit), and a Generally Accepted Auditing Standards (GAAS) audit.

a) **Single Audit or A-133 Audit:** This type of audit is mandatory for all non Federal entities (including tribes and TDHEs) that expend more than the A-133 threshold (currently set at \$500,000) in a year in Federal awards, [A-133.200 (b)] unless the entity elects to have a program-specific audit conducted according to Circular A-133.200 (c). An A-133 audit covers the entity’s financial statements, internal control systems and compliance with laws, regulations, contract provisions or grant agreements that may have a direct and material effect on each of its major programs. An A-133 audit’s reporting package is required to be submitted to the Federal Audit Clearinghouse (FAC) and to an entity’s cognizant or oversight agency. The report package includes:

- Financial Statements
- Schedule of Expenditures of Federal awards
- Summary Schedule of Prior Audit Findings
- Auditor’s opinion on the financial statements and required supplementary schedules, (i.e. Schedule of Expenditure of Federal Awards, Financial Data Schedule, et al.)
- Report on Internal Control related to the financial statements and major programs
- Report on compliance with laws, regulations and the provisions of contracts or grant agreements, noncompliance that could have a material effect on the financial statements
- Schedule of Findings and Questioned Costs (includes “summary of auditor’s results” and findings in the current and prior year audits).
- Corrective Action Plan
- Data Collection Form

b) **GAS audit (also referred to as a “Yellow Book” audit):** Entities that expend less than the A-133 threshold in a year in Federal awards are exempt from Federal audit requirements for that year. However, a tribe or TDHE may have an audit done in compliance with Government Auditing Standards. While lower in scope than an A-133 audit, it still covers a tribe’s or TDHE’s financial statements, internal control over financial reporting and general compliance with laws, regulations, contracts and grants. The reporting package of this audit should be submitted to the Area ONAP but **not** to the FAC. The Yellow Book audit includes:

- Basic Financial Statements or General Purpose Financial Statements (including all applicable footnotes).
- Footnotes on Summary of Significant Accounting Policies and Federal Non-Cash Assistance.

- Auditor's opinion on financial statements and auditor submitted documents, i.e., Financial Data Schedule.
- Report on Compliance and on Internal Control Over Financial Reporting Based on An Audit of Financial Statements Performed in Accordance with Government Auditing Standards

c) **GAAS Audit:** Entities that expend less than the A-133 threshold in a year in Federal awards can elect to have this type of an audit or the aforementioned Yellow Book audit. The GAAS audit is of a lesser scope than either the A-133 audit or the Yellow Book audit. This audit covers the financial statements only and separate reports are **not** issued for Internal Control and Compliance. *It is HUD's preference that a tribe or TDHE have a Yellow Book audit as opposed to a GAAS audit due to the more comprehensive nature of the Yellow Book audit.*

The GAAS report package does not have to be submitted to the FAC, but should be submitted to the Area ONAP. The package includes the following:

- Basic Financial Statements or General Purpose Financial Statements (including all applicable footnotes)
- Footnotes on Summary of Significant Accounting Policies
- Auditor's opinion on financial statements and auditor submitted documents (i.e. the Financial Data Schedule).

NOTE: Regardless of audit type selected by the tribe or TDHE, the audited financial statements should reflect its entity-wide operation, including component units and/or joint venture activities, in compliance with GASB 14 and GAAP.

Step 2: Plan for the procurement of audit services.

Careful pre-audit planning ensures that the audit objectives are met according to applicable laws, regulations and contractual agreements of the tribe or TDHE. Consult with your audit committee (if one exists) and legal counsel in the proposal development process. In planning for the procurement of audit services, consider the following:

- Federal, tribal and contractual audit procurement requirements
- Requirement for the audit to be conducted according to generally accepted government auditing standards
- Determine how the tribal or TDHE staff can assist auditors in the performance of their audits (i.e. use of the entity's Internal Audit staff or accounting staff)
- Establishment of an auditor selection procedure
- Determine the audit engagement term (one year or multi-year): The first year of an audit engagement usually involves significant start-up costs as auditors devote considerable time to learning about the entity and its internal control process. Using this groundwork, the auditor may be able to perform the audit in less time and at less cost in the succeeding years. If authorized by the Tribal Council or TDHE Board of Directors a multi-year agreement (perhaps a 1-year agreement with the option to extend the agreement for up to 5 years) has two advantages:
 1. Enables an auditor to propose a price that takes into account the savings to be realized in subsequent years, and
 2. Saves the entity the costs associated with repeating the selection process.

- Evaluate the auditor rotation option. Some people argue that changing auditors at the end of a multi-year contract infuses the audit process with fresh views and new perspectives. Others contend that these benefits can be achieved through internal rotation of audit staff and that maintaining a long-term, ongoing relationship with a particular auditor is more advantageous. A long-term relationship with an auditor, however, will not necessarily enable the entity to utilize appropriate competition to help ensure reasonably priced audits. It makes sense to carefully consider the advantages and disadvantages of auditor rotation as well as applicable legal requirements before setting a policy. *It is HUD's position that auditor rotation is healthy for an organization. It helps preserve auditor independence and provides a fresh "pair of eyes" to ensure objectivity in the examination of financial statements*

Entities without an audit committee may want to seek the assistance of other government personnel with specialized knowledge of accounting and auditing (i.e., the state CPA society). Please see the following link to CPA state societies all over the United States at: <http://www.aicpa.org/states/info/index.htm>.

NOTE: To allow sufficient time for the initiation and completion of the auditor procurement process, the tribe or TDHE should start the preparation of the Request for Proposals (RFP) at least 8 months prior to the fiscal year-end date. In writing the RFP, consult with your purchasing office and/or legal counsel to ensure that it conforms to the laws, regulations, grant terms and contractual provisions of your entity. It is critical that your audit objectives are clearly defined to obtain an accurate proposal from potential auditors. At a minimum, the RFP should contain the elements listed in "Appendix A."

Step 3: Obtain proposals from Independent Public Accountants (IPAs).

a. There are several ways to procure goods and services set forth in 24 CFR 85.36(d), but the preferred, recommended and most reliable method for professional services, such as audit services, is discussed in 85.36(d)(3) – *Procurement by competitive proposals*. . In this method, the tribe or TDHE publishes its RFP and provides copies directly to known interested firms. If this procurement method is used the following requirements apply: 1) RFPs will be publicized including all evaluation factors and their relative importance; 2) the tribe or TDHE must have a method for conducting technical evaluations of the proposals and selecting the winning proposal; 3) proposals will be solicited from an adequate number of sources; and 4) contract will be awarded to a responsible firm whose proposal is the most advantageous to the program when price and all other factors have been considered. As aforementioned, the critical elements of an RFP are listed in "Appendix A."

Regardless of the procurement method chosen, consider having a pre-proposal conference – invite all prospective auditors to this conference. This is a perfect opportunity to obtain additional information from these firms and also to provide information that may have been omitted or overlooked in the written procurement package. Bringing all prospective auditors together at the same time to hear the same information helps ensure that they are treated equally. This is especially important since unsuccessful proposal submitters may challenge the procurement if their competitors were given significantly different or more information. Lists of potential auditors may be obtained from general and professional directories and from your past experiences with audit firms. Review the listing to ensure it includes small businesses, minority-owned firms, and women's business enterprises so that they are made aware of any audit opportunities (24 CFR § 85.36(e)). Maintaining an updated list makes it easy to distribute your procurement package to auditors that are most likely to be interested in performing the audit.

Smaller tribes and TDHEs may have minimal audit requirements and preparing a detailed RFP may be economically impractical. At a minimum, the RFP of a small tribe or TDHE

should clearly define the work to be done, including the reporting package required from the auditor. Remember, however, to review the applicable laws, regulations, and grant conditions to ensure that both the procurement process and the audit itself will meet the legal and contractual requirements of your entity. For smaller housing agencies located in rural areas, obtaining an extensive list of potential auditors may be difficult. Soliciting a list from nearby tribes, TDHEs and Public Housing Authorities and from the CPA society in the region is often helpful.

NOTE: Regardless of method used, the tribe or TDHE should document each step in the procurement process.

Step 4: Evaluate the proposals received. Select and interview qualified candidates.

In procuring audit services, tribes or TDHEs should follow the procurement standards prescribed by laws, rules and regulations applicable to the entity. To spare your entity the needless and time-consuming technical evaluation of prospective auditors, the proposal should be screened based on the minimum technical standards established by the tribe or TDHE. The evaluation criteria commonly used include, at a minimum:

- A prospective auditors responsiveness to the RFP
- The IPA's competency requirements set forth by Government Auditing Standards (GAS) and/or Generally Accepted Auditing Standards (GAAS) including the qualifications of the staff assigned to the engagement. Specific GAS competency requirements are found in the 2003 revision of Government Auditing Standards pages 52 through 54. Listed below are some of the "tough" questions that can be posed to a prospective IPA:
 - *Are you licensed in the State that the tribe/ TDHE is located?*
 - *How many tribes or TDHEs have you audited?*
 - *How experienced and credentialed is the staff that will be involved in the audit?*
 - *Are the "in-charge" people (Senior Accountants, Managers etc.) CPAs?*
 - *What has been the total amount of time spent on fieldwork on each tribe or TDHE of similar size audited in the past by our firm? (If an auditor spends 1 to 2 days doing an A-133 audit, this is an alarm bell).*
 - *Have you had a quality assurance review done by the Public and Indian Housing/Real Estate Assessment Center Quality Assessment Sub System division or by any other governmental authority? If so, please submit a copy of the report on this review. (If a potential auditor refuses to supply a copy, the potential auditor should be found to be non-responsive to the RFP and the proposal rejected.)*
- Evidence that the auditor or audit firm is capable of performing the audit (relevant experience of the auditor in auditing entities similar to the tribe or TDHE).
- Evidence that the independence standards are met. The General Accounting Office issued new GAS independence standards in January 2002, which are effective for audit periods beginning on or after January 1, 2003. The new standards on independence are presented in the Yellow Book on pages 27 through 29 of the June 2003 revision of Government Auditing Standards (See Program Guidance 2002-02 (Recip) dated February 1, 2002).
- Proof that the auditor has had a satisfactory external peer review within the 3-year timeframe as required by Generally Accepted Government Auditing Standards. To

meet this requirement, the auditor should submit a copy of the peer review report. *(If a potential auditor refuses to supply a copy, the potential auditor should be found to be non-responsive to the RFP and the proposal rejected.)*

Although the price for the work to be performed is a factor in the selection of a qualified auditor, it is more likely to get a high quality audit at a fair price if both price and technical ability are taken into consideration in the selection process. **Accordingly, the lowest price does not guarantee a quality audit.** Comparing your entity's requirements with the potential auditors' plans, skills, experience, commitment, and understanding of the audit requirements before reviewing their price proposals will help you select the auditor that can provide the best audit at the fairest price.

Note: The review of the auditor's proposal and qualifications in response to the RFP should be thorough, uniform, and well documented. A committee or board, which, to the greatest extent possible, includes a person or persons with the appropriate technical skills, should conduct the review and auditor selection process. The reviewers must not have any conflicts of interest with the prospective auditors under review, such as family relationship, close friendship or business partnerships. To allow enough time to select a qualified auditor, the interview process must be conducted at least 4 to 5 months prior to the tribe's or TDHE's fiscal year end. The award must be made to the responsible entities whose proposal will be the most beneficial to the tribe or TDHE, considering price and other factors. Unsuccessful entities that submitted proposals should be promptly notified.

Step 5: Document the Agreement.

Before prospective auditors spend time assessing the nature of the job and estimating its costs, make it clear that you expect to sign a formal document at the culmination of the proposal process. **Auditors unwilling to commit themselves to signing such a document must be avoided.** To foster sound and productive communication and to avoid misunderstandings, both parties must agree in writing on important audit-related matters. Please refer to Appendix "B."

Note:

A signed agreement represents a contract and is binding upon both parties. For that reason, when drafting the agreement, seek the advice of your purchasing office or legal counsel on the agreement's form and substance.

Step 6: Monitor the progress and evaluate the quality of the audit.

- The Audit Committee (if one exists) should review the progress of the audit to address and resolve any issues identified in the process. This not only improves the quality of the audit product but also enhances the auditor and tribe's or TDHE's working relationship.
- Require status reports from the auditor and holding regular meetings to discuss problems that need to be resolved is prudent monitoring.
- Determine if the auditors adhere to the generally accepted government auditing standards (GAGAS) to ensure a quality report from the auditor.
- Small tribes and TDHEs who do not have an audit committee to monitor the auditor's work should seek the assistance from people outside the organization.
- The ideal monitoring "time clock" would be as follows:
 - Audit Planning: 6 months before the end of the Fiscal Year End (FYE).
 - Completion of Fieldwork: 3 months after the end of the FYE

- Transmission & acceptance by Federal Audit Clearinghouse: 7 months after the FYE
- Distribution of the audit: 7 ½ months after the FYE.

III Audit Procurement Timeline

Step 1: Determine the type of audit needed 8 months prior to FYE date

Step 2: Plan for the procurement of audit services –write the RFP 8 months prior to FYE date

Step 3: Obtain proposals from potential IPAs 5 to 6 months prior to FYE date

Step 4: Evaluate proposals received and select the qualified auditor 4 to 5 months prior to FYE date

Step 5: Document the Agreement 2 to 3 months prior to FYE date

Step 6: Monitor the progress and evaluate quality of the audit ongoing until end of audit.

Red Flags and Warnings:

- Cheapest is not the best. Be wary of very low, unrealistic proposed prices.
- Auditors completing an A-133 audit with only a few days of on-site fieldwork.
- Auditors that perform audits in many different states. There may be a licensing problem.
- Auditor having no experience in tribal and/or TDHE audits.

IV Auditee and Auditor responsibilities

Auditee (tribe or TDHE) Responsibilities

1. Per OMB Circular A-133 at:

<http://www.whitehouse.gov/omb/circulars/a133/a133.html>

- a. Provide Federal program related information: Federal awards received and expended including the Catalog Federal Domestic Assistance (CFDA) title and number, award number and year, name of the Federal agency, and the name of the pass-through entity (A-133.300 (a)). CFDA titles and numbers may be obtained at http://12.46.245.173/pls/portal30/CATALOG.AGY_PROGRAM_LIST_RPT.show
- b. Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs (A-133.300 (b)).
- c. Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs (A-133.300(c)).
- d. Prepare the appropriate financial statements including the schedule of expenditure of Federal awards according to OMB Circular A-133.310 (A-133.300 (d)).
- e. Ensure that the required audits are properly performed and submitted timely (A-133.300 (e)).
- f. Follow up and take corrective action on audit findings, including preparation of a summary schedule of prior audit findings and a corrective action plan according to OMB Circular A-133.315 (b) & (c) (A-133.300 (f)).

- g. Submit the audit report package to the Federal Audit Clearinghouse within the earlier of 30 days after receipt of the audit report or 9 months after the end of the audit period, (A-133.320). The mailing should contain a copy of audit report package for the Federal Audit Clearinghouse and for each Federal awarding agency when either the schedule of findings and questioned costs or the summary schedule of prior audit findings contains a finding or the status of a finding relating to a Federal award provided by the Federal awarding agency. The audit report package consists of 1) financial statements and schedule of expenditures of Federal awards; 2) summary schedule of prior audit findings; 3) auditor's report; 4) corrective action plan; and 5) the data collection form required by the Federal Audit Clearinghouse.

2. **Per 24 CFR Part 85.20 at:**

http://a257.g.akamaitech.net/7/257/2422/12feb20041500/edocket.access.gpo.gov/cfr_2004/aprqttr/pdf/24cfr85.20.pdf

- a. Financial Reporting: Disclose accurate, current and complete financial results of federal assisted Programs.
- b. Accounting Records: Identify the source and application of funds provided for federal assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.
- c. Internal Controls: Maintain effective controls and accountability for all grant and subgrant cash, real and personal property, and other assets, including safeguards for such property and assurance that the property is used solely for authorized purposes.
- d. Budget Controls: Compare actual expenditures to budgeted amounts for each grant or subgrant. Financial information must be related to performance or productivity data.
- e. Allowable Cost: Ensure that funds are expended according OMB cost principles contained in OMB Circular A-87, program regulations and the grant and subgrant agreements.
- f. Source Documentation: Maintain source documents and files, such as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, that support the financial transactions recorded in the accounting records, providing an adequate audit trail.
- g. Cash Management: Follow procedures that minimizing the time elapsing between draw down of funds and disbursement of grant funds by grantees and subgrantees. HUD's accepted standard is that funds should be expended within 3 days of receipt from the Line of Credit Control System.

3. **Per Statement on Auditing Standards No. 85**

Prepare Management Representation Letter. This is the auditee's written representations on financial statements under examination by the auditor. According to generally accepted auditing standards (GAAS), the auditor requests this document from the auditee prior to the conclusion of the audit.

NOTE: Representation letters can become legal documents used in legal proceedings. The person signing the letter should clearly understand the representations being made.

4. **Per 24 CFR 1000.548 at** <http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&sid=18c3f8fdffa77965e37c45d15e56390&rgn=div5&view=text&node=24:4.0.3.1.27&idno=24-24:4.0.3.1.27.6.41.26>

Submit a copy of the latest audit report with the Annual Performance Report. Because of the due dates of both reports, the audit report would be submitted with the subsequent year's Annual Performance Report. For example, the audit report for the fiscal year ending September 30, 2004 would be submitted with the Annual Performance Report for the year ending September 30, 2005 which would be due November 29, 2005. Recipients are requested to submit the audit report as soon as possible.

Auditor Responsibilities

1. **Per OMB Circular A-133 at:** <http://www.whitehouse.gov/omb/circulars/a133/a133.html>
 - a. General responsibility, A-133.500 (a): The audit shall be conducted according to GAGAS. The audit shall cover the entire operations of the auditee.
 - b. Financial Statements, A-133.500 (b): The auditor shall determine whether the auditee's financial statements are fairly presented in all material respects in conformity with generally accepted accounting principles (GAAP). The auditor shall also determine whether the Schedule of Expenditure of Federal awards is presented fairly in all material respects in relation to the auditee's financial statements taken as a whole.
 - c. Internal Control, A-133.500(c): In addition to the requirements of GAGAS, the auditor shall perform procedures to obtain an understanding of the auditee's internal control systems.
 - d. Compliance, A-133.500(d): In addition to the requirements of GAGAS, the auditor shall determine whether the auditee has complied with laws, regulations, and the provisions of contracts or grant agreements that may have a direct and material impact on each of its major programs.
 - e. Audit Follow-up, A-133.315 (b): The auditor shall follow-up on prior audit findings; perform procedures to assess the reasonableness of the summary of schedule of prior audit findings prepared by the auditee.
 - f. Data Collection Form, A-133.320 (b)(3): The auditor shall complete and sign specified sections of the data collection form.
 - g. Audit Reporting, A-133.505: The auditor's report shall include:
 - i. An opinion on financial statements and schedule of expenditure of Federal awards
 - ii. A report on Internal Control
 - iii. Report on compliance
 - iv. A schedule of findings and questioned costs
 - v. Determine the tribe's or TDHE's major programs, (A-133.520).
 - vi. Adherence to standards set forth by generally accepted auditing standards (GAAS) and the generally accepted government auditing standards (GAGAS).

Appendix A

Elements of A RFP

- 1) Auditee's general information – name and address, contact person within the tribe's or TDHE's organization and telephone number;
- 2) The purpose of the RFP;
- 3) Proposal Format Required – how an IPA should submit its proposal, the proposal format, where to submit the proposal, number of copies required, and date and time of proposal's due date;
- 4) Proposal Evaluation Process - description of how the proposals will be evaluated stating minimum technical requirements from the auditor, relevant experience, and price. Below are items that may be evaluated:
 - a. Professional and technical qualification of the auditor and staff assigned to the engagement
 - b. Relevant audit experience
 - c. License requirements in the state where the audit will be conducted
 - d. Independence
 - e. Compliance with applicable requirements for peer review and professional continuing education
 - f. Results of workpaper review by Federal agency (e.g., HUD's Real Estate Assessment Center)
- 5) Audit period, timetable and deliverables;
- 6) Description of tribe's or TDHE's accounting control systems;
- 7) Description of Internal Control System and any known weaknesses;
- 8) Federal funding information;
- 9) Results of prior audits including the types of auditor opinions rendered on the financial statements and compliance with Federal laws and regulations, contracts and grants; identification of audit findings, etc. This information is necessary for prospective auditors to gain an understanding of whether your organization may qualify for 'low risk auditee' status, including a general understanding of the Federal programs that may need to be audited, and specific reports to be delivered.
- 10) Services required from the auditor and the auditing standards (GAGAS and/or GAAS) required for the engagement;
- 11) The level of responsibility that the IPA will have for each part of the financial statements;
- 12) Description of additional services required of the auditors;
- 13) Auditee's staff that will be available to the auditors;
- 14) Description of procedures necessary to determine if additional audit work is needed and the fee basis for such work;
- 15) Description of additional information required from the auditor:
 - a. References from other governmental clients;
 - b. Information on prior peer reviews;

- c. Status of any disciplinary action taken against the IPA, if any;
 - d. Information on how the audit will be conducted in a single year or multi year engagement.
- 16) Tribe's or TDHE's policy toward joint proposals or subcontracting;
- 17) Tribe's or TDHE's right to reject proposals, demand additional information and use information from unsuccessful proposals for other purposes;
- 18) Additional language needed to meet the requirements of applicable laws and regulations.

Appendix B

Elements of Engagement Letter, Contract between Entity and Auditor

- 1) Names and parties to the contract
- 2) Audit schedule
- 3) Reporting package and its format
- 4) Auditor/Auditee relationship regarding changes in the kind or amount of work required, and access to and ownership of audit work products, examples:
 - a. At any time, the entity may, by written notice, make changes in or additions to work or services within the general scope of the agreement. If such changes are made, an equitable adjustment will be made in the cost of the audit using the rates specified in the agreement.
 - b. If the auditor believes that a change in the additional work is beyond the general scope of the agreement, it must notify the entity in writing within a specified time and before beginning that work. The agreement should indicate where the final administrative authority rests in deciding disputes.
 - c. Audit Work Papers: the work papers prepared by the auditor during the audit are its own property. These documents should be retained for a period to be designated in this agreement. Copies of these work papers (if requested) are to be made available to the entity and governmental auditors or regulators. All reports rendered to the entity by the auditor are the exclusive property of the entity and subject to its use and control, according to applicable laws and regulations.
 - d. The objective of the audit is the expression of an opinion on the financial statements.
 - e. Tribal or TDHE management is responsible for the financial statements.
 - f. Tribal or TDHE management is responsible for establishing and maintaining effective internal control systems.
 - g. Tribal or TDHE management is responsible for identifying and ensuring that the entity complies with applicable laws and regulations.
 - h. Tribal or TDHE management is responsible for making all financial records and related information available to the auditor.
 - i. At the conclusion of the audit, tribal or TDHE management will provide the auditor with a letter that confirms certain representations made during the audit (Management Representation Letter).
 - j. The auditor is responsible for conducting the audit in accordance with generally accepted auditing standards (GAAS) and/or generally accepted governmental auditing standards (GAGAS).
 - k. That the audit includes obtaining an understanding of the auditee's internal controls sufficient to plan the audit and to determine the nature, timing, and extent of audit procedures to be performed. An audit is not designed to provide assurance on internal control or to identify reportable conditions. However, the auditor is responsible for ensuring that the audit committee is aware of any reportable conditions that come to its attention.

- l. Tribal or TDHE management is responsible for adjusting the financial statements to correct material misstatements and for affirming to the auditor in the representation letter that the effects of any uncorrected misstatements aggregated by the auditor are immaterial, both individually and in the aggregate.
- m. Arrangements regarding the conduct of the engagement, e.g., timing, client assistance, availability of documents and use of specialists or internal auditors.
- n. Arrangements involving a predecessor auditor, fees, expense reimbursement and payment schedule.
- o. Any limitation of or other arrangements regarding the liability of the auditor or the tribe or TDHE.
- p. Conditions under which third parties may be granted access to the auditor workpapers.
- q. Provision of services relating to regulatory requirements or other non-audit services.

Summary of Important Points

- HUD takes audits very seriously. A tribe's or TDHE's audited financial report has to be prepared according to GAAP and submitted to the FAC 9 months after its fiscal year end date according to the requirements of A-133, et al.
- Regardless of audit type selected by the tribe or TDHE, the audited financial statements should reflect entity-wide operations, including component units and joint venture activities according to the requirements of GASB 14 and GAAP.
- On non A-133 audits, HUD prefers a Yellow Book audit as opposed to a GAAS audit, due to the higher level of audit procedures encompassed with the Yellow Book audit.
- It is ONAP's position that auditor rotation is healthy for the organization. It helps preserve auditor independence and provides a fresh "pair of eyes" to ensure objectivity in the performance of the audit. Therefore, if a tribe or TDHE plans to have a new auditor, the RFP has to be prepared at least 8 months prior to the entity's fiscal year end date.
- In writing the RFP, the tribe's or TDHE's legal counsel and procurement officer should be consulted to ensure that the RFP is written according to laws, regulations, grant terms and contractual provisions of the entity.
- Regardless of method used, the tribe or TDHE should properly document the RFP process.
- Person or persons reviewing the RFP and selecting and interviewing qualified auditors must not have any conflicts of interest with entities under review such as family relationship, close friendship or business partnerships.
- Award must be made to the responsible entity whose proposal will be the most beneficial to the tribe or TDHE, considering price and other factors. When the award is made to a responsible entity not having the lowest price, the tribe or TDHE must document its reason for not selecting the lowest price. Unsuccessful proposal submitters should be promptly notified. (NOTE: the lowest price does not guarantee a quality audit).
- Monitor the progress of the audit to ensure a quality and timely completion of the audit. (If an auditor spends only 1 day doing an A-133 audit, this is an alarm bell.)

- Tribe or TDHE should make an effort to transmit its audited report to the FAC at least 1 or 2 months prior to its submission due date to allow time to resolve any issues noted by reviewers of the report.

Resources:

- OMB A-133, - Audits of States, Local Governments, and Non-Profit Organizations located at: <http://www.whitehouse.gov/omb/circulars/a133/a133.html>
- Government Auditing Standards (2003 Revision) also referred to as the 'Yellow Book' published by GAO located at: <http://www.gao.gov/govaud/yb2003.pdf>
- Mid-America Intergovernmental Audit Forum, "Choosing an External Auditor": http://www.auditforum.org/mid_america/midam_exauditor.htm
- 24 CFR Part 85 at: http://www.access.gpo.gov/nara/cfr/waisidx_04/24cfr85_04.html
- 24 CFR Part 1000 at: <http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&sid=17932f60376fdc941a2168b20b0f5e2f&rgn=div5&view=text&node=24:4.0.3.1.27&idno=24>
- OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments (revised 5/2004) located at: http://www.whitehouse.gov/omb/circulars/a087/a87_2004.html
- Single Audit Act of 1984, P.L. 98-502, and the Single Audit Act Amendments of 1996, P.L. 104-156 located at: <http://www.ignet.gov/single/saamend.html>