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PROGRAM GUIDANCE

PROGRAM: Indian Housing Block Grant (IHBG)

FOR: All Tribal Government Leaders and Tribally Designated Housing Entities (TDHE)

FROM: Ted Key, Acting Deputy Assistant Secretary, PN

TOPIC: Requirement for Bad Debts; Office of Management and Budget's Circular A-87

PURPOSE: This guidance is issued in response to the Office of Inspector General's Nationwide Audit of the Implementation of the Native American Housing Assistance and Self-Determination Act (NAHASDA) of 1996, in which they recommend that we notify you of the requirements for bad debts contained in the Office of Management and Budget (OMB) Circular A-87 (A-87), Cost Principles for State, Local and Indian Tribal Governments.

BACKGROUND: Circular A-87 establishes principles and standards for determining costs for Federal awards carried out through grants, cost reimbursement contracts, and other agreements with State and local governments and federally recognized Indian tribal governments (governmental units). Item number 7 of Attachment B of the circular states, "Any losses arising from uncollectible accounts and other claims, and related costs, are unallowable unless provided for in Federal program award regulations."

Under the U.S. Housing Act of 1937, at 24 CFR 950.434(b), HUD permitted collection losses due to payment delinquencies on the part of homebuyer families whose Mutual Help Occupancy (MHO) Agreements were terminated and who had vacated the home.

APPLICABILITY OF A-87 TO NAHASDA: The Indian Housing Block Grant (IHBG) Program under NAHASDA does not provide for write-off of collection losses or for any other bad debts the recipient may incur.

ACCOUNTING FOR BAD DEBTS: There is no such thing as "writing off" bad debt from an accounting standpoint. The debt may be forgiven and the books closed, but it never goes away.

You may establish an allowance for uncollectible receivables to account for reasonably anticipated uncollectible accounts inherent in accounts receivable balances. Generally Accepted Accounting Principles (GAAP) addresses this issue

by establishing a reserve for un-collectable accounts to better reflect the real value of an organization's assets.

REPORTING: Ensure that the amounts deemed uncollectible from tenants and homebuyers are not included in expenses reported on the Federal Cash Transaction Report, form HUD 272-I; Annual Performance Report, form HUD 52735-AS, or any other report submitted to HUD. Additionally, these amounts should be clearly identified as unallowable costs on the recipient's audit reports and any indirect cost rates must include the unallowable costs in the base. All unallowable costs and associated costs must be excluded from the pool.

CONCLUSION: Losses associated with uncollectible accounts are not allowed under OMB Circular A-87, and the IHBG Program does not provide for losses from bad debts. Funds may not be drawn down from the Line of Credit Control System (LOCCS) for unallowable costs and Federal funds may not be used to reimburse the recipient for these costs.

If you need additional information, please contact your Area Office of Native American Programs.