

U. S. Department of Housing and Urban Development

Office of Public and Indian Housing

Special Attention of:

Notice PIH 2003-6 (TDHEs)

ONAP Administrators;
Tribes; and Tribally
Designated Housing Entities

Issued: February 19, 2003

Expires: Indefinite

Cross Reference: 24 CFR Part 1000,
24 CFR Part 85, OMB Circular A-87
and OMB Circular A-133

Subject: Applicability of GAAP to ONAP Grantees

1. **Purpose:** This Notice provides guidance on generally accepted accounting principals (GAAP) and on the financial statement presentation requirements for participants in the Indian Housing Block Grant (IHBG) Program, Indian Community Development Block Grant (ICDBG) Program and other programs administered by the Office of Native American Programs (ONAP). This Notice also serves to clarify and/or correct advice that recipients may have received regarding applicability of GAAP to their costs and accounting systems.
2. **Background:** The IHBG Program is authorized by the Native American Housing Assistance and Self-Determination Act of 1996 and the regulations governing the program are found at 24 CFR Part 1000. Title 24 CFR §1000.26(a) requires recipients to comply with the requirements and standards of Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*. Recipients are required by 24 CFR §1000.544 to comply with the requirements of the Single Audit Act and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

The ICDBG Program is authorized by Title I of the Housing and Community Development Act of 1974 and the regulations governing the program are found at 24 CFR Part 1003. Recipients are required by 24 CFR §1003.501(a) to comply with the requirements and standards of OMB Circular A-87 and OMB Circular A-128, *Audits of State and Local Governments*. OMB Circular A-128 was rescinded with the re-issuance of OMB Circular A-133 effective July 1, 1996.

Other programs administered by Indian tribes or their designated grant recipients also require compliance with the requirements and standards contained in OMB Circulars A-87 and A-133.

The Office of Inspector General's report titled *Nationwide Audit of Implementation of the Native American Housing Assistance and Self-Determination Act of 1996* issued on August 2, 2001, states that:

“Housing Entities do not prepare financial statements based on uniform accounting standards for all financial statement elements. As a result, external auditors present financial statements based on differing standards, and HUD has no basis for evaluating and comparing the financial condition of Housing Entities.”

3. Program Guidance:

- a. **Determining Costs** - Attachment A to OMB Circular A-87 in paragraph C provides:

“Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria: ... g. Except as otherwise provided for in this Circular, be determined in accordance with generally accepted accounting principles.”

Costs claimed under a Federal grant that have not been determined according to GAAP will be questioned and may subsequently be disallowed. To preclude costs being disallowed for this reason, grant recipients must assure that costs charged to a Federal program are determined according to GAAP.

- b. **Financial Statement Presentation** - OMB Circular A-133 provides at Subpart E _____.500(b) that an:

“auditor shall determine whether the financial statements of the auditee are presented fairly in all material respects in conformity with generally accepted accounting principles.”

One of the conditions necessary for an entity to receive an unqualified audit opinion is that the auditor must determine that the financial statements have been prepared according to GAAP and the statements fairly represent the recipient's assets, liabilities, equity, income and expenses. The accounting system developed for Indian Housing Authorities by HUD under the 1937 Housing Act did not conform to GAAP; therefore if the housing entity continues to use that system the auditor must decide whether an unqualified, a qualified, or an adverse opinion should be issued. An unqualified opinion can be issued if the departure from GAAP is not significant to the fair presentation of the financial statements. If the departure affects the fairness of the financial statements but overall the statements can be relied on, a qualified opinion can

be issued. When the departure is so significant that the financial statement should not be relied on, an adverse opinion must be issued. When a qualified or an adverse opinion is issued, an explanatory paragraph must be included that describes the departure from GAAP and its effects, if determinable, on the financial statements.

The effect on the recipient of an audit with a qualified or adverse opinion is that third party readers (Federal government representatives, bankers, lenders, non-profit organizations and tribal constituency) of the financial statements will place less reliance on financial statements that have a qualified or adverse opinion than those financial statements that have an unqualified opinion. Entities that have financial statements that receive a qualified or adverse opinion may be asked to present additional information to support their financial position.

4. **Summary:** Grant programs funded through HUD to Indian tribes, including the IHBG and ICDBG programs, are required to determine costs according to GAAP and to present their financial statements in conformity with GAAP. An informal survey of grant recipients indicates most tribes and tribally designated housing entities are meeting this standard or are in the process of converting their accounting systems to comply with GAAP. Grant recipients who are not maintaining their accounting systems according to GAAP should work with their accounting professional to plan and implement the conversion of their system in an orderly fashion.

/s/
Michael Liu, Assistant Secretary for Public
and Indian Housing

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PNPE GAAP Fin Statement
PNPE Gary Murphy

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Notices\2002\GAAP Fin Statement 9/23/02 675-1600

Concurrences and dates:

PNPE	PNPG	PNPE	PNPG
MURPHY	QUINLAN	KNOTT	LALANCETTE