

# PIH/Real Estate Assessment Center



## PROCURING AN AUDIT (GAAP Flyer #6)

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# GAAP Flyer #6: Procuring an Audit

## I Background

### What is an audit?

As defined by the *Statement on Auditing Standards No. 1*, an audit is an examination of an entity's financial statements by a firm of Independent Public Accountants (IPA). The objective of the IPA's work is the expression of an opinion<sup>1</sup> as to whether a PHA's financial statements are presented fairly in accordance with accounting principles generally accepted in the United States of America. The *Governmental Accounting and Financial Reporting Standards* issued by the Governmental Accounting Standards Board or GASB (as of June 30, 2000) defines the basic financial statements as consisting of a Combined Balance Sheet, Combined Statement of Revenues, Expenditures and Changes in Fund Balance or Retained Earnings and a Combined Statement of Cash Flows (the third statement is required for proprietary funds only).

### Why is an audit done?

An audit is done to provide to the management of an entity an objective evaluation of the entity's financial statements. It is also done to give outside parties assurance that they have an accurate picture of the entity's financial situation.

### What is HUD's attitude about an audit?

HUD takes audits very seriously. In September 1998, HUD published revised Uniform Financial Reporting Standards (UFRS) for federal housing programs. The rule requires Public Housing Agencies (PHAs) to submit their unaudited and audited financial information to the agency electronically. The rule also requires that the entity's financial statements be prepared in accordance with generally accepted accounting principles (GAAP). The new reporting standard was made effective beginning with Fiscal Years Ending (FYE) 9/30/99 (24 CFR Part 5, et al). In accordance with OMB Circular A-133, HUD requires the submission of PHA audited financial information no later than 9 months after the auditee's FYE (24 CFR 902.33).

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<sup>1</sup> Types of opinions:

- a) Unqualified - "complied in all material respects" opinion;
- b) Qualified -financial statements as a whole present fairly in conformity with GAAP, except for specific items (an "except for" opinion)
- c) Adverse - "not in accordance with GAAP" opinion, and
- d) Disclaimer - no opinion.

The PHA's Single Audit (A-133) costs are allowable direct or indirect program expenses (Circular A-133.230). PHAs not meeting the A-133 audit threshold of expending \$500,000 \* or more in Federal funds are not prohibited from having a financial statement audit [A-133.400 (d)(3)]. The PHA however, has to comply with its cognizant or oversight agency requirements in procuring a non A-133 audit. PHA audit costs can be reimbursed via HUD Low Rent operating subsidy. They are also eligible costs in the Department's Section 8 program.

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

## II Procuring a Quality Audit

Some of the audited reports received by HUD have been deficient or below standard. The PHA's lack of planning and an ineffective procurement process sometimes leads to problems. To avoid a substandard audit, the PHA may want to consider the following suggested steps on how to procure a quality audit (a qualified auditor is only part of this process):

### Step 1: Determine the type of audit needed

There are four types of audited reports currently being submitted electronically by Public Housing Agencies to HUD's Real Estate Assessment Center (REAC). They are the A-133 or Single Audit, a Government Auditing Standards (Yellow Book) audit, a Generally Accepted Auditing Standards (GAAS) audit and a component unit audit.

- a) ***Single Audit or A-133 Audit:*** This type of audit is mandatory for all non Federal entities or PHAs that expend more than the A-133 Threshold in a year in Federal awards, [A-133.200 (b)] unless when they elect to have a program-specific audit conducted in accordance with 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. A Single Audit's reporting package is required to be submitted to the Single Audit Clearinghouse and to an entity's cognizant or oversight agency. The report package includes:

- Financial Statements (including all applicable footnotes)
- Footnotes on the Summary of Significant Accounting Policies and Federal Non-Cash Assistance
- 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 Compliance and on Internal Control Over Financial Reporting based on an audit of financial statements performed in accordance with Government Auditing Standards (GAS) and/or Generally Accepted Auditing Standards (GAAS).
- Report on Compliance with requirements applicable to each “major program” and internal control over compliance in accordance with OMB Circular A-133.
- Schedule of Expenditures of Federal Awards.
- 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) ***Government Auditing Standards (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, the PHA may have an audit done in compliance with Government Auditing Standards. While lower in scope than an A-133 audit, it still covers a PHA’s financial statements, internal control over financial reporting and general compliance with laws, regulations, contracts and grants. The reporting package of this audit is required to be submitted electronically to REAC but **not** to the Single Audit Clearinghouse. 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 (Generally Accepted Auditing Standards) 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. It is lower in scope than both the A-133 audit and 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 PHA has a Yellow Book audit as opposed to a GAAS audit, due to the higher amount of audit procedures encompassed with the Yellow Book audit.* The GAAS report package does not have to be sent to the Single Audit Clearinghouse, but does need to be electronically submitted to REAC. 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).

d) **Component Unit Audit:** Beginning with Fiscal Years Ending 9/30/2001 and forward, PHAs that are either a component unit or a Department of the local government and do not receive a stand-alone audit, need to submit the following information electronically to REAC:

- A Financial Data Schedule (FDS) with audited balances (this is also required of a, b, and c listed above)
- If a PHA expends more than the A-133 Threshold in Federal funds, the Notes, Schedule of Findings and Questioned Costs and Action Plan related to the audit of the local government must be sent to REAC.
- If a PHA expends less than the A-133 Threshold in Federal funds, only the Notes related to the audit of the local government must be sent to REAC.

**Note:**  
*Regardless of audit type selected by the HA, 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. Write the Request For Proposal (RFP)**

After determining the type of audit required, the PHA has to make a plan on how to obtain the needed audit services. Careful pre-audit planning ensures that the audit objectives are met in accordance with applicable laws, regulations and contractual agreements of the HA. Consult with your audit committee<sup>2</sup> and legal counsel in the RFP development process.

In planning for procuring audit services, consider the following:

- State, federal and contractual audit procurement requirements
- Required audit coverage especially if there is more than one auditor to be relied upon -(joint audit engagement)
- Determine the relevant auditing standards to be used in the engagement- GAS and/or GAAS
- Determine how the auditee can assist auditors in the performance of their audits (i.e. use of the entity's Internal Audit staff or accounting staff)
- Establish 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. 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 law, 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 saves the entity the costs associated with repeating the selection process.
  2. Evaluating 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,

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<sup>2</sup> Composed of individuals with backgrounds in accounting, auditing, finance or management, i.e. accountants, internal auditors and members of the PHA's Board of Directors.

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.

**Small Housing Agencies:** 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 auditor, or 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>

*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.*

**NOTE:**

*To allow sufficient time to process the RFP, the HA should prepare this document at least 8 months prior to the PHA's FYE 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 on "Appendix A."*

**Step 3: Obtain proposals from potential IPAs.**

There are many ways to solicit proposals for your audit, but the most reliable method is a written Request for Proposal (RFP) submitted to all qualified bidders, (24 CFR Part 85). As aforementioned, the critical elements of an RFP are listed in "Appendix A."

There are 4 allowable methods of procuring audit proposals:

- 1) **Competitive Sealed Bids** – solicited through formal advertising. A fixed price is awarded to the lowest responsible bidder whose proposal conforms to all the material terms and conditions of the RFP. This method is required for contracts costing more than \$100,000 and is encouraged for contracts between \$25,000 and \$100,000. The contract award may be a fixed price but it cannot be a cost plus percentage of cost contract. Such pricing method is not allowed under federal regulations.
- 2) **Competitive Negotiation Procedure** - this method is recommended for all procurement of professional services. This is basic to government

procurement. In this method, the PHA submits its RFP to at least two (2) or more qualified auditors. The RFP must be publicized and reasonable requests by competing sources must be honored to the maximum extent possible. Encouraging as many qualified auditors as possible to submit audit proposals increases the likelihood of getting a quality audit at a fair price.

- 3) **Small Purchases Procedure** – this method is simple, informal and appropriate for procurement of services, supplies, or other property, costing not more than \$25,000. Although the competitive negotiation procedure is the recommended method for procuring all professional services, this method is also acceptable provided:
  - At a minimum, two proposals shall be reviewed from qualified bidders;
  - Receipt of audit proposals must be well-documented and a record of the procedures are properly maintained;
  - If a responsible proposer is selected on a basis other than price, the reason for the selection must be well documented and maintained by the PHA.
  
- 4) **Non-Competitive and Sole Source Purchases** – this is the least preferred method and requires prior approval in writing from the Secretary of the oversight/cognizant agency. Approval for sole source procurement is not routinely granted, and can often become more time consuming than the competitive process. This method may be used only when the other three methods are not feasible.

Consider having a bidders' conference – invite prospective auditors to this conference. This is a perfect opportunity to obtain additional information from prospective bidders and also provide information that may have been omitted or overlooked in the written RFP. Bringing all bidders together at the same time to hear the same information helps ensure that all bidders are treated equally. This is especially important, since unsuccessful bidders may challenge the procurement if their competitors were given significantly different or more information.

Where to obtain potential bidders: Lists of auditors may be obtained from general and professional directories and from your past experiences with audit firms. Review the listing to see if it includes small businesses, minority-owned firms, and women's business enterprises so that they are made aware of any audit opportunities; this is required by the OMB Circular A-102 Common Rule. Maintaining an updated list makes it easy to distribute your RFP to auditors that are most likely to be interested in performing the audit. The state society link for CPAs all over the United States is again: <http://www.aicpa.org/states/info/index.htm>.

Small housing agencies (HAs) may have minimal audit requirements and preparing a detailed RFP may be economically impractical. At a minimum, the RFP of small HAs 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 meet the legal and contractual requirements of your entity. For small housing agencies located in rural areas, obtaining an extensive list of potential auditors may be difficult. Soliciting a list from nearby, larger PHAs and from the CPA society in the region is often helpful. Again, the link to CPA societies is: <http://www.aicpa.org/states/info/index.htm>

**Note:**  
*Regardless of method used, the PHA should properly document the RFP process.*

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

In procuring audit services, auditees should follow the procurement standards prescribed by laws, rules and regulations applicable to the entity.

*“Whenever possible, auditees shall make positive efforts to utilize small businesses, minority-owned firms, and women’s business enterprises in procuring audit services” - Circular A-102 Common Rule, Circular A-110 or the FAR (48 CFR part 2).*

To spare your entity the needless and time-consuming technical evaluation of prospective auditors, the proposers should be screened based on the minimum technical standards established by the auditee. The evaluation criteria commonly used include, at a minimum:

- A proposer’s responsiveness to the RFP
- The IPA’s technical qualification 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 education requirements are found in the 1994 Revision of Government Auditing Standards pages 18 through 21. Listed below are some of the “tough” questions that can be posed to a prospective IPA:

1. *Are you licensed in the State that the entity is located?*
2. *How many Public Housing Authorities have you audited?*

3. *How experienced and credentialed are the staffs that will be involved in the audit?*
4. *Are the “in-charge” people (Senior Accountants, Managers etc.) CPAs?*
5. *What is the PIH/REAC rejection rate of your audits?*
6. *What has been the total amount of time spent on fieldwork on each PHA audit you have done? (If an auditor spends 1 to 2 days doing an A-133 audit, this is an alarm bell).*
7. *Have you had a Quality Assurance audit done by the PIH/REAC QASS division? If so, may we obtain a copy?*

- Evidence that the auditor or audit firm is capable of performing the audit (relevant experience of the auditor in auditing entities similar to the auditee).
- 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. This new standard can be acquired through the GAO. Current Yellow Book Independence standards are discussed on pages 22 through 27 of the October 1994 revision of Government Auditing Standards.
- Proof that the auditor has had a satisfactory peer review (non PIH/REAC QASS review)

Although the price for the work to be performed is a factor in the selection of a qualified bidder, 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 selecting a successful bidder. **Accordingly, the lowest price does not guarantee a quality audit.**

Comparing your entity's requirements with the 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 who, to the greatest extent possible, includes person or persons with the appropriate technical skills should conduct the auditor selection process. The reviewers must not have any conflicts of interest with the proposers 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 HA’s fiscal year end.*

*The award must be made to the responsible bidder whose proposal will be the most beneficial to the PHA, considering price and other factors. When the award is made to a responsible bidder not having the lowest price, the PHA must document its reason for not selecting the lowest proposed price. Unsuccessful bidders 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 are better avoided.**

The lack of a written agreement between the auditee contracting for the audit and the auditor can contribute to problems. To foster sound and productive communication and to avoid misunderstandings, both parties should agree in writing on important audit-related matters.

Please go 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 should review the progress of the audit to address and resolve any issues identified in the process. This does not only improve the quality of the audit product but also enhances the auditor and auditee's working relationships.
- Requiring 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) and/or generally accepted auditing standards (GAAS) to ensure a quality result from the auditor.
- Small PHAs who do not have an audit committee to monitor the auditor's work may seek the assistance from people outside the organization.
- The suggested ideal monitoring "time clock" would be as follows:

Audit Planning: 6 months before the end of the FYE.

Completion of Fieldwork: 3 months after the end of the FYE

Transmission & acceptance by REAC: 7 months after the FYE

Distribution of the audit: 7 ½ months after the FYE.

***Note:***

***Monitoring an audit's progress is critical to ensure a quality and timely completion of the audit.***

### III Audit Procurement Timeline

<b>Step 1:</b>	Determine the type of audit needed	8 months prior to FYE date
<b>Step 2:</b>	Plan for the procurement of audit services – write the RFP	8 months prior to FYE date
<b>Step 3:</b>	Obtain proposals from potential IPAs	5 to 6 months prior to FYE date
<b>Step 4:</b>	Evaluate proposals received and select the qualified auditor	4 to 5 months prior to FYE date
<b>Step 5:</b>	Document the Agreement	2 to 3 months prior to FYE date
<b>Step 6:</b>	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 a very low, unrealistic bid.
- Auditors doing only one a few days of Field Work in an A-133 audit.
- Auditors that perform audits in many different states.  
There may be a licensing problem.
- Auditor having no experience in PHA and or Multi-Family audits.

## IV Auditee and Auditor responsibilities

### Auditee Responsibilities

**a) Per OMB Circular A-133 at:**

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

- 1) Provide Federal program related information: Federal awards received and expended including the 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).
- 2) Maintain internal control over Federal program 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).
- 3) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs, A-133.300(c).
- 4) Prepare the appropriate financial statements including the schedule of expenditure of Federal awards in accordance with A-133.310, A-133.300(d).
- 5) Ensure that the required audits were properly performed and submitted timely, A-133.300(e).
- 6) Follow up and take corrective action on audit findings, including preparation of a summary schedule of prior audit findings and a corrective action plan in accordance with OMB Circular A-133.315(b) & (c), [A-133.300(f)].
- 7) Submit the reporting package to OMB-designated Federal Clearinghouse and to its Cognizant Agency, including the Data Collection Form, (A-133.320).

**b) Per 24 CFR Part 85.20 at:** [http://www.hudclips.org/sub\\_nonhud/cgi/nph-brs.cgi?d=C24C&s1=@docn&l=100&SECT1=TXTHLB&SECT5=C24C&u=./hudclips.cgi&p=11&r=1015&f=G](http://www.hudclips.org/sub_nonhud/cgi/nph-brs.cgi?d=C24C&s1=@docn&l=100&SECT1=TXTHLB&SECT5=C24C&u=./hudclips.cgi&p=11&r=1015&f=G)

- 8) Financial Reporting: Disclose accurate, current and complete financial results of HUD assisted Programs.

- 9) Accounting Records: Identify the source and application of funds provided for HUD assisted activities.
- 10) Internal Controls: Maintain effective controls and accountability for all assets, including accounting controls and management activities.
- 11) Budget Controls: Prepare separate budget for each HUD assisted program, based on HUD prescribed categories, and assure that expenditures do not exceed the approved budget.
- 12) Allowable Cost: Ensure that funds are expended in accordance with program requirements. Based on OMB Circular A-87 or as amended.
- 13) Source Documentation: Maintain source documents and files that support the financial transactions recorded in the books, providing an adequate audit trail.

**c) Per Statement on Auditing Standards No. 85**

- 14) Prepare Management Representation Letter. This is the auditee's written representations on financial statements under examination by the auditor. In accordance with 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.*

**d) Per 24 CFR 902.33 at: <http://www.hud.gov/offices/reac/pdf/pha.pdf>**

- 15) Electronically submit the audited financial data to HUD's Real Estate Assessment Center (REAC) 9 months after its fiscal year end date.

**Note:**

*HA should make an effort to transmit its audited report to REAC at least 1 to 2 months prior to its submission due date to allow time to resolve any issues noted in the report.*



## **Auditor Responsibilities**

**a) Per OMB Circular A-133 at:**

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

- 1) General responsibility, A-133.500(a): The audit shall be conducted in accordance with GAGAS. The audit shall cover the entire operations of the auditee.
- 2) 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.
- 3) 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.
- 4) 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.
- 5) 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.
- 6) Data Collection Form, A-133.320 (b)(3): The auditor shall complete and sign specified sections of the data collection form.
- 7) Audit Reporting, A-133.505: The auditor's report shall include:
  - a) An opinion on financial statements and schedule of expenditure of Federal awards
  - b) A report on Internal Control
  - c) Report on compliance

- d) A schedule of findings and questioned costs
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- 8) Audit Working Papers, A-133.515.
    - a) Retention of Working Papers. The auditor shall retain working papers for a minimum of three years after the date of issuance of the auditor's report to the auditee.
    - b) Access to Working Papers: Audit working papers shall be made available upon request to the cognizant or oversight agency for audit or its designee. Access to working papers includes the right of Federal agencies to obtain copies of working papers, as is reasonable and necessary.
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- 9) Determine HA's major programs, (A-133.520).
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- 10) Adherence to standards set forth by generally accepted auditing standards (GAAS) and the generally accepted government auditing standards (GAGAS).
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- 11) Prepare the Audit Engagement Letter in accordance with AICPA standards. This letter is a formal contract between the auditor and the auditee. It confirms the auditor's acceptance of the appointment and documents the agreed-upon scope and terms of the engagement. [See Appendix B for the basic contents of this letter].

### Elements of A Request for Proposal (RFP)

- 1) Auditee's general information – name and address, IPA's contact person and telephone number;
- 2) The purpose of the request for proposal (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 on how the proposals will be evaluated stating minimum technical requirements from the auditor, relevant experience, and price;
  - Professional and technical qualification of the auditor and staff assigned to the engagement – (GAGAS, GAAS' General Standards)
  - Relevant audit experience applicable to the auditor
  - License requirements in the state where the audit will be conducted
  - Independence
  - Compliance with applicable requirements for peer review and professional continuing education.
- 5) Audit period, timetable and deliverables;
- 6) Description of PHA's accounting control systems (provided by the PHA);
- 7) Description of Internal Control System and any known weaknesses (provided by the PHA);
- 8) Federal funding information (provided by the PHA);
- 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

proposers 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. All of this information is supplied by the entity.

- 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:
  - References from other governmental clients;
  - Information on prior peer reviews;
  - Status of any disciplinary action taken against the IPA, if any;
  - Information on how the audit will be conducted in a single year or multi year engagement.
- 16) PHA’s policy toward joint proposals or subcontracting;
- 17) PHA’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.

### 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 products, examples:
  - 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.
  - If the auditor believes that a change in or addition to 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.
  - 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.
- 5) The objective of the audit is the expression of an opinion on the financial statements.
- 6) Management is responsible for the PHA's financial statements.
- 7) Management is responsible for establishing and maintaining effective internal control systems.

- 8) Management is responsible for identifying and ensuring that the entity complies with applicable laws and regulations.
- 9) Management is responsible for making all financial records and related information available to the auditor.
- 10) At the conclusion of the audit, management will provide the auditor with a letter that confirms certain representations made during the audit (Management Representation Letter).
- 11) The auditor is responsible for conducting the audit in accordance with generally accepted auditing standards (GAAS) and/or generally accepted governmental auditing standards (GAGAS).
- 12) 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.
- 13) 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.
- 14) Arrangements regarding the conduct of the engagement, e.g., timing, client assistance, availability of documents and use of specialists or internal auditors.
- 15) Arrangements involving a predecessor auditor, fees, expense reimbursement and payment schedule.
- 16) Any limitation of or other arrangements regarding the liability of the auditor or the PHA.
- 17) Conditions under which third parties may be granted access to the auditor workpapers.
- 18) Provision of services relating to regulatory requirements or other non-audit services.

## Summary of Important Points

- § HUD takes audits very seriously. A PHA's audited financial report has to be prepared in accordance with GAAP and submitted electronically to PIH/REAC 9 months after its fiscal year end date in compliance with the requirements of 24 CFAR Part 5, et al.
- § Regardless of audit type selected by the HA, the audited financial statements should reflect entity-wide operations, including component units and joint venture activities in compliance with 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 amount of audit procedures encompassed with the Yellow Book audit.
- § It is PIH/REAC'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 an HA plans to have a new auditor, the Request for Proposal (RFP) has to be prepared at least 8 months prior to the HA's fiscal year end date.
- § In writing the RFP, the HA's legal counsel and procurement officer should be consulted to ensure that the Request for Proposal is in accordance with laws, regulations, grant terms and contractual provisions of the entity.
- § Regardless of method used, the PHA 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 proposers under review such as family relationship, close friendship or business partnerships.
- § Award must be made to the responsible bidder whose proposal will be the most beneficial to the PHA, considering price and other factors. When the award is made to a responsible bidder not having the lowest price, the PHA must document its reason for not selecting the lowest price. Unsuccessful bidders 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].
- § HA should make an effort to transmit its audited report to PIH/REAC at least 1 or 2 months prior to its submission due date to allow time to resolve any issues noted by PIH/REAC reviewers in 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>
- OMB A-102- Grants and Cooperative Agreements with State and Local Governments located at:  
<http://www.whitehouse.gov/omb/circulars/a102/a102.html>
- OMB A-110, Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals and Other Non-Profit Organizations located at:  
<http://www.whitehouse.gov/omb/circulars/a110/a110.html>
- PHAS 24 CFR 902.33 located at: <http://www.hud.gov/offices/reac/pdf/pha.pdf>
- Government Auditing Standards (1994 Revision) published by GAO: (copy of the Yellow Book not available on-line)
- Mid-America Intergovernmental Audit Forum, March 2000 (web-link currently not available)
- 24 CFR Part 85.20 at:  
<http://www.hud.gov/offices/reac/products/qass/PDFs/24cfr85-20.pdf>