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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-114873

MAY 31 1973

The Honorable H. R. Gross
House of Representatives

Dear Mr. Gross:

Your letter dated February 21, 1973, requested advice on what steps, if any, could be taken to ease the burden of a Farmers Home Administration (FHA) requirement that annual audits be made of association borrowers--such as the Britt Country Club in Britt, Iowa--that are indebted to FHA. We discussed the results of our inquiries into this matter with your office on May 11, 1973. This letter confirms that discussion.

At the time of your request, the pertinent FHA regulations (7 CFR 1823.287) stated that FHA borrowers which were required to have an annual audit performed by an independent public accountant were

--those whose projected gross income for a full year of operations exceeded \$25,000, and

--others as required by the FHA State director.

The regulations required that such audits be conducted in accordance with generally accepted auditing standards by independent certified public accountants or by independent licensed public accountants licensed on or before December 31, 1970.

Your letter and the enclosures indicated that, in accordance with these regulations, FHA was requiring the Britt Country Club--a recreation association indebted to FHA--to have an audit made by an independent public accountant because it had an annual gross income of about \$34,000.

On April 27, 1973, FHA advised its State directors of certain changes that it intended to make in its requirements pertaining to audits of its borrowers. (See enclosure.) One of the changes was to increase from \$25,000 to \$50,000 the projected annual gross income a

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recreation association borrower would have to have before it would be required to have an audit made by an independent public accountant.

FHA officials told us that:

--The FHA State Directors were advised of the proposed change prior to its being incorporated in the regulations so that they could make appropriate arrangements with those associations which had not yet obtained audits from independent public accountants.

--FHA would advise the Britt Country Club that it would not need an audit by an independent public accountant.

On the general matter of FHA's audit requirements, we believe that FHA's February 20, 1973, letter to you was somewhat misleading. In the letter, FHA advised you that its audit requirements resulted from

--our January 22, 1971, report entitled "Farmers Home Administration Procedures and Policies on the Use of Independent Auditors Should Be Strengthened" (B-170874), and

--our September 15, 1970, letter to the heads of Federal departments and agencies on qualifications of public accountants making audits of federally chartered, financed, or regulated private organizations (B-148144).

Our Office does not require Federal agencies to conduct audits or to use independent public accountants to audit the activities of loan and grant recipients. Each Federal department or agency is responsible for its financial management activities and prescribes the auditing requirements it believes are necessary in its system of management controls.

Because several agencies, including FHA, prescribe audits and the use of public accountants to make them, our role has been to

--cooperate with the Office of Management and Budget and other agencies of the executive branch in developing and circulating a common body of audit standards to be applied to audits of government programs and activities, including the qualifications of public accountants, and

--make recommendations to the agencies when our reviews show that the agencies need to improve their auditing activities or strengthen their use of public accountants.

With respect to FHA, we did not recommend in our September 1970 letter or our January 1971 report that FHA require annual audits or that it use public accountants for such audits. Because FHA was requiring borrowers to be audited by public accountants without an expression as to their qualifications, however, we did recommend in our report that FHA establish qualifications for public accountants-- licensed or certified--consistent with our September 1970 letter.

We trust that this reply will satisfy your purposes. If you desire, we shall be pleased to discuss this matter further with you or members of your staff.

Sincerely yours,


Comptroller General
of the United States

Enclosure

UNITED STATES DEPARTMENT OF AGRICULTURE
FARMERS HOME ADMINISTRATION
WASHINGTON, D.C. 20250

OFFICE OF THE ADMINISTRATOR

Date: April 27, 1973

SUBJECT: Community Programs - Audit Reports and Financial Management
Reports

TO: All State Directors, FHA

The purpose of this bulletin is to inform you of certain changes that we intend to make in FHA Instructions 442.1 and 442.9 pertaining to community programs applicants and borrowers. Since these changes will have a substantial effect on the number of audit reports you will be requiring and reviewing early in calendar 1974, we are taking this means of informing you of the proposed changes in order that you may plan accordingly. Currently, our draft changes are as follows:

1. State Directors are responsible for audit report review and analysis and initiating indicated servicing or management assistance actions. (This eliminates the currently required submission to the National Office unless the State Director desires such review in connection with a specific case.)

2. AUDITS: Unless otherwise required by FHA State Directors, borrowers are required to submit audit reports as follows:

A. Borrowers are required to have an audit when their annual gross income exceeds the amount shown below:

(1) Water and Waste Disposal	\$100,000.
(2) Recreation	\$ 50,000
(3) EO Cooperative	\$100,000

B. Public body borrower audit reports prepared in accordance with state statutes and regulations are acceptable provided they contain the financial information necessary and are prepared on a frequency sufficient to provide a basis to furnish borrowers with management assistance guidance and FHA the information for proper program operation.

C. Borrowers other than public bodies and public bodies in those cases where the state has no audit requirements are required to have their records audited at least biannually by an independent public accountant.

EXPIRATION DATE: December 31, 1973

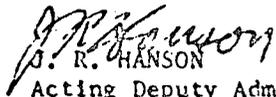
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Secretary of Agriculture, Washington, D. C. 20250*

1. Such audits shall be conducted in accordance with generally accepted auditing standards by independent certified public accountants or by independent licensed public accountants licensed on or before December 31, 1970, who are certified or licensed by a regulatory authority of a State or other political subdivision of the United States.

2. Audits will be prepared in accordance with the requirements of the handbook, "Instructions to Independent Certified Public Accountants and Licensed Public Accountants Performing Audits of Farmers Administration Borrowers and Grantees."

D. State Directors are authorized to require audit reports for any borrower not included in paragraph 2 A.

3. FINANCIAL MANAGEMENT REPORTS: In those cases where revenues from both water and sewer systems are serving for security for an FHA loan, only one set of accounting records is maintained, one management report will suffice. In those cases where FHA loans are secured by general obligation bonds or assessments and the borrower commingles revenues from all sources, a separate management report pertaining to the revenue from the facility financed by FHA is not required.


J. R. HANSON

Acting Deputy Administrator
Program Operations