



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
 WASHINGTON, D.C. 20410

OFFICE OF THE ASSISTANT SECRETARY FOR
 COMMUNITY PLANNING AND DEVELOPMENT

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MEMORANDUM FOR: All Regional Administrators
 All Regional Directors for CPD
 All Regional Inspectors General for Audit

FROM: Alfred C. Moran, Assistant Secretary for Community
 Planning and Development, C

SUBJECT: Implementation of OMB Circular A-128 in the
 State Community Development Block Grant Program

In response to questions received by this office, this memorandum provides guidance on the applicability of OMB Circular A-128 to local governments participating in the Community Development Block Grant (CDBG) State program and responsibilities of the state. (This memorandum does not cover all requirements of the circular and you are advised to read the circular for further requirements.) The circular defines local governments that receive funds from the state through the CDBG State program as "subrecipients." (See A-128, paragraph 5.3) States providing these funds are responsible for insuring that the subrecipient requirements are satisfied.

Under paragraph 9 of the circular, a state administering the CDBG State program must determine if its funded local governments receiving \$25,000 or more have met the audit requirements of the circular. Each local government that receives \$100,000 or more a year in Federal financial assistance must have an audit conducted in accordance with A-128. (The term "Federal financial assistance" means all forms of assistance provided by any Federal agency, including grants, contracts, loans, loan guarantees, etc.) Each local government that receives between \$25,000 and \$100,000 a year in Federal financial assistance must have an audit conducted in accordance with the circular or in accordance with Federal laws and regulations governing the programs in which they participate. Each local government that receives less than \$25,000 a year in Federal financial assistance is exempt from compliance with the circular. For purposes of this determination, "receive" means the state has actually disbursed funds to the local government.

The audit must determine whether:

- a. **The financial statements present fairly the local government's financial position and the results of its financial operations in accordance with generally accepted accounting principles (para. 6.d.(1));**
- b. **The local government has internal accounting and other control systems to provide reasonable assurance that it is managing Federal financial assistance programs in compliance with applicable laws and regulations (para. 6.d.(2)); and**
- c. **The local government has complied with laws and regulations which may have material effect on its financial statements and on each major Federal assistance program (6.d.(3)).**

In addition, the state is required to:

1. **Determine whether the local governments spent Federal funds, which the state provided, in accordance with applicable laws and regulations by reviewing the audits made in accordance with the requirements of this circular.**
2. **Ensure that appropriate corrective actions are taken within six months after receipt of the audit report in instances of noncompliance with Federal laws and regulations.**
3. **Decide whether the local government's audit necessitate adjustment of the state records.**
4. **Require each local government to permit independent auditors to have access to the records and financial statements as necessary to comply with the circular.**

As part of the state's administrative responsibilities, the state must:

1. **accept or reject findings made by the auditor (a.g., determine whether a Federal law or regulation has been violated);**

2. determine what corrective actions by the local government are necessary and appropriate to resolve such findings and that such actions are taken;
3. ensure audit reports are made available to the public no later than 30 days after completion of the audit;
4. ensure audit reports are submitted to the state no later than 30 days after completion of the audit, but no later than one year after the end of the audit period;
5. ensure the audit report meets the requirements of OMB circular A-128, paragraph 13.
6. promptly inform HUD and appropriate Federal law enforcement officials of any illegal acts or irregularities. State and local law enforcement authorities should also be informed. Illegal acts and irregularities include such matters as conflicts of interest, falsification of records or reports and misappropriation of funds or other assets.

The cost of audits made in accordance with the provisions of the circular are allowable charges to Federal assistance programs. Generally the percentage of costs charged to Federal assistance programs for such an audit shall not exceed the percentage that Federal funds expended represents of the total funds expended by the local government during the fiscal year. The percentage may be exceeded, however, if appropriate documentation demonstrates higher actual cost. For example:

**Local Government
Annual Expenditures .**

	Federal Expenditures	Non Federal Expenditure
Total	\$300,000	\$700,000
CDBG	150,000	

- Federal expenditures represent 30% of the total expenditures
- CDBG represents 50% of the federal expenditures

In the example above, if audit costs were \$5,000 the Federal share would be \$1500 (30%). Half of the Federal share (\$750) could be allocated to the CDBG program. If the state imposes audit requirements beyond those in A-128, the additional audit cost may be allocable to Federal assistance programs, depending on the particular requirement. For example, if a state requires