

Per our discussion at the CCAH Training on Financial Reporting, I'm writing you for further guidance on the Agreed Upon Procedures (AUP) and the new audit report with the 3560-7&10 and AUP as supplemental information. Please see the questions listed below.

1. Does the 3560-7&10 have to equal line for line to the audited financials? There are instances where the 3560-7&10 must be prepared on the cash basis. However, the audit report must be prepared on the accrual basis in order for it to be in accordance with GAAP. Or, another scenario would be the management company prepares its own 3560-7&10 and the CPA prepares the audit. There could be grouping differences between the 3560-7&10 and audit report. How would you like us to account for these differences?
CPA to comment if just due to difference in cash and accrual bases.

2. I have a Partnership which is a consolidation of 3 projects with units of 24, 20 and 16. Last year, we submitted one audit report, three different 3560-7&10's and AUP reports. However, under the new regulations, the project with 24 units is now required to have an audit of its own. Does this project actually have to submit an individual audit report with 3560-7&10 and AUP? Or is what was submitted to RD for the year ended 12/31/06 sufficient?
The 24 unit property would have to submit an audit and AUP per Ex 4-6 of Chapter 4 of HB-2-3560. The 12/31/06 submission would be insufficient.

If using the scenario listed in number 2, under the new regulations this is what RD will receive. A consolidated audit report which includes all three projects, three 3560-7&10's and AUP reports as supplemental information. RD will also receive an audit report with the 3560-7&10 and AUP report as supplemental information for the project with 24 units. Is this correct?

If all 3 complexes have been consolidated into one entity, the audit report with the 3560-7&10 and AUP report as supplemental information for the project with 24 units appears redundant and unnecessary.

3. According to HB-2-3560 Attachment 4-D number 1 d, the CPA is to provide the population size of lines 1-10 and 19-32 of Form RD 3560-7 defined in terms of total dollar value and in terms of number of transactions. What is your definition of number of transactions? Does this mean the CPA is to count every line in the general ledger relating to the accounts that make up lines 1-10 and 19-32 of the 3560-7 page 2? Or, could the CPA use the check register and count the number of checks that are coded to the accounts relating to lines 1-10 and 19-32 on the 3560-7 page 2? Please provide more guidance as to what you are actually looking for here.
Check register should be sufficient as a source to populate your sample.
4. For agreed upon procedure number 3 a ii, the CPA is to examine a sample of invoices to determine that the expenses for the approved services on Form RD 3560-31 are what is being charged to the project. If a management company is purchasing supplies and then selling those supplies to the projects – does this need

to be tested? Or should only services, such as bookkeeping, management and payroll be considered for testing.

No, 3 a ii references services only. However, this issue raises an interesting IOI opportunity.

5. According to HB-2-3560 Attachment 4-D number 3 c v, the CPA is to receive a management representation letter. Do you have an example of a representation letter you want us to use?
No, I do not. I would have to think it is management's statement regarding an IOI.
6. According to HB-2-3560 Attachment 4-D number 3 d iii, the CPA is to provide the population size defined in terms of total dollar value and in terms of number of transactions. I have the same question as in 3 above. What exactly are you looking for here?
A population taken from the appropriate size per Attach 4-D, 1. b, and from check register for those selected lines should be sufficient.
7. HB-2-3560 Attachment 4-H pg 10 of 29 provides a bad debt footnote example using the direct write off method. However, this is not in accordance with GAAP; therefore, not in line with a GAGAS report. GAAP requires an allowance for doubtful accounts be set up for account receivable. Is RD requiring the project to utilize the direct write off method?
RD would not advocate noncompliance with GAGAS nor GAAP.

I had a question regarding one of our clients in North Carolina and the Project's Financial Audit. In the case with a borrower with more than 24 units it is stated that a Combined Audit & Agreed-Upon Procedures Report is required to be submitted. Is this truly the case, or can the final submission be similar to last year with the audit and agreed upon procedures being submitted separately? The problem we are facing is we are currently in the process of completing the audits to meet our client's deadlines with tax reporting which requires us to complete the audit now. This lends more towards us wanting to complete the audit procedures at an earlier point in time than the agreed upon procedures, especially as we are still waiting to receive AP confirmations and IOI confirmations.

My understanding is the AUP and Audit would be submitted jointly.

It looks like professional standards for audits and for agreed upon procedures do not allow us to combine reports, so our plan is to report separately and have the client put everything in a binder clip when it is sent to RD. I just wanted to keep you aware of issues as they arise related to the new requirements for 12-31-07. I hope everything is going well

The Audit and AUP are two separate reports.

There is some confusion with our clients regarding the extension granted for properties with 9/30, 10/31, etc. year-ends that have implemented the new AUP format for this year. It was my understanding that they could get a 30-day extension if they implemented the new procedures by writing to the district RD office and requesting it. Your example was for a 10-31 year-end but I assume this could apply to 9/30 year-ends as well. Please verify that this is correct.

From PN 413, dated October 5, 2007:

NOTE: These financial reporting requirements are effective for project fiscal year ends of December 31, 2007 and thereafter. *We are extending by 30 days the due date for these financial reports to April 30, 2008.* (Italics and underline for emphasis). We do not believe these changes will increase the auditing cost for most properties over last year's expense, except for those properties that did not undertake a financial audit for partnership or tax credit purposes. Borrowers who need to revise their FY 2008 budget to accommodate the audit requirement should contact their Rural Development Servicing Office.

In keeping with the above statement issued by the National Office, and to afford the same 30 days extension to those complexes with year ends prior to 12/31/07 that desire to utilize the new financial reporting requirements (even though it is not required), an additional 30 days is hereby granted.