

**U.S. Department of Housing and Urban Development  
Office of the Inspector General**

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**SPECIAL ATTENTION OF:**

Office of Multifamily Development and  
Real Estate Assessment Center

**TRANSMITTAL**

**Handbook No:** 2000.04, REV-2, CHG-10

**Chapter Number:** 2 Examples B, B-1, B-2, C, and D

**Issued:** March 2, 2011

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1. This transmits Handbook 2000.04, REV-2, CHG-10, chapter 2, example B through example D, Consolidated Audit Guide for Audits of HUD Programs (Audit Guide).
2. Previous issued examples A and E have not been changed and still are valid examples for reference purposes.

Changes made to examples B through D are to satisfy the reporting requirements of the Statement on Auditing Standards (SAS) No. 117, Compliance Audits, which establishes standards and provides guidance on performing and reporting on compliance audits performed in accordance with generally accepted auditing standards, generally accepted government auditing standards, and the U.S. Department of Housing and Urban Development's (HUD) Audit Guide requirement that an auditor is to express an opinion on the entity's compliance with HUD program requirements and related reporting on internal control over compliance.

3. **Summary:** The Office of the Inspector General is in the process of updating the handbook and will release each chapter as it is completed. When all of the individual chapters of the Audit Guide are revised, they will be consolidated into a revised Audit Guide and issued as Handbook No. 2000.04, REV-3.

This handbook chapter's examples B, B-2, C and D are a change to Handbook 2000.04, REV-2, chapter 2, examples, B-2, C and D dated December, 2001, and examples B and B-1 dated March 2007. A change was necessary to comply with the requirements of SAS No. 117. This change serves as a reference and suggested wording for auditors, who perform audits of HUD programs to use to comply with SAS 117.

4. **Filing Instructions:**

The issuance of these examples cancels examples B, B-2, C and D contained in chapter 2, dated December 2001, and draft examples B and B-1 dated March 2007.

**Remove**

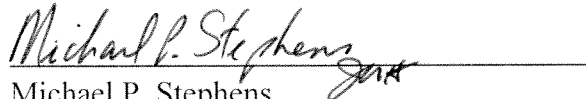
Examples B-2, C and D,  
chapter 2, dated December  
2001 and B and B-1 dated  
March 2007

**Insert**

Examples B, B-1, B-2, C, and D,  
chapter 2, dated March 2011

**5. Effective Date:**

This change is effective and can be used upon issuance. SAS No. 117 is effective for compliance audits for fiscal periods ending on or after June 15, 2010.

A handwritten signature in cursive script that reads "Michael P. Stephens". The signature is written over a horizontal line.

Michael P. Stephens,  
Acting Inspector General, G

**Example B**

**Independent Auditor's Report on Internal Control  
Combined Report Applicable to Internal Control Over Financial Reporting Based on an  
Audit of Financial Statements and Internal Control Over Compliance for HUD-Assisted  
Programs**

**No Material Weaknesses, No Significant Deficiencies Identified<sup>1 2</sup>**

Independent Auditor's Report<sup>3</sup>

[Addressee]

We have audited the financial statements of [insert entity's name] as of and for the year ended [insert date], and have issued our report thereon, dated [insert date of report]. We have also audited [insert entity's name] compliance with specific program requirements that could have a direct and material effect on each of its major<sup>4</sup> U.S. Department of Housing and Urban Development (HUD)-assisted programs for the year ended [insert date], and have issued our reports thereon, dated [insert date of report].

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in "Government Auditing Standards," issued by the Comptroller General of the United States; and the "Consolidated Audit Guide for Audits of HUD Programs" (Guide), issued by the HUD Office of the Inspector General. Those standards and the Guide require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether [insert entity's name] complied with the compliance requirements referred to above that could have a direct and material effect on a major HUD-assisted program.

Management of [insert entity's name] is responsible for establishing and maintaining effective internal control over financial reporting and internal control over compliance with the compliance requirements referred to above. In planning and performing our audits of the financial statements

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<sup>1</sup> See example B-1 for an illustration of a report in which significant deficiencies were identified by the auditor but no material weaknesses were identified. See example B-2 for an illustration of a report in which both material weaknesses and significant deficiencies were identified. Example B-2 would also be used by the auditor for situations in which there were material weaknesses but no significant deficiencies were identified.

<sup>2</sup> Note that this combined report format is illustrative of one possible presentation. Auditors may choose to issue separate reports on internal control over financial reporting and internal control over compliance.

<sup>3</sup> If the [insert entity's name] is an issuer and the audit is performed in accordance with Public Company Accounting Oversight Board (PCAOB) standards, modifications to this report would be necessary to comply with PCAOB standards. See also footnote 2, which discusses alternative presentations that may be more appropriate for reporting for issuers.

<sup>4</sup> The reference to major HUD-assisted programs here and throughout this report is used because the auditor's opinion on compliance runs to the major programs. However, when required by the "Consolidated Audit Guide for Audits of HUD Programs" (Guide), the auditor still has the responsibility to test compliance with specific requirements applicable to nonmajor HUD-assisted program transactions and issue the related nonmajor report, "Report on Compliance With Specific Requirements Applicable to Nonmajor HUD-Assisted Programs."

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and compliance, we considered [insert entity's name] internal control over financial reporting and its internal control over compliance with the specific program requirements that could have a direct and material effect on a major HUD-assisted program to determine the auditing procedures for the purpose of expressing our opinions on the financial statements and compliance but not for the purpose of expressing an opinion on the effectiveness of [insert entity's name] internal control over financial reporting and internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of [insert entity's name] internal control over financial reporting and internal control over compliance.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct (1) misstatements of the [insert entity's name] financial statements or (2) noncompliance with specific program requirements of a HUD-assisted program on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control such that there is a reasonable possibility that (1) a material misstatement of the [insert entity's name] financial statements or (2) material noncompliance with specific program requirements of a HUD-assisted program will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting and internal control over compliance was for the limited purpose described in the third paragraph of this report and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above.

[We noted certain matters that we reported to management of [insert entity's name] in a separate letter, dated [insert date of letter].<sup>5</sup>

This report is intended solely for the information and use of management, [identify the body or individuals charged with governance], others within the [insert entity's name], and HUD and is not intended to be and should not be used by anyone other than these specified parties.

[Signature]

[Date]

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<sup>5</sup> The mention of the management letter in the independent auditor's report is required for all audits performed in accordance with this Guide.

**Example B-1**

**Independent Auditor's Report on Internal Control  
Combined Report Applicable to Internal Control Over Financial Reporting Based on an  
Audit of Financial Statements and Internal Control Over Compliance for HUD-Assisted  
Programs**

**Significant Deficiencies Were Identified--No Material Weaknesses Identified<sup>1</sup>**

Independent Auditor's Report<sup>2</sup>

[Addressee]

We have audited the financial statements of [insert entity's name] as of and for the year ended [insert date], and have issued our report thereon, dated [insert date of issued audit report]. We have also audited [insert entity's name] compliance with specific program requirements that could have a direct and material effect on each of its major<sup>3</sup> U.S. Department of Housing and Urban Development (HUD)-assisted programs for the year ended [insert date], and have issued our reports thereon, dated [insert date of issued audit report].

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in "Government Auditing Standards," issued by the Comptroller General of the United States; and the "Consolidated Audit Guide for Audits of HUD Programs" (Guide), issued by the HUD Office of the Inspector General. Those standards and the Guide require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether [insert entity's name] complied with the compliance requirements referred to above that could have a direct and material effect on a major HUD-assisted program.

Management of [insert entity's name] is responsible for establishing and maintaining effective internal control over financial reporting and internal control over compliance with the compliance requirements referred to above. In planning and performing our audits of the financial statements and compliance, we considered [insert entity's name] internal control over financial reporting and its internal control over compliance with the specific program requirements that could have a direct and material effect on a major HUD-assisted program to determine the auditing procedures for the purpose of expressing our opinions on the financial statements and compliance but not for the purpose of expressing an opinion on the effectiveness of [insert entity's name] internal control

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<sup>1</sup> Note that this combined report format is illustrative of one possible presentation. Auditors may choose to issue separate reports on internal control over financial reporting and internal control over compliance.

<sup>2</sup> If the [insert entity's name] is an issuer and the audit is performed in accordance with Public Company Accounting Oversight Board (PCAOB) standards, modifications to this report would be necessary to comply with PCAOB standards. See also footnote 2, which discusses alternative presentations that may be more appropriate for reporting for issuers.

<sup>3</sup> The reference to major HUD-assisted programs here and throughout this report is used because the auditor's opinion on compliance runs to the major programs. However, when required by the "Consolidated Audit Guide for Audits of HUD Programs" (Guide), the auditor still has the responsibility to test compliance with specific requirements applicable to nonmajor HUD-assisted program transactions and issue the related nonmajor report, "Report on Compliance With Specific Requirements Applicable to Nonmajor HUD-Assisted Programs."

over financial reporting and internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of [insert entity's name] internal control over financial reporting and internal control over compliance.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct (1) misstatements of the [insert entity's name] financial statements or (2) noncompliance with specific program requirements of a HUD-assisted program on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control such that there is a reasonable possibility that (1) a material misstatement of the [insert entity's name] financial statements or (2) material noncompliance with specific program requirements of a HUD-assisted program will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting and internal control over compliance was for the limited purpose described in the third paragraph of this report and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above. However, we identified certain deficiencies in internal control that we consider to be significant deficiencies. A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness in internal control over financial reporting or a material weakness in internal control over compliance yet important enough to merit attention by those charged with governance. We consider the deficiencies described below to be significant deficiencies.

[Describe the significant deficiencies that were identified.]<sup>4</sup>

The [insert entity's name] responses to the significant deficiencies identified in our audit are described above [or in the accompanying schedule of findings]. We did not audit [insert entity's name] responses, and, accordingly, we express no opinion on the responses.

[We noted certain matters that we reported to management of the [insert entity's name] in a separate letter, dated [insert date of the letter].]<sup>5</sup>

This report is intended solely for the information and use of management, [identify the body or individuals charged with governance], others within the [insert entity's name], and HUD and is not intended to be and should not be used by anyone other than these specified parties.

[Signature]

[Date]

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<sup>4</sup> If the auditor includes the findings in a separate schedule instead of in the body of the report, the third sentence of the previous paragraph would be replaced with language similar to the following:

However, we identified certain deficiencies in internal control that we consider to be significant deficiencies as described in the accompanying schedule of findings as items [list the reference numbers of the related findings; for example, findings 1, 2, and 3].

<sup>5</sup> The mention of the management letter in the independent auditor's report is required for all audits performed in accordance with this Guide.

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**Example B-2**

**Independent Auditor's Report on Internal Control  
Combined Report Applicable to Internal Control Over Financial Reporting Based on an  
Audit of Financial Statements and Internal Control Over Compliance for HUD-Assisted  
Programs  
Material Weaknesses and Significant Deficiencies Were Identified<sup>1 2</sup>**

Independent Auditor's Report<sup>3</sup>

[Addressee]

We have audited the financial statements of [insert entity's name] as of and for the year ended [insert date], and have issued our report thereon, dated [insert date of report]. We have also audited [insert entity's name] compliance with specific program requirements that could have a direct and material effect on each of its major<sup>4</sup> U.S. Department of Housing and Urban Development (HUD)-assisted programs for the year ended [insert date], and have issued our reports thereon, dated [insert date of report].

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in "Government Auditing Standards," issued by the Comptroller General of the United States; and the "Consolidated Audit Guide for Audits of HUD Programs" (Guide), issued by the HUD Office of the Inspector General. Those standards and the Guide require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether [insert entity's name] complied with the compliance requirements referred to above that could have a direct and material effect on a major HUD-assisted program.

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<sup>1</sup> See example B for an illustration of a report in which no material weaknesses or significant deficiencies were identified by the auditor. See example B-1 for an illustration of a report in which significant deficiencies were identified but no material weaknesses were identified. Note that this example (B-2) illustrates the reporting when both material weaknesses and significant deficiencies were identified. Example B-2 would also be used by the auditor for situations in which there were material weaknesses but no significant deficiencies were identified.

<sup>2</sup> Note that this combined report format is illustrative of one possible presentation. Auditors may choose to issue separate reports on internal control over financial reporting and internal control over compliance.

<sup>3</sup> If the [insert entity's name] is an issuer and the audit is performed in accordance with Public Company Accounting Oversight Board (PCAOB) standards, modifications to this report would be necessary to comply with PCAOB standards. See also footnote 2, which discusses alternative presentations that may be more appropriate for reporting for issuers.

<sup>4</sup> The reference to major HUD-assisted programs here and throughout this report is used because the auditor's opinion on compliance runs to the major programs. However, when required by the "Consolidated Audit Guide for Audits of HUD Programs" (Guide), the auditor still has the responsibility to test compliance with specific requirements applicable to nonmajor HUD-assisted program transactions and issue the related nonmajor report, "Report on Compliance With Specific Requirements Applicable to Nonmajor HUD-Assisted Programs."

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Management of [insert entity's name] is responsible for establishing and maintaining effective internal control over financial reporting and internal control over compliance with the compliance requirements referred to above. In planning and performing our audits of the financial statements and compliance, we considered [insert entity's name] internal control over financial reporting and its internal control over compliance with the specific program requirements that could have a direct and material effect on a major HUD-assisted program to determine the auditing procedures for the purpose of expressing our opinions on the financial statements and on compliance but not for the purpose of expressing an opinion on the effectiveness of [insert entity's name] internal control over financial reporting and internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of [insert entity's name] internal control over financial reporting and internal control over compliance.

Our consideration of internal control over financial reporting and internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses, and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.<sup>5</sup>

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct (1) misstatements of the [insert entity's name] financial statements or (2) noncompliance with specific program requirements of a HUD-assisted program on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control such that there is a reasonable possibility that (1) a material misstatement of the [insert entity's name] financial statements or (2) material noncompliance with specific program requirements of a HUD-assisted program will not be prevented or detected and corrected on a timely basis. We consider the following deficiencies in [insert entity's name] internal control to be material weaknesses:

[Describe the material weaknesses that were identified.]<sup>6</sup>

A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness in internal control over financial reporting or a material weakness in internal control over compliance yet important enough to merit attention by those charged with governance. We consider the following deficiencies in [insert entity's name] internal control to be significant deficiencies.<sup>7</sup>

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<sup>5</sup> If no significant deficiencies were identified, this sentence would read as follows:

However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

<sup>6</sup> If the auditor includes the findings in a separate schedule instead of in the body of the report, the last sentence of the previous paragraph would be replaced with language similar to the following:

However, we identified certain deficiencies in internal control that we consider to be material weaknesses as described in the accompanying schedule of findings as items [list the reference numbers of the related findings; for example, findings 1, 2, and 3].

<sup>7</sup> If no significant deficiencies were identified, this paragraph would be deleted along with the paragraph below as there would be no significant deficiencies to identify.



[Describe the significant deficiencies that were identified.]<sup>8</sup>

The [insert entity's name] responses to the material weaknesses [and significant deficiencies] identified in our audit are described above [or in the accompanying schedule of findings]. We did not audit [insert entity's name] responses, and, accordingly, we express no opinion on the responses.

[We noted certain matters that we reported to management of [insert entity's name] in a separate letter, dated [insert date of letter].]<sup>9</sup>

This report is intended solely for the information and use of management, [identify the body or individuals charged with governance], others within the [insert entity's name], and HUD and is not intended to be and should not be used by anyone other than these specified parties.

[Signature]

[Date]

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<sup>8</sup> If the auditor includes the findings in a separate schedule instead of in the body of the report, the last sentence of the previous paragraph would be replaced with language similar to the following:

We identified certain deficiencies in internal control that we consider to be significant deficiencies as described in the accompanying schedule of findings as items [list the reference numbers of the related findings; for example, findings 1, 2, and 3].

<sup>9</sup> The mention of the management letter in the independent auditor's report is required for all audits performed in accordance with this Guide.

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**Example C****Independent Auditor's Report on Compliance With Specific Program Requirements That Could Have a Direct and Material Effect on Each Major HUD-Assisted Program**Independent Auditor's Report<sup>1</sup>

To the Partners  
[the Entity]  
Anytown, U.S.A.:

We have audited the [insert entity's name] compliance with the specific program requirements governing [list those requirements tested] that could have a direct and material effect on each of the [insert entity's name] major U.S. Department of Housing and Urban Development (HUD)-assisted programs, for the year ended [insert date]. Compliance with those requirements is the responsibility of the [insert entity's name] management. Our responsibility is to express an opinion on the [insert entity's name] compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in "Government Auditing Standards," issued by the Comptroller General of the United States; and the "Consolidated Audit Guide for Audits of HUD Programs" (Guide), issued by the HUD Office of the Inspector General. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on a major HUD-assisted program occurred. An audit includes examining, on a test basis, evidence about the [insert entity's name] compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the [insert entity's name] compliance with those requirements.

In our opinion, the [insert entity's name] complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major HUD-assisted programs for the year ended [insert date].

This report is intended solely for the information of and use of management, [identify the body or individuals charged with governance], others within the [insert entity's name], and HUD and is not intended to be and should not be used by anyone other than these specified parties.

[Signature]  
[Date]

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<sup>1</sup> If the [insert entity's name] is an issuer and the audit is performed in accordance with Public Company Accounting Oversight Board (PCAOB) standards, modifications to this report would be necessary to comply with PCAOB standards.

**Example D**

**Independent Auditor's Report on Compliance With Specific Requirements Applicable to  
Nonmajor HUD Program Transactions**

To the Partners  
[the Entity]  
Anytown, U.S.A.:

We have audited the financial statements of [insert entity's name] as of and for the year ended [insert date], and have issued our report thereon, dated [insert date of report].

In connection with that audit and with our consideration of [insert entity's name] internal control used to administer HUD programs, as required by the "Consolidated Audit Guide for Audits of HUD Programs" (Guide), issued by the U.S. Department of Housing and Urban Development (HUD), Office of the Inspector General, we selected certain transactions applicable to certain nonmajor HUD-assisted programs for the year ended [insert date].

As required by the Guide, we performed auditing procedures to test compliance with the requirements governing [list those requirements tested] that are applicable to those transactions. Our procedures were substantially narrower in scope than an audit, the objective of which is the expression of an opinion on [insert entity's name] compliance with these requirements. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under the Guide.

This report is intended solely for the information and use of management, [identify the body or individuals charged with governance], others within the [insert entity's name], and HUD and is not intended to be and should not be used by anyone other than these specified parties.

[Signature]  
[Date]