



DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

INSPECTOR GENERAL  
for TAX  
ADMINISTRATION

September 22, 2009

The Honorable Kenneth M. Donohue  
Inspector General  
Department of Housing and Urban Development  
451 7<sup>th</sup> Street, S.W.  
Washington, D.C. 20410-4500

Dear Mr. Donohue:

We have reviewed the system of quality control in effect for the year ended March 31, 2009, for the audit organization of the Department of Housing and Urban Development Office of Inspector General (HUD OIG). A system of quality control encompasses the HUD OIG's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of conforming with *Government Auditing Standards*. The elements of quality control are described in *Government Auditing Standards*. The HUD OIG is responsible for designing a system of quality control and complying with it to provide the HUD OIG with reasonable assurance of performing audits and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the HUD OIG's compliance therewith based on our peer review.

Our review was conducted in accordance with *Government Auditing Standards* and guidelines established by the Council of the Inspectors General on Integrity and Efficiency (CIGIE). During our review, we interviewed the HUD OIG personnel and obtained an understanding of the nature of the HUD OIG audit organization, and the design of the HUD OIG's system of quality control sufficient to assess the risks implicit in its audit function. Based on our assessments, we selected engagements and administrative files to test for conformity with professional standards and compliance with the HUD OIG's system of quality control. The engagements selected represented a reasonable cross-section of the HUD OIG's audit organization, with emphasis on higher-risk engagements. Prior to concluding the review, we met with HUD OIG management to discuss the results of our review. We believe that the procedures we performed provide a reasonable basis for our opinion.

In performing our review, we tested compliance with the HUD OIG's quality control policies and procedures to the extent we considered appropriate. These tests covered the application of the HUD OIG's policies and procedures on selected engagements.

Our review was based on selected tests; therefore, it would not necessarily detect all weaknesses in the system of quality control or all instances of noncompliance with it.

There are inherent limitations in the effectiveness of any system of quality control, and therefore noncompliance with the system of quality control may occur and not be detected. Projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions, or because the degree of compliance with the policies or procedures may deteriorate.

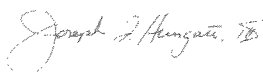
Enclosure 1 to this report identifies the engagements that we reviewed.

In our opinion, the system of quality control in effect for the year ended March 31, 2009, for the audit organization of the HUD OIG has been suitably designed and complied with to provide the HUD OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Federal audit organizations can receive a rating of *pass*, *pass with deficiencies*, or *fail*. The HUD OIG has received a peer review rating of *pass*.

As is customary, we have issued a letter dated September 22, 2009, that sets forth findings that were not considered to be of sufficient significance to affect our opinion expressed in this report.

In addition to reviewing its system of quality control to ensure adherence with *Government Auditing Standards*, we applied certain limited procedures in accordance with guidance established by the CIGIE related to the HUD OIG's monitoring of engagements performed by Independent Public Accountants (IPA) under contract where the IPA served as the principal auditor. It should be noted that monitoring of engagements performed by IPAs is not an audit and therefore is not subject to the requirements of *Government Auditing Standards*. During our scope period, the HUD OIG contracted with two IPAs to perform financial statement audits of the Federal Housing Administration and the Government National Mortgage Association, respectively. The purpose of our limited procedures was to determine whether the HUD OIG had controls to ensure IPAs performed contracted work in accordance with professional standards. We informed HUD OIG management of the results of our limited review. However, our objective was not to express an opinion and accordingly, we do not express an opinion, on the HUD OIG's monitoring of work performed by IPAs.

Sincerely,



Joseph I. Hungate, III  
Principal Deputy Inspector General

Enclosure

## **SCOPE AND METHODOLOGY (Enclosure 1)**

### **Scope and Methodology**

We tested compliance with the HUD OIG audit organization's system of quality control to the extent we considered appropriate. These tests included a review of 8 audit reports. These included 7 of 157 audit reports issued during our scope period of April 1, 2008, through March 31, 2009 (semiannual reporting periods ending September 30, 2008, and March 31, 2009). Further, we reviewed one report (issued on March 24, 2008) that was covered by the HUD OIG during an internal quality review performed during our scope period. In addition, we reviewed an additional audit assignment closed by the HUD OIG prior to our scope period (no audit report was issued) because it was related to one of the 7 reports issued during our scope, and contained planning work papers necessary to fully evaluate that audit's compliance with the HUD OIG's system of quality control. We also reviewed the internal quality control reviews performed by the HUD OIG during Fiscal Years 2006-2008.

In addition, we reviewed the HUD OIG's monitoring of engagements performed by IPAs where the IPA served as the principal auditor during the period April 1, 2008, through March 31, 2009. During the period, the HUD OIG contracted for the audit of the Federal Housing Administration's and Government National Mortgage Association's Fiscal Years 2008 and 2007 financial statements.

### **Reviewed Engagements Performed by the HUD OIG**

We selected and reviewed the following audit reports (and workpapers) issued by the HUD OIG:

Report No.	Report Date	Report Title
2009-FO-0003	11/14/08	Additional Details to Supplement Our Report on HUD's Fiscal Years 2008 and 2007 Financial Statements
2008-KC-0002	03/24/08	HUD Did Not Ensure That Housing Authorities Properly Administered the Community Service and Self-Sufficiency Requirement
2008-DP-0007	09/11/08	Evaluation of HUD's Security Controls Over Databases
2008-NY-1007	05/29/08	The County of Essex Did Not Always Administer Its CDBG Program in Accordance with HUD Requirements
2009-LA-1002	11/17/08	The Housing Authority of the City of Los Angeles Did Not Adequately Conduct Housing Quality Standards Inspections
2008-AT-1010	07/25/08	Meridian Lending, Inc. Did Not Follow HUD Requirements in Originating Two Insured Loans
2008-AO-1003*	04/25/08	The Mississippi Development Authority's Homeowners Assistance Program Contract Included Ineligible Provisions
2009-FW-1007	03/25/09	The Owners of Stonebrook Apartments Phase I and Phase II Violated Their Regulatory Agreements with HUD, Baytown, Texas

\*For this selected report, we also reviewed the HUD OIG's audit file related to assignment # 2007 AO-0001 because work papers contained in this file were used as a basis for the planning work for the audit report.

**Reviewed Monitoring Files of the HUD OIG for Contracted Engagements**

We reviewed both audit reports issued by IPAs during the period April 1, 2008, through March 31, 2009, to review the HUD OIG's monitoring activities. In addition, we reviewed the associated files documenting the HUD OIG's monitoring activities. Specifically, we reviewed:

Report No.	Report Date	Report Title
2009-FO-0001	11/07/08	Audit of Government National Mortgage Association's (Ginnie Mae) Financial Statements for Fiscal Years 2008 and 2007
2009-FO-0002	11/07/08	Audit of the Federal Housing Administration's Financial Statements for Fiscal Years 2008 and 2007