

**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>**

[Addressee]

We have audited the financial statements of [the entity] as of and for the year ended [date], and have issued our report thereon, dated [date]. We have also audited [the entity's] compliance with requirements applicable to major<sup>3</sup> U.S. Department of Housing and Urban Development (HUD)-assisted programs for the year ended [date], and have issued our reports thereon, dated [date].

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 [the entity] complied with laws and regulations, noncompliance with which would be material to a major HUD-assisted program.

Management of [the entity] is responsible for establishing and maintaining effective internal control over financial reporting and internal control over compliance. In planning and performing our audits of the financial statements and compliance, we considered [the entity's] internal control over financial reporting and its internal control over compliance with requirements that could have a direct and material effect on a major HUD-assisted program as a basis for designing our 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 [the entity's] internal control over financial reporting and internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of [the entity's] internal control over financial reporting and internal control over compliance.

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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> 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*, 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."

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 entity's financial statements or (2) noncompliance with applicable 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 entity's financial statements or (2) material noncompliance with applicable 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 [the entity] in a separate letter, dated [date].<sup>4</sup>]

This report is intended solely for the information and use of management, *[identify the body or individuals charged with governance]*, others within the entity, 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> Certain chapters of the Guide require mention of the management letter in the independent auditor's report. Consult the Guide for further information.