



HUD Audit Guide Chapter 1



Transmittal Letter

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- First change in chapter since December 2001
- Conforms to numerous requirements of the GAO, A-133 and, AICPA
- Effective for audits with fiscal years ending on or after September 30, 2011

Transmittal -Summary of Changes

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- Establishes criteria for Guide to be used as a program-specific audit guide
- Changes major program amounts
- Engagement letter requirements
- Requirement to notify HUD if auditor is terminated or withdraws from the engagement
- Moves sampling appendix from chapter 3 to all chapters

General Audit Guidance

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- Guide is to be used for audits of profit and non-profit sponsors of multifamily programs, Ginnie Mae and FHA audits as well as cost MF certification audits
- Audits begin with a financial audit to determine AFS are GAAP, and also result in an increased review of internal control, assurance on compliance, safeguard assets, promote effective resource management and ensure to delivery of services to target population

General Audit Guidance con't

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- Provide auditor requirements to perform specific procedures to enable an opinion on compliance
- Reports are the primary tool for HUD management in evaluating the program
- Although the Guide is mandatory for all for-profit entities it is *“not intended to cover all situations that may exist or replace auditor judgment of audit work required to meet GAAS and/or GAGAS”* *“...Suggested audit procedures contained herein might not cover all circumstances ...”* The Auditor should use professional judgment to tailor the procedures so that the audit objectives may be achieved.”

General Audit Guidance con't

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- *“...auditors must address all applicable compliance requirements in this guide.” If the auditor determines that certain procedures will not be performed, the rationale for the exclusion must be explained in detail and documented in support of the audit’s report, and an appropriate qualification to the auditor’s opinion may be required.”*

General Audit Guidance con't

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- Auditor should ensure that the audit procedures to be used is complete and applicable. If additional requirements are identified or requirements are not applicable to a certain period, procedures should be adjusted accordingly and documented. Federal rules, regulations, and other guidance should be followed and procedures should be modified to test current compliance. Examples include the mortgagee letters or housing notices.

General Audit Guidance con't

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- Audits must still file data collection forms and file AFS in accordance with A-133
- Management letters must be sent submitted directly to the HUD office providing funding/services to the auditee. When reporting through an electronic system is available, management letter s/b included in the filing. When electronic filing is not available, letter s/b sent to field office in hardcopy format
- Audit should determine the program office responsible

General Audit Guidance con't

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- Guide may be used as an audit program for A-133 jobs either as a program-specific audit or there is no compliance supplement for the program
- This is in accordance with Part 7 of A-133

Auditor Qualification

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- Must meet GAGAS qualifications, including independence and CPE
- Firm must meet GAGAS quality control standards
- Peer review reports provided to client. Not required to send them to local office or DEC unless requested
- Must meet accountancy laws in state where they are licensed and auditee is located.
- If auditee is located in a different state AND auditor performs substantial fieldwork in the auditee's state, auditor should document compliance with that State's laws
- Guide does not establish additional requirements beyond those established by State boards of accountancy

Audit Approach and Scope

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- Audit s/b comprehensive in scope to permit expression of opinion on AFS and IRT opinion on supplemental data
- GAAS requires auditor to obtain a sufficient understanding of the entity and its environment, including its internal control to assess risk of MM
- GAGAS expands requirements to include requirements the reporting of internal control over financial reporting
- Guide expands on this to include compliance and internal controls over financial reporting in accordance with chapter 2

Audit Approach and Scope con't

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- As part of the audit under GAGAS the auditor is required to test and report on compliance regardless of amount of federal assistance
- GAGAS consideration is related to effect on AFS
- Guide enhances this requirement such that the report on compliance includes an opinion

Major Program Determination

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- Chapters 3 & 4 \$500,000
- Chapter 5 No major program
- Chapter 6 No dollar amount (all approved mortgagees)
- Chapters 7 & 8 \$2,000,000

Major Program Determination, con't

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- For FHA the amount is determined based on the aggregate of insured loans originated and/or serviced
- For Ginnie Mae and issuer with a servicing portfolio is considered a major program
- Activity with less than the amounts above will be treated as nonmajor. Auditor must still test and report on compliance without opinion and scope may be reduced

Reporting Compliance Violations

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- HUD requires reporting of all compliance violations and identification of questioned cost for each finding as a result of noncompliance
- *“HUD requires the reporting of all compliance violations and an identification of total questioned cost for each finding as a result of noncompliance. **HUD requires that ALL INSTANCES of noncompliance with any HUD requirement or regulation, material weakness in internal control, all instances of fraud or illegal acts, and contract violations be reported as findings in the audit report.”** However.....*



- *“Noncompliance, deficiencies, and instances of violations that were corrected during the audit, after the fiscal year under audit, or before the issuance of the audit report must be included in the report as resolved findings. **Audit finding sections are also included in chapter 2 and in chapters 3 through 8 of this guide in the event that the auditor following the audit steps in a specific chapter does not refer to chapter 2. The criteria for reporting findings vary among programs. Please refer to the finding sections in the program chapters for any specific detailed information the program may have on reporting of noncompliance.**”*

Sample Selection

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- HUD allows statistical and nonstatistical sampling. Both require judgment in planning, executing and evaluating the sample
- Sample must be representative
- Sample size must be adequate
- Attribute sampling was selected with input from industry
- To be used for compliance testing and test of controls whenever you see the word “sample”
- Because of inconsistencies, HUD has issued Appendix A to the Guide for sampling guidance

Appendix A - Sampling

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- When planning a sample auditor should consider the objective and determine the whether the procedures will achieve the objective. Sample size depends on both objectives and efficiency of sample
- All MATERIAL instances of noncompliance, including those identified through sampling must be identified as findings

Appendix A – Sampling, con't

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- Before testing, auditor **MUST** document the attribute and/or assertions being tested and identify the sample population is complete
- Each compliance test selected for testing s/b considered a separate sample.
- May test multiple attributes within each compliance requirement
- Auditors **MUST** assess control environment at entities with multiple locations. If controls are different, each location will be a separate population

Appendix A – Sampling, con't

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- Auditor **MUST** document the sampling unit
- Auditor **MUST** ensure that sample is representative
- Should clearly define what will be an exception subject to materiality to determine method of reporting

Sample Sizes

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АНАСРА

- Auditor needs to determine 3 values:
 - Confidence level (90, 95, 99 percent)
 - Tolerable Exception Rate (5-10 percent acceptable)
 - Expected Exception Rate (No exceptions)
 - Materiality – For attribute testing, monetary materiality or tolerable misstatement is not a necessary input

Required Sample Sizes

Compliance Sample Size Table

Importance/ significance of the attribute being tested	Confidence level	Tolerable rate	Minimum sample size for populations over 20
Low	90%	5%	50
Low	90%	10%	25
High	95%	5%	65
High	95%	10%	35



Required Sample Sizes, con't

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- Table is illustrative but does not replace professional judgment, however, these are minimum sample sizes
- Other considerations may increase sample sizes
- If initial sample does not include a particular attribute being tested, there would typically be a need to select additional items
- Each compliance test s/b evaluated separately to determine sample size
- Judgment to determine which items are high or low risk

Sample Sizes of 200 or Fewer Items

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АНАСРА

- 20 when population >100 and <199
- 10 when population >50 and <99
- 5 when the population >20 and <49
- Fewer than 5 for < 20

Evaluating Sample Results

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АНАСРА

- Sample sizes are based on no exceptions. If sample results in no exceptions, auditor has achieved the desired confidence level on the assertion
- If exceptions are found, auditor should investigate the nature and cause to determine materiality and method of reporting
- Expansion of test is not required
- All exceptions must be reported in accordance with Guide
- May be necessary to apply additional procedures to determine magnitude
- Consider internal control weaknesses

Required Documentation

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АНАСРА

- Must include:
 - Test objective
 - Definition of an exception
 - Description of population tested
 - Sampling unit
 - Confidence level
 - Significance of attribute
 - Sample size
 - Results of sample

Matters Requiring Immediate Action

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- Auditor should specifically assess risk of misstatement due to fraud
- Normally GAGAS audits do not include procedures designed to detect illegal acts
- Includes theft of funds or assets, unauthorized loans of project funds, payment of nonproject expenses, bid rigging and false claims

Engagement Letter

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- Audit performed in accordance with GAAS, GAGAS and Guide
- Date report will be delivered to auditee
- Government access to workpapers, including making copies of all documentation
- If illegal acts are brought to attention of management, even if inconsequential.
- Signing engagement letter give auditor permission to make OIG contact for potential fraud

Engagement Letter, con't

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АНАСРА

- Electronic submission to REAC is client's responsibility
- Auditor engagement to perform AUP may be included in this letter or separate letter
- Description of scope of audit report contents and that report will meet requirements

Engagement Letter, con't

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АНАСРА

- Permission for successor auditor to review previous auditor workpapers to discuss any matters
- List of client information to be supplied and expected delivery date
- It is auditee's responsibility to ensure compliance with reporting requirements and conditions stated in engagement letter are met. Extensions on due dates will not be granted.
- Delays caused by the auditee should become the basis of an audit finding.



- Auditor must use judgment to determine extent of testing
- Sample sizes described in Appendix A are the minimum for the 3 areas (financial, compliance and controls) that can be used.
- **One sample is not to be used for all three areas to be tested. Each area is to have its own sample size**

Testing, con't

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- Regardless of the amount of funds expended, each applicable compliance requirement must be addressed
- If auditor decides not to perform detailed testing of compliance requirement, the reason must be explained in detail and documented. Qualification may be required
- Testing plan is included when many projects are owned

Testing, con't

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АНАСРА

- Use of group-project testing must be agreed to by client
- All other areas must be tested separately
- Under group-project based sampling each project is to be considered a universe unto itself and the sampling procedure is to be followed for each project separately
- Sample sizes must be followed

Testing, con't

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АНАСРА

- Despite the various interpretations of wording, each project is to be considered as its own universe rather than considering all projects in one universe except for certain compliance requirements that are permitted to be audited on a consolidated basis as defined in chapter 3, paragraph 3-1.



- All material instances of noncompliance or compliance violations identified by the auditor must be reported as a finding, even if corrective action as already was taken by the auditee
- Follow chapter 2
- Management representations – auditor must obtain written representations including matters concerning compliance that have a material effect on the AFS regardless of materiality as well as management's responsibility to maintain effective IC over compliance

Other Matters, con't

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АНАСРА

- Audit documentation is to be retained a minimum of 6 years
- Should include a signed bound hardcopy report with signature
- Auditor should contact the single audit coordinator to determine length of time to hold documentation

Other Matter, con't

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- Auditor should contact prior auditor to obtain an understanding of conditions that exist and reasons for auditor change and unreported or undocumented matters
- If auditor resigns or is terminated, the auditor is to advise the OIG single audit coordinator and the program office in writing. This notice should provide information of any potential illegal acts
- See contact list

Internal Controls and Compliance

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- Overall guidance comes from GAGAS
- Sufficient understanding of internal control to plans and determine audit procedures
- Follow at a minimum SAS 109
- For HUD the auditor should perform tests of controls to evaluate the effectiveness of controls in preventing noncompliance
- S/B performed whether control risk is to be set below maximum
- Tests of controls may only be omitted if the controls are ineffective
- Should be accompanied by a finding

Quality Control Reviews

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- Workpapers submitted should include a transmittal letter containing name, firm address and telephone number of the audit partner, the EIN and state licensing number and certification number of the attesting CPA
- Review inadequacies may require corrective action
- HUD may refer to DEC, AICPA or state boards or to Justice Department

Corrective Action Plan

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- Auditee is required to submit for all findings
- Describe corrective actions taken or to be taken
- Submissions without CAP will be considered incomplete and delinquent
- See chapter 2

Fair Housing

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- Following guidance applies
 - Handbook 8004.1
 - Consolidated Civil Rights Monitoring Requirements For Section 8
 - 24 CFR Parts 1 and 8 and Part 100
 - Applies to all housing with exception of certain Indian tribes receiving HUD assistance



Audit Guide Chapter 2-1

“When performing tests of compliance requirements contained in Chapter 4, the IA should report on fair housing and nondiscrimination. Where the HUD-assisted activity is nonmajor, fair housing reporting should be included in the auditor's report on non-major HUD-assisted programs. Where the HUD-assisted activity is major, the auditor's report on specific requirements applicable to fair housing should be separate (Example E) from the auditor's opinion on compliance with specific requirements applicable to major programs.”