

**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-5

**Chapter Number:** 5

**Issued:** March 23, 2007

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1. This transmits Handbook 2000.04, REV-2, CHG-5, Chapter 5, Consolidated Audit Guide for Audits of HUD Programs, HUD - Development Cost Certification Audit Guidance.
2. **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 is a change to Handbook IG 2000.04, REV-2, chapter 5, dated August 1997. A change was necessary to clarify reporting requirements, suggested audit steps, and existing information/guidance. This chapter serves as a reference for auditors who perform cost certification audits of HUD multifamily-insured projects.

**3. Significant Changes:**

- a. Paragraph 5-1 added a provision that this chapter can be used to provide audit guidance to not-for-profit mortgagors for their audits of development cost certifications as provided for under OMB Circular A-133, paragraph 235(a), program-specific audit guide available.
- b. Paragraph 5-2 clarified the method of submitting these audits to the Department. Cost certification audits are not to be submitted electronically to REAC. But, the first operational audit and subsequent audits prepared in accordance with chapter 3 of this handbook must be submitted electronically to REAC.
- c. In paragraph 5-3, reference material was updated with the current material needed to understand the process and perform a cost certification audit. Also, references are added to documents not in the HUD unified issuance system along with a description of the auditors' responsibility with regard to the reference material.
- d. Paragraph 5-4 clarified the reporting requirements of the mortgagors, contractors, subcontractors, and others. The information in this paragraph was expanded to help auditors under the certification, reporting, and submission process.
- e. Auditors will be able to convey nonmaterial instances of noncompliance to management via a management letter or other type of auditor written communication as long as the requirements of chapter 2, paragraph F, are followed. Chapter 2 requirements provide that the existence of a management letter or other type of auditor communication must

be mentioned in the independent auditor's report, the date of issuance is to be included, it must be provided to HUD with the audit report package, and it is not to be used to report findings that were resolved before the audit report was issued. (paragraph 5-6).

- f. Auditors will be able to convey nonmaterial instances of noncompliance to management in a written management letter or other type of written auditor communication, and the auditor must mention the noncompliance in the independent auditor's report, including the date of the issuance of the management letter or other written correspondence. This information must also be provided to HUD with the audit report package.
- g. Suggested audit steps are established for areas in which HUD procedures were changed. Those changes and other changes made in this chapter are denoted between asterisks. For example, the statement that follows starting with regulation and ending with violation, was added to an existing paragraph

All material instances of noncompliance with any HUD requirement, \*regulation, including adjusted net worth and/or liquidity deficiencies, deficiencies in internal control, instances of fraud or illegal acts, or contract violations\* must be reported as findings in the audit report.

- h. Paragraph 5-8 was added to provide a contact point for program type questions that may arise during the course of the audit.

#### 4. Filing Instructions:

The issuance of this chapter cancels chapter 5 dated, August 1997.

**Remove**

**Insert**

Chapter 5, dated August 1997

Chapter 5, dated March 2007

#### 5. Effective Date:

This chapter is effective and can be used upon issuance. The requirements in this chapter shall apply to audits of profit-motivated sponsors/entities with fiscal years ending on or after June 30, 2007.



Kenneth M. Donohue  
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