

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 ¹**

[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 major² 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.

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

¹ 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.

² 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."

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. 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.]³

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

[We noted certain matters that we reported to management of [the entity] in a separate letter, dated [date].]⁴

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]

³ If the auditor includes the findings in a separate schedule versus 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]*.

⁴ Certain chapters of the Guide require mention of the management letter in the independent auditor's report. Consult the Guide for further information.