

CHAPTER 4. AUDIT ACTIVITIES

SECTION 1. NATURE AND OBJECTIVES OF AUDITS AND RELATED WORK

- 4-1 OBJECTIVES OF AUDIT EFFORTS. The primary purpose of the OIG's audit program is to identify, evaluate, and report on the Department's activities and programs so that any needed corrective action can be taken and future problems can be prevented.

The OIG conducts audits as defined by the Comptroller General. Such audits are made up of two types of reviews:

- A. Financial - determines whether books and records are complete and accurate and whether laws and regulations have been followed. There are two sub-types of financial audits:
 - 1. Financial statement audits determine: (a) whether the financial statements of an audited entity present fairly the financial position, results of operations and cash flows or changes in financial position in accordance with generally accepted accounting principles; and (b) whether the entity has complied with laws and regulations for those transactions and events that may have a material effect on the financial statements.
 - 2. Financial related audits include determining: (a) whether financial reports and related items, such as elements, accounts,, or funds are fairly presented; (b) whether financial information is presented in accordance with established or stated criteria; and (c) whether the entity has adhered to specific financial compliance requirements.
- B. Performance - determines whether the desired results or benefits established by the Congress are being achieved. There are two subtypes of performance audits:
 - 1. Economy and efficiency audits include determining: (a) whether the entity is acquiring, protecting, and using its resources (such as personnel, property, and space) economically and efficiently; (b) the causes of inefficiencies or uneconomical practices; and (c) whether the entity has complied with laws and regulations concerning matters of economy and efficiency.
 - 2. Program audits include determining: (a) the extent to which the desired results or benefits established by the legislature or other authorizing body are being achieved; (b) the effectiveness of organizations, programs, activities, or functions; and (c) whether the entity has complied with laws and regulations applicable to the program.

OIG audits may include any or all of the types depending upon the planned objectives.

4-2 CATEGORIES OF AUDITS. The audit workload is generally divided into two main categories, internal and external audits.

A. Internal Audits. Internal audits are made of selected HUD administrative and program operations to evaluate the effectiveness and efficiency with which managerial responsibilities are being carried out. Audits are directed toward determining whether management controls, practices and procedures at the levels reviewed are adequate and effective.

Internal audits are also made of selected HUD programs and activities to evaluate the effectiveness of the particular program/activity and to determine whether the anticipated results are being achieved.

B. External Audits. Generally, external audits are independent reviews of the records and performance of organizations or entities (program participants receiving financial assistance or benefit from the Department such as grant recipients, borrowers, owners of multifamily insured projects, mortgage lenders, contractors and agents.

The audits are a means of ascertaining the degree of compliance with statutes, regulations and terms and conditions of the agreements under which the Federal funds are made available. Determination is also made as to the appropriateness of the disposition of funds granted, loaned, or administered.

External audits may be performed by the OIG, Independent Auditors (IA's) or Federal audit agencies. (See paragraph 4-20.)

SECTION 2. AUDIT PLANNING

4-3 OMB CIRCULAR NO. A-73. OMB Circular No. A-73 Revised, entitled Audit of Federal Operations and Programs, requires each agency to: (a) establish procedures for periodic review of its individual programs and operations to determine the coverage frequency, and priority of audits required; and (b) prepare an audit plan at least annually, based on certain criteria prescribed in the Circular. (See paragraphs 4-5 through 4-7.)

4-4 SCOPE AND FREQUENCY. All offices and organizational units of the Department and all programs and operations are subject to audit at any time. Determination of the priority, nature, scope and frequency of audit is the responsibility of the Assistant Inspector General for Audit.

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4-5 ANNUAL AUDIT PLAN. The Annual Audit Plan represents the OIG's formal plan of action for the management of its audit resources and workload during the fiscal year. The Plan is based upon information and

suggestions obtained from all levels of the OIG and Departmental management. The Plan is flexible and can be revised when changes in audit priorities are warranted.

- 4-6 AUDIT PLANNING POLICY AND CRITERIA. The OIG's policy is to provide audit emphasis on: (a) HUD offices where significant resources are expended; (b) HUD programs, functions, or activities according to prescribed priority factors; and (c) external audits where known or potential problem areas can most adversely affect HUD's accomplishment of its mission. In addition to specifying the minimum contents of Federal agency audit plans, OMB Circular No. A-73 prescribes nine criteria by which priorities should be assigned to potential audit subjects. OIG's policy regarding priority assignment recognizes the OMB criteria and includes two other factors. One factor is the Inspector General Act's mandate to prevent and detect fraud and program abuse; the other involves the special concerns of the President and the Secretary of HUD.

The criteria for planning audits are described below.

- A. Susceptibility to occurrence of fraud, embezzlement, program manipulation, or other kinds of irregularities.
- B. Mandatory requirements of legislation or other Congressional or GAO recommendations.
- C. Emphasis by the President and the Secretary.
- D. Management needs to be met, as developed in consultation with HUD Primary Organization Heads.
- E. Newness, changed conditions, or sensitivity of the organization, program, activity, or function.
- F. Dollar magnitude, duration, or resources involved.
- G. Prior audit experience, including the adequacy of the financial management systems and internal controls.
- H. Extent of Federal participation either in terms of resources or regulatory authority.
- I. Availability of audit resources.
- J. Timeliness, reliability, and coverage of audit reports by others (e.g., State and non-Federal auditors).

- K. Results of other reviews such as inspections, project monitoring reports, and program evaluations.

- 4-7 REQUESTS FOR AUDIT. Although the OIG's Office of Audit will contact Headquarters and Regional Primary Organization Heads prior to the development of the Annual Audit Plan in order to obtain suggestions for planning particular audits, HUD Headquarters and Field officials may

request audit services whenever the need arises. With the exception of requests for contract audits, Headquarters officials should direct audit requests to the Assistant Inspector General for Audit. Requests by the office of Procurement and Contracts for contract audits should be directed to the Director, Headquarters Audit Operations. Field Office officials should direct requests for audits to the appropriate Regional Inspector General for Audit.

Departmental officials, however, may direct to the personal attention of the Inspector General any matter that warrants audit attention because the matter is extremely sensitive; involves security considerations; requires urgent attention; or involves nationwide problems.

SECTION 3. CONDUCTING AUDITS

4-8 ADVANCE NOTIFICATION OF AUDITS. Generally, the OIG will give advance notification of audits to appropriate officials in the organizations involved. However, audits may sometimes be made without prior notification when time or other conditions make such notification impractical.

4-9 CONFERENCE. The entrance conference is a meeting held at the start of an audit involving a member or members of the audit team and the officials responsible for the organization or operation to be audited. At this conference, the lead auditor explains the purpose, scope, and objectives of the audit.

Other areas covered include the timetable for completing the audit, access to required records and information, space accommodations, and introduction of audit team members. Cooperation with the audit team and identification of potential areas that might warrant audit review will be sought at this time.

4-10 AUDIT COVERAGE. The Departmental activity or function audited is usually identified in the title of each audit report. The scope stated in the report will show the functions of the audit entity reviewed and appraised. However, in keeping with normal audit procedures, only a test of records and transactions in a particular function will be examined. Therefore, audit conclusions are expressed in terms of the sample examined unless the sampling plan used provides a basis for projecting

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the results of the audit to the total group of records and transactions from which the sample was selected.

4-11 EXIT CONFERENCE. The exit conference is the official meeting to close out the audit. It involves members of the audit team and persons responsible for administering the audited entity. Also, in the case of external audits, the exit conference may include Departmental program representatives who have responsibility over the external entity. Generally, the exit conference involves a discussion of the findings, conclusions and recommendations of the audit (which are usually made known to the auditee prior to the exit conference) including the corrective measures proposed or taken by the auditee, and any points of disagreement and the auditee's reasons for disagreeing. Exit

conferences are more fully described in HUD Handbook 2000.6 REV-2, Audits Management System.

SECTION 4. DISTRIBUTING AUDIT REPORTS AND DISCLOSING AUDIT INFORMATION

4-12 DISTRIBUTION OF AUDIT REPORTS WITHIN THE DEPARTMENT. The Office of Inspector General will transmit audit reports to Departmental officials in accordance with agreed-upon distribution schedules. The reports will be addressed and submitted to the Departmental officials (action recipients) who have the responsibility for taking action on the reported matters. Copies of the reports will be furnished to other officials having an interest in the matters covered in the report. The action officials) or the Assistant Inspector General for Audit may furnish copies of the audit reports to other Departmental officials who have a need for the reports in the course of their work. Additional information on distributing audit reports can be found in HUD Handbook 2000.6 REV-2, Audits Management System.

A. Draft Audit Report. Draft audit reports may not be released to parties outside the Department without the approval of the Inspector General. HUD personnel receiving reports for review and consideration shall exercise due caution to avoid improper disclosure of information in the audit reports.

B. Final Audit Report. Copies of issued audit reports are provided to other than action addressees on the basis of agreed-upon distribution schedules.

4-13 DISTRIBUTION OF AUDIT REPORTS OUTSIDE THE DEPARTMENT. An external audit report concerning contractual relations under the jurisdiction of the Department may, at the discretion of the action recipient (s) of the report, be distributed to the grantee, borrower, contractor' or other

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party (and its appointing authority) whose activities from the basis of the audit.

Internal or external audit reports containing information for consideration by the Department of Justice shall be transmitted to that Department by the Office of Inspector General. The OIG also is responsible for the distribution of audit reports to the General Accounting Office.

4-14 REQUESTS BY THE PUBLIC FOR AUDIT RFPORST. Audit reports prepared by the OIG, by Independent Auditors, or by auditors of other Federal Government agencies when the audit relates primarily to HUD, shall be released to the public upon request, except as noted below. Release of external audit reports may be made by action addressees or their designees with certain exceptions.

Exceptions to releasing audit reports are as follows:

A. Contract cost audits and pricing proposal evaluations contain confidential financial information which is exempt from

disclosure. Requests for these reports must be addressed to the Assistant Inspector General for Audit for special handling.

- B. The Office of Audit provides the action office time to forward external audit reports to the auditee before releasing the reports to the public, up to the 10 working days allowed by statute in responding to Freedom of Information Act requests.

4-15 PROCESSING OF AUDIT REPORTS BY AUDIT LIAISON OFFICERS. Pursuant to HUD Handbook 2000.6 REV-2, Audits Management System, each Headquarters Primary Organization Head, Regional Administrator and Manager is required to appoint an Audit Liaison Officer in Headquarters and in each Regional and Field Office, respectively. Audit Liaison Officers serve as the primary focal point for coordinating the processing and handling of OIG, non-Federal and GAO audit reports and recommendations which require closing actions.

4-16 INQUIRIES CONCERNING AUDIT WORK WHICH IS PLANNED OR IN PROGRESS. Inquiries concerning audit work which is contemplated or in progress shall be referred to the Assistant Inspector General for Audit or to the applicable Regional Inspector General for Audit. They are authorized to respond to such inquiries, but generally will limit their responses to an appropriate statement regarding the status of the audit (i.e., audit is planned, audit is in progress, or report will be issued in due course).

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4-17 RETENTION AND DISPOSITION OF AUDIT REPORTS. Disposition of Inspector General and IA audit reports distributed-within the Department is the responsibility of the receiving offices. The reports should not be returned to the Office of Inspector General, but should be destroyed when the receiving office no longer needs them for reference, as authorized by the current HUD records disposition schedules. In determining when the reports are no longer needed, the receiving office should be aware that OIG keeps a record copy of internal audit reports (in the audit case file) for 8 years from the date of the audit (5 years in HUD and another 3 years in the Records Center).

SECTION 5. RESOLVING AUDIT FINDINGS AND RECOMMENDATIONS

4-18 RESPONSIBILITIES. HUD action officials are required to take responsive and timely action on all audit findings and recommendations for which they have appropriate responsibility pursuant to CMB Circular A-50, "Audit 'Follow-up and Resolution,'" and Section 305 of the "Supplemental Appropriations and Rescission Act of 1980." Such officials are further responsible for taking the necessary measures to ensure that implementing actions are effective in correcting the reported adverse conditions and that steps are taken to ensure that the reported adverse conditions do not recur.

4-19 AUDITS MANAGEMENT SYSTEM (AMS). The Department's system and requirements for resolving reported audit findings and recommendations are found in HUD Handbook 2000.6 REV-2, Audits Management System. The primary responsibility for implementing the AMS is vested with HUD's Primary Organization Heads. The AMS is generally designed to:

- A. Timely identify for top HUD management any major problems disclosed by audits.
- B. Assure that implementation of audit recommendations is initiated in a timely fashion.
- C. Assure appropriate follow-up on the implementation of audit recommendations.

SECTION 6. NON-FEDERAL AUDITS

4-20 AUDITS BY INDEPENDENT AUDITORS. By law, and by OMB directives and HUD regulations, audits of recipients of HUD assistance are made by Independent Auditors (IA's) following Federally prescribed guidelines.

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The Inspector General Act requires the OIG to establish guidelines for determining when it shall be appropriate to use non-Federal auditors. The Department does not normally contract directly with IA's for audits of HUD-assisted programs or activities. Rather, the recipient of HUD assistance is responsible for contracting for the services of an IA in conformance with applicable regulations or HUD administrative requirements.

HUD program participants are responsible for ensuring that audits are scheduled and conducted in accordance with HUD or OMB's prescribed guidelines for such audits.

4-21 MONITORING OF NON-FEDERAL AUDITS BY THE OIG. Non-Federal audit work and reports involving HUD program participants are subject to review by the OIG. The Inspector General Act requires the Inspector General to take appropriate steps to assure that any work performed by non-Federal auditors complies with the standards established by the Comptroller General of the United States for audits of Federal establishments, organizations, programs, activities, and functions. The OIG also has a role as a designated cognizant audit agency under OMB Circular A-128, "Audits of State and Local Governments."

If the OIG's review of IA audit work indicates deficiencies and actions to correct such deficiencies are not taken by the IA, administrative sanctions may be necessary. The OIG is responsible for initiating sanctions against deficient IA's when necessary. Such sanctions include referring an IA to the appropriate State regulatory authority or the American Institute of Certified Public Accountants, or initiating possible debarment or suspension from participation in all government programs.

4-22 RESOLUTION OF NON-FEDERAL AUDIT FINDINGS. As appropriate, upon accepting a non-Federal audit report, the OIG will identify in its memorandum transmitting the report to the HUD action official, those audit findings which are to be controlled and resolved pursuant to the Department's Audits Management System. (See HUD Handbook 2000.6 REV-2.)

4-23 OMB CIRCULAR NO. A-128. OMB Circular No. A-128, "Audits of State and

Local Governments," establishes audit requirements for State, local and Indian tribal governments that receive Federal assistance. The Circular provides for independent audits of financial operations, including compliance with certain provisions of Federal law and regulations. These requirements were established to ensure that audits are made on an organizationwide basis rather than on a grant-by-grant basis. This is known as a "single audit".

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SECTION 7. GENERAL ACCOUNTING OFFICE ACTIVITIES

4-24 PURPOSE. This section describes the authority and responsibility of the United States General Accounting Office (GAO) in conducting audits and related inquiries involving HUD programs and activities. The section also prescribes uniform policies and procedures to facilitate the Department and the OIG's efforts to maintain effective coordination and ration with GAO in the review and evaluation of HUD programs and activities. In this regard, the OIG is the authorized Departmental liaison with GAO on all GAO reviews, inquiries and related matters involving HUD. Policies and procedures for processing GAO reports and HUD replies to GAO reports can be found in HUD Handbook 2000.6 REV-2, Audits Management System. The procedural guidance and information in this section should be used in conjunction with the GAO Policy and Procedures Manual for Guidance of Federal Agencies (Titles 1 through 8).

4-25 ACCESS TO RECORDS.

- A. General. GAO is statutorily authorized full and complete access to any books, documents, papers, or records of the Department and those .in the possession of recipients of HUD assistance, including contractors and subcontractors. Section (b)(10) of the Privacy Act permits an agency to disclose Privacy Act records to the Comptroller General or his authorized representative without obtaining the consent of the subject of the record.
- B. Denials of Access. If an official of the Department considers it necessary to withhold specific records or information requested by a representative of GAO, the Inspector General must be immediately advised of the matter prior to the time an exemption from GAO's access to records or information is officially requested by the Department. The Inspector General must be advised of the records or information involved and the reasons why an exemption from GAO's access should be requested. The Inspector General, in coordination with the Departmental GAO Liaison Officer (see Paragraph 4-27), will advise the Secretary and the requesting official on all such matters.

4-26 RETENTION OF RECORDS. Title 8, GAO Policy and Procedures Manual for Guidance of Federal Agencies, dated April 1, 1988, governs how the Department's records should be maintained for GAO review. HUD Handbook 2228.1, Records Disposition Management, incorporates Title 8's requirements. Records shall be retired to Federal Records Centers and destroyed using the records disposition schedules in HUD Handbook 2225.6, HUD Records Disposition Schedules, and HUD Handbook 2228.2,

General Records Schedules.

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Records shall subsequently be transferred to record centers in accordance with HUD Handbook 2225.6, Records Disposition Management, HUD Records Schedules.

4-27 DEPARTMENTAL GAO LIAISON OFFICER. The Department's liaison with GAO on all matters relating to GAO reviews and inquiries is the responsibility of the OIG and is carried out by the GAO Liaison Officer in the Office of Audit. Liaison responsibilities include:

- A. Receiving, reviewing, and distributing GAO letters, draft and published reports.
- B. Summarizing GAO reports for the Secretary, Deputy Secretary, and other senior HUD management officials.
- C. Monitoring, reviewing, evaluating, and assisting in the coordination and clearance of Departmental correspondence to Congressional committees, OMB, and GAO concerning GAO reports or other correspondence.
- D. Furnishing GAO, OMB, and Congressional appropriations committees copies of Departmental replies to GAO report recommendations.
- E. Providing a focal point for accumulation of information on actions promised and/or taken by the Department on GAO recommendations and reporting semiannually or otherwise, as necessary, on the status of the implementation of GAO recommendations.
- F. Acting as the Department's liaison with GAO on OIG audits and other related matters of interest to GAO.
- G. Keeping abreast of and informing appropriate senior HUD officials and Audit Liaison Officers of all GAO audit and investigative work planned and being performed in the Department.
- H. Coordinating the resolution of issues between GAO and HUD officials relating to access to HUD records and assisting GAO and HUD staffs, as necessary, to assure needed coordination and expeditious handling of GAO matters.

4-28 RESPONSIBILITIES OF DEPARTMENTAL OFFICIALS. Departmental officials (i.e., Primary Organization Heads, other officials who report to the Secretary, Office Managers, etc.) are responsible for facilitating GAO reviews and inquiries. Therefore, such officials must:

- A. Fully cooperate with GAO on all matters affecting GAO audits and inquiries.

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- B. Assure the proper retention of documents and records and their

accessibility to GAO, as required.

- C. Appropriately notify the OIG of GAO contacts and meetings.
- D. Take corrective action on the findings and recommendations in GAO reports. (Refer to HUD Handbook 2000.6 REV-2.)
- E. Prepare and clear replies to GAO reports in coordination with other affected HUD organizations and entities. (Refer to HUD Handbook 2000.6 REV-2.)
- F. Furnish GAO with replies to appropriate reports pursuant to statutory provisions and time limits. (Refer to HUD Handbook 2000.6 REV-2.)

4-29 AUDIT LIAISON OFFICERS. As prescribed in HUD Handbook 2000.6 REV-2, Audit Liaison officers work closely with the Departmental GAO Liaison officer and are responsible for handling and coordinating assigned matters relating to GAO audits and inquiries within their areas of jurisdiction. As such, Audit Liaison Officers serve as the principal points of contact in their organizations with respect to GAO activities. Overall guidance and direction to Audit Liaison Officers on GAO matters will be provided by the Departmental GAO Liaison Officer.

4-30 COORDINATION OF GAO WORK. It is essential that Departmental organizations work in unison to ensure effective coordination and cooperation in the accomplishment of GAO reviews and inquiries. Areas requiring coordination with OIG officials and the Departmental GAO Liaison Officer are as follows:

- A. Start of Assignments. The arrival of GAO staff at Headquarters, Regional or Field Offices is to be reported promptly to the appropriate Assistant Secretary or Regional Administrator and the Assistant Inspector General for Audit/Regional Inspector General for Audit with a brief statement as to the nature of GAO's examination.

The Departmental GAO Liaison Officer will notify the appropriate offices in the Department, through the Audit Liaison Officer, of upcoming new or expanded GAO work. Contacts with Departmental officials will not normally be made by GAO prior to transmitting the notification memorandum and checking with the Departmental GAO Liaison Officer to see that appropriate offices have been notified.

The Departmental GAO Liaison Officer may be called upon by GAO for assistance in arranging entrance conferences and in identifying the appropriate officials in HUD with whom to deal on particular matters. When an entrance conference is arranged independently by GAO, the GAO staff is required to notify the Departmental GAO

Liaison Officer prior to the meeting-so that a representative from the OIG can attend. However, before meeting with or providing information to GAO representatives, the ranking HUD official

should contact the Departmental GAO Liaison Officer to assure that the OIG is aware of GAO's proposed work plans.

- B. Exit Conference. Upon completion of their review, the GAO auditors usually schedule a closing conference with the appropriate HUD officials and staff. When an exit conference is arranged independently by GAO, the ranking HUD official should contact the Departmental GAO Liaison Officer to assure that OIG is aware of the proposed meeting.