1. This transmits Handbook 2000.04 REV-2 CHG-7, Chapter 3, Consolidated Audit Guide for Audits of HUD Programs, HUD Multifamily Housing Programs.

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 so it will be available for use. When all of the chapters providing audit guidance are revised, the entire handbook will be repackaged and released as REV-3.

This handbook chapter is a change to Handbook IG 2000.04 REV-2, chapter 4, dated December 2001. A change was necessary to reflect changes in reporting, add suggested audit steps for areas not covered in the previous audit guide, and clarify existing information/guidance. This chapter serves as a reference for auditors who perform audits of profit-motivated and limited-distribution entities participating in Federal Housing Administration (FHA) and other U.S. Department of Housing and Urban Development (HUD) multifamily housing programs.

3. **Significant Changes:**

   a. This revision of Handbook IG 2000.04 REV-2, chapter 4 is re-designated as Chapter 3. We plan to create a separate chapter covering audits of the HUD multifamily hospital program and will designate that chapter as chapter 4. Until the new chapter 4 is written, Handbook IG 2000.04 REV-2, chapter 4, is reissued and is to be used for guidance for auditing the HUD multifamily hospital program, and its title is changed to HUD multifamily hospital program.

   b. Paragraph 3-1, Background, was modified to permit “group project-based sampling” of certain areas of compliance when audits are performed for projects that are owned/managed by the same owner and/or management agent if certain conditions exist as described in that paragraph.

   c. Paragraph 3-2, Reference Material, contains the reference documents current at the time this audit guide chapter was issued and information on how to
obtain the reference materials. Throughout this chapter, reference is made to handbooks, using the base handbook number without the revision number (i.e., REV-1, REV-6, etc.). This will enable periodic updates to paragraph 3-2 rather than to the entire handbook/chapter.

d. Paragraph 3-3, Reporting Requirements, was updated to include current requirements as stated in existing HUD policies/procedures.

e. Paragraph 3-4, Sample Selection and appendix A, requiring attribute sampling and/or minimum sample sizes should another sampling system be used, were added to provide sufficient evidential matter to support the audit opinion.

f. Paragraph 3-5G and appendix B were added to establish a uniform understanding of equity skimming conditions to facilitate identification and reporting should the auditor find such conditions as a result of the audit.

g. The following compliance areas were added to the guide with appropriate audit steps since those areas were not in the prior guide and many auditors did not cover those areas in their audit or the audit coverage was not sufficient.

   - Paragraph 3-5 H. Cash Receipts
   - Paragraph 3-5 I. Cash Disbursements
   - Paragraph 3-5 K. Tenant Security Deposits
   - Paragraph 3-6 Mark to Market Program (M2M Program)

h. Paragraph 3-7, Audit Finding Reporting, was added to provide guidance on reporting audit findings that have been corrected or were being corrected before the completion of the audit.

Also, 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, and those letters/communications must be provided to HUD with the audit report package.

i. Paragraph 3-8, Technical Assistance Needed, was added to provide a point of contact for programmatic questions or questions regarding the Financial Assessment Subsystem.
j. Various audit steps were added to the compliance areas. Those changes and other changes made in this chapter are denoted between asterisks (for example, *All material instances of noncompliance…… *).

4. **Filing Instructions:** The issuance of this chapter cancels chapter 4 dated December 2001, for all programs except for the HUD multifamily hospital program.

<table>
<thead>
<tr>
<th>Remove</th>
<th>Insert</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>Chapter 3, dated July 2008</td>
</tr>
</tbody>
</table>

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 December 31, 2008.

Kenneth M. Dohohue  
Inspector General