
AUDITOR'S REPORT ON THE INTERNAL CONTROL STRUCTURE

To the Owners
ABC Cooperative, Inc.
Anytown, U.S.A.

We have audited the financial statements of (the Entity) as of and for the year ended June 30, 199X, and have issued our report thereon dated date of report . We have also audited the Entity's compliance with requirements applicable to major HUD-assisted programs and have issued our report thereon dated date of report .

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audits for the year ended June 30, 199X, we considered the (Entity's) internal control structure in order to determine our auditing procedures for the purpose of expressing our opinions on the (Entity's) basic financial statements and on its compliance with requirements applicable to major programs and not to provide assurance on the internal control structure.

In connection therewith, we have also obtained an understanding of those internal accounting control and administrative control procedures comprehended in the U.S. Department of Housing and Urban Development (HUD) consolidated Audit Guide for HUD Programs issued October 1991. Our study included tests of compliance with such procedures.

The management of the Project is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles and that Federal financial assistance programs are managed in compliance with applicable laws and regulations. Because of inherent limitations in any internal control structure, errors, irregularities or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in

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conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories (identify internal control structure categories).

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation and we assessed control risk.

We performed tests of controls to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance. Our procedures were less in scope than would be necessary to render an opinion on internal control structure policy and procedures. Thus, we do not express our opinion on those policies and procedures.

We noted certain matters involving the internal control structure and its operations that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgement, could adversely affect the organization's ability to administer Federal financial assistance programs in accordance with applicable laws and regulations.

(Include paragraph to describe the reportable conditions noted.)

A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described above is a material weakness.

We also noted other matters involving the internal control structure and its operation that we have reported to the management of the (Entity) in a separate communication dated September 8, 199X.

This report is for the information of the mortgagor, management, and the Department of Housing and Urban Development. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Anytown, U.S.A.
(Date)

XYZ and Company
Certified Public Accountants