



UNITED STATES DEPARTMENT OF EDUCATION  
OFFICE OF INSPECTOR GENERAL

Enclosure 1

The Inspector General

**System of Review**

September 28, 2012

The Honorable David A. Montoya  
Inspector General  
U.S. Department of Housing and Urban Development  
Office of the Inspector General  
451 7th Street, SW  
Washington, D.C. 20410-4500

Dear Mr. Montoya:

We have reviewed the system of quality control in effect for the year ended March 31, 2012, for the audit organization of the Department of Housing and Urban Development Office of Inspector General (HUD OIG). A system of quality control encompasses the HUD OIG's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of conformance with *Generally Accepted Government Auditing Standards*. The elements of quality control are described in the *Generally Accepted Government Auditing Standards*. The HUD OIG is responsible for designing a system of quality control and complying with it to provide the HUD OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the HUD OIG's compliance therewith based on our review.

Our review was conducted in accordance with *Generally Accepted Government Auditing Standards* and guidelines established by the Council of the Inspectors General on Integrity and Efficiency (CIGIE). During our review, we interviewed HUD OIG personnel and obtained an understanding of the nature of the HUD OIG audit organization and the design of the HUD OIG's system of quality control sufficient to assess the risks implicit in its audit function. Based on our assessments, we selected engagements and administrative files to test for conformity with professional standards and compliance with the HUD OIG's system of quality control. The engagements selected represented a reasonable cross-section of the HUD OIG's audit organization, with emphasis on higher-risk engagements. Prior to concluding the review, we met with HUD OIG management to discuss the results of our review. We believe that the scope of our review and the procedures we performed provide a reasonable basis for our opinion.

In performing this review, we tested compliance with the HUD OIG's quality control policies and procedures to the extent we considered appropriate. These tests covered the application of the HUD OIG's policies and procedures on selected engagements. Our review was based on

selected tests; therefore, it would not necessarily detect all weaknesses in the system of quality control or all instances of noncompliance with it.

There are inherent limitations in the effectiveness of any system of quality control and, therefore, noncompliance with the system of quality control may occur and not be detected. Projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions, or because the degree of compliance with the policies or procedures may deteriorate. Attachment 1 to this report identifies the engagements reviewed.

In our opinion, the system of quality control in effect for the year ended March 31, 2012, for the audit organization of the HUD OIG has been suitably designed and complied with to provide the HUD OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Federal audit organizations can receive a rating of *pass*, *pass with deficiencies*, or *fail*. HUD OIG has received a peer review rating of *pass*.

As is customary, we have issued a letter dated September 28, 2012, that sets forth findings that were not considered to be of sufficient significance to affect our opinion expressed in this report. In addition to reviewing its system of quality control to ensure adherence with *Generally Accepted Government Auditing Standards*, we applied certain limited procedures in accordance with guidance established by the CIGIE related to the HUD OIG's monitoring of engagements performed by Independent Public Accountants (IPA) under contract where the IPA served as the principal auditor. It should be noted that monitoring of engagements performed by IPAs is not an audit and, therefore, is not subject to the requirements of *Generally Accepted Government Auditing Standards*. During our scope period, the HUD OIG contracted with two IPAs to perform financial statement audits of the Federal Housing Administration and the Government National Mortgage Association, respectively. The purpose of our limited procedures was to determine whether HUD OIG had controls to ensure IPAs performed contracted work in accordance with professional standards. However, our objective was not to express an opinion and, accordingly, we do not express an opinion, on HUD OIG's monitoring of work performed by IPAs.

Sincerely,



Kathleen S. Tighe  
Inspector General

Attachments

## SCOPE AND METHODOLOGY

### Scope and Methodology

We tested compliance with the HUD OIG audit organization's system of quality control to the extent we considered appropriate. These tests included a review of 13 of 192 audit reports issued during our scope period of April 1, 2011, through March 31, 2012, (semiannual reporting periods ending September 30, 2011, and March 31, 2012). In addition, to fully evaluate compliance with the HUD OIG's system of quality control, we reviewed:

- An additional cancelled/postponed audit assignment that resulted in a briefing report issued during our scope period.<sup>1</sup>
- The internal quality control reviews performed by the HUD OIG, including a detailed review of one of those reviews (with report issued July 2011) performed during our scope period. We also reviewed the FY2011 Summary Report issued in FY2011 with recurring findings for the prior three years (April 1, 2009 – March 31, 2012).
- HUD OIG's monitoring of engagements performed by IPAs where the IPA served as the principal auditor during the period April 1, 2011, through March 31, 2012.<sup>2</sup>

### Reviewed Engagements Performed by the HUD OIG

We selected and reviewed the following audit reports issued by the HUD OIG.

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<sup>1</sup> HUD OIG had not cancelled or postponed any audit without issuing a report or a briefing paper during the scope of our review.

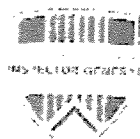
<sup>2</sup> During the period, the HUD OIG contracted for the audit of the Federal Housing Administration's and Government National Mortgage Association's Fiscal Years 2011 and 2010 financial statements.

<b>Report Number</b>	<b>Report Date</b>	<b>Report Title</b>	<b>Auditee Name</b>	<b>Action Office</b>
2011-AO-1004	4/8/2011	The New Orleans Redevelopment Authority, LA, Had Not Administered Its Recovery Act Neighborhood Stabilization Program 2 in Accordance With Federal Regulations	New Orleans Redevelopment Authority	Community Planning and Development
2011-CH-1011	7/28/2011	Cuyahoga Metropolitan Housing Authority, Cleveland, OH, Did Not Operate its Section 8 Housing Choice Voucher Program According to HUD's Requirements	Cuyahoga Metropolitan Housing Authority	Public and Indian Housing
2011-KC-1005	9/30/2011	CitiMortgage Did Not Properly Determine Borrower Eligibility for FHA's Preforeclosure Sale Program	CitiMortgage	Housing - Single Family
2011-AT-1018	9/28/2011	The Municipality of San Juan, PR, Did Not Properly Manage Its HOME Investment Partnerships Program	Municipality of San Juan	Community Planning and Development
2011-NY-1012	8/16/2011	Ameritrust Mortgage Bankers, Inc., Lake Success, NY, Did Not Always Comply With HUD-FHA Loan Origination and Quality Control Requirements	Ameritrust Mortgage Bankers, Inc.	Housing - Single Family
2012-AT-1004	1/9/2012	DeKalb County, GA, Had Inadequate Controls Over the Support for Commitments Entered in HUD's Information System	DeKalb County	Community Planning and Development
2012-FW-1005	3/7/2012	The State of Texas Did Not Follow Requirements for Its Infrastructure and Revitalization Contracts Funded With CDBG Disaster Recovery Program Funds	State of Texas	Community Planning and Development
2012-LA-1005	3/13/2012	The City of Los Angeles, CA, Did Not Expend Brownfields Economic Development Initiative and Section 108 Funds for the Goodyear Industrial Tract Project in Accordance With HUD Requirements	City of Los Angeles	Community Planning and Development
2012-PH-0004	2/9/2012	HUD Controls Did Not Always Ensure That Home Equity Conversion Mortgage Loan Borrowers Complied With Program Residency Requirements	HUD	Housing - Single Family
2011-DP-0009	3/23/2012	Evaluation of HUD Security Required by FISMA	HUD	Chief Information Officer
2012-FO-0003	11/7/2011	HUD OIG's Review of HUD's FY 2011 Combined Financial Statements	HUD	Chief Financial Officer

## Reviewed Monitoring Files of the HUD OIG for Contracted Engagements

We reviewed both audit reports issued by IPAs during the period April 1, 2011, through March 31, 2012, to review the HUD OIG's monitoring activities. Specifically, we reviewed –

<b>Report Number</b>	<b>Report Date</b>	<b>Report Title</b>	<b>Auditee Name</b>	<b>Action Office</b>
2012-FO-0001	11/7/2011	Audit of Government National Mortgage Association's (Ginnie Mae) Financial Statement for Fiscal Years 2011 and 2010	Ginnie Mae	GNMA
2012-FO-0002	11/7/2011	Audit of the Federal Housing Administration's Financial Statement for Fiscal Years 2011 and 2010	FHA	Housing



U.S. DEPARTMENT OF  
HOUSING AND URBAN DEVELOPMENT  
OFFICE OF INSPECTOR GENERAL  
WASHINGTON, DC 20410-4500

September 13, 2012

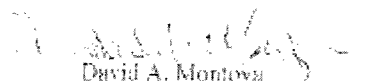
The Honorable Kathleen S. Tighe  
Inspector General  
U.S. Department of Education  
400 Maryland Avenue, SW  
Washington, DC 20202-1510

Dear Ms. Tighe:

Thank you for the opportunity to respond to your System of Review draft report on the external peer review of the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General (OIG), audit function, which was received by our office on September 5, 2012. We are pleased that your review confirmed that our system of quality control has been designed to meet the requirements of the quality control standards established by the Comptroller General of the United States and that our adherence to this system provides reasonable assurance of compliance with auditing standards, policies, and procedures.

We would like to thank the U.S. Department of Education peer review team for its thorough review of our operations.

Sincerely,

  
David A. Montoya  
Inspector General