

CHAPTER 8

HUD'S OFFICE OF THE INSPECTOR GENERAL

CONTENTS

INTRODUCTION: WHY SHOULD YOU READ THIS CHAPTER?8-2
WHAT ARE THE POWERS OF THE HUD INSPECTOR GENERAL?8-3
WHAT PROCEDURES MUST THE OIG FOLLOW IN
CONDUCTING AN AUDIT?8-5
WHAT GENERAL AUDITING STANDARDS MUST THE OIG FOLLOW?8-7
SPECIFIC STANDARDS FOR FIELD WORK AND REPORTING8-8
WHAT IS THE PROCESS FOR RESOLVING AUDIT FINDINGS?8-9
TYPICAL SCHEDULE FOR RESOLUTION OF OIG AUDIT FINDINGS8-10
SUMMARY8-11

APPENDIX

- Audit Response Checklist.....8-14

CHAPTER 8

HUD'S OFFICE OF THE INSPECTOR GENERAL

*An Office of the Inspector General (OIG) audit of the Anytown CDBG program was initiated at the request of the municipality's City Manager. A local newspaper had reported problems with CDBG activities administered by two subrecipients, and the City Manager, who was new to the city, wanted an impartial investigation into the allegations. After its initial investigation, the HUD OIG team decided to expand the scope of its audit to assess the adequacy of Anytown's monitoring of all subrecipients and to review the city's overall management control system for CDBG. Ten months later, after reviewing files spanning five program years, the OIG issued its report, **which included over \$1 million in questioned costs.***

The Anytown CDBG manager could have avoided nearly all of the negative findings in the OIG audit if he had known what to expect from the audit. Although he found the prospect of being audited nerve-wracking, he failed to take several simple but important steps that could have made the audit a much less disturbing process and perhaps have even prevented it from happening at all.

INTRODUCTION: WHY SHOULD YOU READ THIS CHAPTER?

The purpose of this chapter is to demystify the OIG audit. The chapter outlines the powers and procedures of the HUD Inspector General so you can respond effectively in the event that your CDBG program is audited. Particular attention is paid to the limits of the OIG's authority, the standards the Inspector General must meet, and what you can do if you have concerns about the audit process. By understanding the rules for an audit, you will be in a better position to present your organization's case in the most effective way possible.

The General Accounting Office (GAO) is another Federal agency that on occasion will conduct audits of CDBG grantees and their subrecipients.

Seasoned grantees regard the prospect of an OIG audit as a very serious matter.

If you are a CDBG veteran, you probably know what it's like to be monitored by local HUD Community Planning and Development (CPD) staff. Many of you have also experienced annual audits of your CDBG program's financial activities by an Independent Public Accountant (IPA), and some of you may have reviewed the IPA audits of your subrecipients.

These financial reviews and monitoring activities are viewed as serious affairs by all responsible CDBG managers. If anything, OIG audits are considered even more serious.

Although not all grantees, and few subrecipients, have been the subject of an OIG audit, it's always a possibility, even for a well-managed CDBG program. Inspector General offices have been set up in various Federal agencies to identify and eliminate fraud, waste, and

mismanagement in programs funded by the U.S. Government. These offices are supposed to operate in a consistent fashion. However:

- some Inspector General offices may vary in their interpretation of the regulatory standards, so that the experiences of other communities relative to the OIG may not be a completely accurate predictor of what your audit would be like;
- on occasion, the Inspector General may interpret regulations differently than local HUD CPD staff or exhibit a greater tendency to disallow program expenses; and
- the Inspector General can decide to examine past, as well as current, grantee activities.

Among other reasons, reviews by the HUD Inspector General are sometimes initiated in response to local reports speculating on possible waste or corruption in Federally funded activities. Strong program management and accountability systems, using the tools and practices discussed throughout this guidebook, will help you to develop a positive local reputation.

This reputation can help prevent negative reports and reduce the chances of becoming the focus of an audit. In the event that you or your subrecipients are audited, these same systems should put you in the strongest possible position to emerge from the review with minimal findings.

**WHAT ARE THE POWERS OF
THE HUD INSPECTOR
GENERAL AND WHERE DO
THEY COME FROM?**

The 1978 Inspector General Act established independent Offices of Inspectors General (OIG) within HUD and various other agencies of the Federal Government. This legislation was a Congressional response to a dramatic increase in fraud and mismanagement in Federal agencies and programs. The purpose of the Act was to create a centralized auditing and investigatory unit within the various Federal departments, operating independently of program staff and reporting directly to the head of the agency.

The powers of the HUD Inspector General under the Act are listed in the box below.

The OIG may audit you or one or more of your subrecipients at any time. Therefore, **you have a common interest with your subrecipients** to manage your programs and finances as effectively and efficiently as possible.

Powers of the HUD Inspector General

- 1. Investigate and report on the administration of HUD or its programs and operations.*
- 2. Request from any Federal, state, or local government agency all relevant information or assistance.*
- 3. Access all relevant records, reports, audits, reviews documents, papers, recommendations, or other materials available to HUD.*
- 4. Require by subpoena (except in the case of Federal agencies) the production of all necessary information, documents, reports, and other materials.*
- 5. Administer or take from any person an oath, affirmation, or affidavit when necessary to carry out the OIG's functions.*
- 6. Arrange for additional audits, studies, analyses, and other services with public agencies and private persons.*
- 7. Have direct and prompt access to the Secretary of HUD.*

The best description of HUD OIG's regulatory authority and restrictions, the rules in connection with public access to OIG information, and the process for responding to subpoenas or other legal requests, is 24 CFR Parts 2002 through 2004.

The OIG is directed to inform the Secretary of HUD immediately whenever information or assistance is unreasonably refused. The Inspector General considers a refusal unreasonable if the information is necessary for the satisfactory completion of the OIG's work and the individual can legally and reasonably provide it.

What kinds of “inspections” does the HUD Inspector General perform?

The HUD/OIG conducts three basic activities in relation to its oversight of Federal programs and agencies:

- Management, policy, and program integrity activities involve the design of management control systems and the provision of training and technical assistance to show how to prevent fraud, waste, and mismanagement.
- Investigations look into specific reports of irregularities or noncompliance with Federal rules, particularly situations that may involve criminal violations.

- Audits, the subject of this chapter, are intended to improve the productivity of Federal agencies and programs by identifying and correcting poor management practices.

Find out which of these activities the OIG plans to conduct in connection with your program because the procedures and standards for conducting each activity vary.

WHAT PROCEDURES MUST THE OIG FOLLOW IN CONDUCTING AN AUDIT?

IN PERFORMING AUDITS, THE HUD OIG TYPICALLY FOLLOWS FOUR STEPS:

1. Advance Notice
2. Entrance Conference
3. Audit
4. Exit Conference

HUD OIG's procedures for the conduct of audits are spelled out in HUD Handbook 2000.3 REV-4, Office of Inspector General Activities.

Advance Notice

Usually the OIG provides two weeks' advance written notification of its intention to conduct an audit. This is a courtesy rather than a requirement. For reasons such as urgency or concerns about the possibility of alteration, removal, or destruction of documents, the OIG is empowered to initiate an audit without prior notice.

Clarify any ambiguity about the scope of the audit

Written notification can sometimes be ambiguous about the planned scope of the audit. If so, it is best to address any vagueness up front before the OIG auditor(s) arrive or, if necessary, during the entrance conference. Make sure you know:

- the **scope of** the audit, so you can anticipate the records the auditors will be requesting; and
- the likely **duration of** the audit, so you can provide space for the auditors.

Knowing the focus of the audit can also give you an opportunity to review the status of relevant files so they are in the best shape possible prior to the initiation of the audit.

Entrance Conference

At the beginning of the audit, the OIG auditors should meet with key agency officials to discuss the audit's purpose, scope, anticipated schedule, and projected reports.

One of the standards that the OIG must meet is the “exercise of professional care.” In part, this means that the OIG team is responsible for ensuring that there is a mutual understanding of the scope and objectives of the audit.

Audit: changes in scope

The breadth of the audit can legitimately change as new information becomes available to the OIG team. Because of this uncertainty, it is very important for you and your subrecipients to maintain a careful record (preferably confirmed in writing by the OIG) of the planned scope of the audit and any changes in scope. This will help you assess whether there have been any deviations in the audit's scope.

During the audit itself, don't be surprised if the OIG audit team stays longer than anticipated or leaves and then returns to look at more records. Some OIG field audits have lasted over a year. You and your subrecipient should take such possibilities into consideration when setting aside office space for the audit team. You should also keep an accurate record of the changes in schedule and any additional requests for information from the OIG audit team.

Ask to share in the audit findings as the work proceeds and keep the audit team up-to-date about corrective actions.

In most cases, the OIG audit team will share its findings as the field work proceeds. Use these opportunities to clear up any misunderstandings and to provide supplementary data that may help to prevent findings before they are committed to writing. Even if you cannot resolve an issue to the auditor's complete satisfaction prior to the preparation of the audit report, have the audit report reflect the fact that you or your subrecipient have already initiated corrective action.

Maintain a professional relationship

Always maintain a professional relationship with the OIG audit team. A cordial relationship does not guarantee a favorable audit report. Approach the relationship in a cautious, but not defensive, manner.

Exit Conference

The exit meeting represents the official end of the on-site portion of the audit. It should be attended by your key staff, your subrecipients' key staff, members of the OIG audit team, and other HUD officials responsible for the audited program(s) or for oversight of the program operators/operations.

Exit conference procedures are described in HUD Handbook 2000.6 REV-3, Audits Management System, (February, 1999), p. 2-1.

At the exit conference, the OIG team will present draft audit findings and recommendations. ***You and any other organization that was audited should receive a written copy of the draft audit report prior to the exit conference*** to review the document for inaccuracies and gather any data that may be needed in your defense.

During the exit conference, the OIG representatives should discuss the draft findings, actions already taken by the entity to remedy them, proposed additional corrective action and any points of disagreement. You should check the draft audit report (with written follow-up as necessary) to determine:

CHECK FOR:

- ❑ **Accurate descriptions**
 - whether the OIG's description of your and your subrecipient's management systems is up-to-date and accurate;
- ❑ **OIG interpretation consistent with program rules**
 - whether the OIG's interpretation of program rules is consistent with prevailing HUD policies and program standards that were in effect for the time period and activities examined; and
- ❑ **Credit given to additional information or corrective actions**
 - whether the OIG has given appropriate credit for supplementary material previously presented or corrective actions already taken.

Indicate Concurrence or Disagreement

The appropriate officials of the grantee/subrecipient should also indicate whether they concur or do not concur with each finding, recommendation, and proposed corrective action presented by the OIG. They should also present any new information not previously known to the OIG auditors that might affect the outcome of the audit, and any newly initiated or planned corrective actions. When the final audit report is issued, confirm that such comments and supplementary information were taken into consideration.

Public Dissemination of Results

At the exit conference, the OIG team should inform you about the procedures for releasing the final audit report. Final audit reports may be released to the public once the audited entity has received its copy and reviewed the contents.

WHAT GENERAL AUDITING STANDARDS MUST THE OIG FOLLOW?

The OIG follows the audit standards developed by the General Accounting Office (GAO). The GAO standards are derived from the requirements for field work and reporting established by the American Institute of Certified Public Accountants (AICPA) for financial audits. **The basic GAO standards can be found in Government Auditing Standards, GAO-03-673G, which is available at www.gao.gov.**

The GAO provides four general standards for governmental auditing:

- **Auditors must be qualified**, which includes having an understanding of governmental organization, and the programs and activities being reviewed.
- **Auditors must be independent and impartial** with no preconceived opinions about the programs they are auditing. They should also be free from political pressure or other interferences.

- **Auditors must exercise “professional judgment,”** including reaching a mutual understanding of the scope and objectives of the audit with the entity being audited.
- **Auditors must have adequate quality control mechanisms to ensure that the GAO standards are met and to deal with “potential impairments” to the audit process,** such as denial of access to documents, incomplete records, or interference with the audit team's independence.

SPECIFIC STANDARDS FOR FIELD WORK AND REPORTING

The GAO has also established specific standards for field work and reporting, which vary somewhat depending on whether the OIG is conducting a financial audit or a performance audit.

Financial Audits

Financial Audits assess whether financial reports represent an accurate picture of the organization's current and past financial position, whether the information is presented in the proper manner, and whether the organization has complied with other pertinent laws and regulations.

Elements of Financial Audits:

- *Written reports*
- *Tests of compliance*
- *Review of internal controls*

For **financial audits**, as part of the field work, the AICPA standards require that the audit team keep a written record in the form of working papers to substantiate its findings. In addition, the GAO requires the OIG to consider the requirements of all levels of government in planning the audit and to review **compliance with all applicable laws and regulations**.

The GAO standards for financial audits also require that there be a written report detailing the results of the audit, the individual tests of compliance, and the review of internal controls. The report should be provided to the appropriate officials of the entity audited, unless legal or ethical considerations preclude it. For information that is not going to be disclosed, the OIG report must state the nature of the material omitted and the reasons for this action.

Performance Audits

Performance Audits are of two kinds:

- **“economy and efficiency audits”** seek to measure how efficiently the entity is performing, consistent with relevant laws and regulations; and
- **“program audits”** focus on the effectiveness of the entity's operations in terms of achieving desired impact or benefits.

For **performance audits**, the GAO requires that the audit field work be adequately planned and properly supervised; also, the auditor's conclusions must be based on sufficient, competent, and relevant evidence (documented by working papers).

Elements of Performance Audit Reports:

- Any reports on performance audits must contain:
- **Objectives, scope, methodology**
 - **Findings and conclusions**
 - a statement of the audit's objectives, scope, and methodology, identifying the internal controls that were assessed and laws or regulations with which compliance was tested;
 - a full discussion of findings and conclusions (including a statement of any instances of noncompliance, fraud, abuse, or other illegal acts) and a description of the causes of such problems and recommended corrective action;
- Accomplishments**
- a discussion of noteworthy accomplishments by the audited organization;
- Views on audit results**
- the views of the relevant officials of the audited entity regarding the audit's findings, conclusions and recommendations, and whether any corrective action has been initiated or planned; and,
- Omitted information**
- a statement indicating whether any information has been omitted from the report, and the reason(s) for such exclusion.

WHAT IS THE PROCESS FOR RESOLVING AUDIT FINDINGS, OR FOR CHALLENGING AN AUDIT YOU FEEL IS INACCURATE OR UNFAIR?

The HUD OIG will advise the grantee of those audit findings and recommendations for which a response is required.

The OIG will typically follow the schedule shown on the following page for resolving findings or recommendations.

If you do not disagree with the audit findings, you merely need to implement the recommended corrective action (or show good faith efforts toward full implementation of such corrective action) within the time lines indicated.

Disagreements

Inaccuracies

If you disagree with the audit results, the nature of this dispute will probably fall into one of two categories. First, you may feel that the observations and conclusions in the audit report are inaccurate. In such a case, you or your subrecipient should compile documentation supporting your position and forward this material to the head of the audit team, along with copies to the manager of the OIG Field Office and the relevant staff in the HUD CPD office.

Improper Procedures

Alternatively—or in addition—you may feel that the audit procedures followed by the OIG were improper, the audit team was biased, or the auditors failed in some other way to meet AICPA or GAO standards. These arguments may be more difficult to substantiate. You or your subrecipient may begin by asking yourself the questions listed in the Audit Response checklist in the Appendix.

These questions relate to the standards that an OIG audit must meet, such as:

- Were the OIG auditors qualified?
- Did the auditors provide adequate prior notice?
- Was there evidence that the OIG staff had adequately planned for the audit?
- Did the auditors perform in an independent and impartial fashion?
- Did the auditors express “due professional care” and quality control?
- Did the auditors hold an adequate exit conference?

TYPICAL SCHEDULE FOR RESOLUTION OF OIG AUDIT FINDINGS

Step	Action:	Time Frame:
1	HUD Official contacts grantee/subrecipient to request written response to findings and recommendations.	15 days from issuance of audit report
2	Grantee/subrecipient written response due.	45 days after issuance of audit report
3	HUD assesses status of audit resolution regarding each finding/recommendation. HUD makes “ management decision ” that either <ul style="list-style-type: none"> • Action is completed • Action is pending, or • Action is referred for litigation, legislation, or further investigation 	120-180 days after issuance of audit report
4	Target date for completion of all corrective actions (final action)	Within 1 year of the date of the management decision
5	Target date for recovery of all disallowed costs	Within 3 years of the date of the management decision

At the end of what can sometimes be a lengthy audit process, you may find it hard to reconstruct the chronology of events or details of conversations. You and your subrecipients should therefore be **careful** throughout the **entire auditing process** to maintain documentation of the sequence of activities and of any correspondence or other communication that occurs. If you or your subrecipient feels that the auditors are being unreasonable, consider bringing legal counsel into the process.

SUMMARY

In the course of this chapter, you should have learned:

- The **general powers of the HUD OIG**: to investigate and report on HUD or its programs by securing records, administering oaths, taking affidavits, and arranging for any necessary studies. The OIG has prompt access to the Secretary of HUD.
- The **types of inquiries the HUD OIG carries out**: audits, investigations, and fraud control/management operations.
- The **standard steps in an OIG audit**: (1) advance notice, (2) entrance conference, (3) audit, and (4) exit conference.
- The **general standards to which OIG auditors must adhere**: the auditors must be qualified, independent and impartial, exercise professional judgment, and have adequate quality control mechanisms.
- The **process for resolving findings**: generally grantees (or subrecipients) have 15–45 days from release of the audit report to provide a written response, and 120–180 days to show progress toward resolving findings before the matter may be referred to the Regional Inspector General for further action (and possible additional sanctions). The most crucial thing to remember, however, is “*documentation.*” As far as the OIG is concerned, *if something is not documented in writing, it does not exist.* Therefore, the more you can refer the OIG auditors to documents that support your position, the more likely you will be to defend your position successfully.

As far as the OIG is concerned, if something is not documented in writing, it doesn't exist!

NOTES:

CHAPTER 8: APPENDIX

- Audit Response Checklist..... 8-14

AUDIT RESPONSE CHECKLIST

- Were the OIG auditors qualified?
 - Did they demonstrate an understanding of the CDBG program?
 - Were there members of the audit team who had performed similar audits previously?
 - Were they able to communicate clearly?
- Did the auditors provide reasonable prior written notice of the audit?
 - If the auditors did not provide reasonable prior notice, what reason did they give for the short notice or for not giving any notice?
- Did the auditors perform in an independent and impartial manner?
 - Did the auditors give any indication that they were being influenced by outside parties?
 - Did any of their actions or comments suggest that they approached the audit in a biased way, for example, did they seem to have pre-judged the grantee/subrecipient, or did they seem determined to find something wrong?
 - Were the corrective action recommendations consistent with the audit findings and with other similar audits?
- Was there evidence that the auditors had adequately planned for the audit?
 - Did the auditors demonstrate that they had developed a reasonable estimate of the duration and scope of the audit and scheduled their resources accordingly? Did the auditors appear to have clear objectives in mind?
- Did the auditors exercise “due professional care” and quality control?
 - Did the auditors provide a clear understanding of the scope and methodology for the audit?
 - Were the samples they used large enough to support generalizations?
 - How did they handle instances of incomplete or missing data?
 - Did the auditors maintain detailed working papers and provide documentation supporting their findings?
-

Did the auditors hold an adequate exit conference?

- Did they provide a written draft of their audit findings prior to the exit conference?
 - During the exit conference, did the auditors fully discuss their compliance tests, findings, conclusions, recommended corrective actions, and actions you and your subrecipient had already taken to correct deficiencies?
 - Did they provide an opportunity for you to comment on the individual findings and recommendations and to submit supplemental data?
 - In arriving at their findings and conclusions, did the auditors give proper consideration to clarifications or information you submitted previously?
- Did the auditors report the results of the audit fairly?
- Did the auditors provide copies of the final audit to you or your subrecipient before releasing the report to the public?
 - Did the auditors provide copies of the final audit to you or your subrecipient before releasing the report to the public?
 - Did the written audit report accurately portray the scope and methodology of the audit?
 - Did it accurately and objectively report findings and corrective action recommendations and discuss the basis for these conclusions?
 - Did the report accurately reflect what was communicated in the exit conference, including your opinions and any supplemental information you provided?