



Department of Economic and
Community Development

AUDIT GUIDE FOR AUDITS OF DECD PROGRAMS

January 1, 2019

STATE OF CONNECTICUT
DEPARTMENT OF ECONOMIC AND COMMUNITY DEVELOPMENT
OFFICE OF FINANCIAL REVIEW
Website: ct.gov/DECD

**AUDIT GUIDE FOR AUDITS OF
DECD PROGRAMS**

Page

CHAPTER 1 - INTRODUCTION

A. Purpose of this Audit Guide 1

CHAPTER 2 - DEPARTMENT OF ECONOMIC AND COMMUNITY DEVELOPMENT (DECD)
ASSISTED PROGRAMS BACKGROUND

A. DECD Mission and Goals..... 3
B. Administration of DECD Assisted Programs 3
C. Types of DECD Programs 4

CHAPTER 3 - PLANNING AND CONDUCTING THE AUDIT

A. Audit Standards and Objectives 7
B. Qualifications and Independence of Independent Public Accountants 7
C. Accounting Records..... 8
D. Audit Scope and Approach/Consideration of Internal Controls and Compliance..... 8
E. Timing of Audit 11
F. Reference Materials 11
G. Audit Delays Due to Condition of Accounting Records 12
H. Errors, Irregularities, and Illegal Acts or Fraud..... 12
I. Exit Conference 13
J. Corrective Action Plan 13
K. Distribution of Audit Reports 13
L. Quality Control Review for Audit Reports..... 14
M. Retention of Audit Working Papers and Reports 15
N. Audit Costs 15
O. Inquiries Relating to this Audit Guide..... 15
P. Guidance on Procurement of Audit Services..... 15

CHAPTER 4 - REPORTING REQUIREMENTS AND SAMPLE REPORTS

A. Auditor's Reports 16
B. Financial Statements..... 17
C. Notes to the Financial Statements 18

Exhibit 4-1 - Audit Reporting Matrix and Sample Reports 20
 Example A - Independent Auditor's Report..... 21
 Example B - Report on Internal Control and Compliance with Laws and Regulations..... 23
 Example C - Schedule of Findings and Questioned Costs 25
 Example D - Corrective Action Plan 27

Exhibit 4-2 - Financial Statement Matrix and Sample Financial Statement Presentation29
(See DECD/DOH Accounting Manuals for Financial Statement Formats)

REFERENCE MATERIALS

- Exhibit 4-2 – Financial Statement Matrix and Sample Financial Statement Presentation
- Appendix A - Compliance Supplement for Department of Economic and
Community Development (DECD) Programs
- Appendix B – Guide for Procurement of Audit Services
- Appendix C – Sample RFP for Audit Services
- Appendix D – Sample Audit Agreement
- Appendix E – Independent Accountants Report on applying Agreed-Upon Procedures for DECD
Grant/Loan Projects
- Appendix F – Job Retention and Creation Audit Procedures for Use by Independent Public
Accountants

The Audit Guide and Appendixes are available on the DECD Web Page or upon request with the DECD Audit Division at (860) 500-2409 or with the Department of Housing at 860-270-8204.

CHAPTER 1 - INTRODUCTION

A. Purpose of this Audit Guide

The purpose of this audit guide is to assist independent public accountants (IPAs) in performing financial audits of Department of Economic and Community Development (DECD) programs. These audits must be performed in accordance with auditing standards generally accepted in the United States of America (GAAS), *Government Auditing Standards*, issued by the Comptroller General of the United States, and the requirements of this audit guide. The objectives of a DECD program audit are to assist DECD program managers in determining whether: (1) the auditee has provided financial data and reports to the Department of Economic and Community Development that can be relied upon; (2) the auditee has internal control structure policies and procedures in place to provide reasonable assurance that it is managing DECD programs in compliance with applicable laws and regulations; and (3) the auditee has complied with applicable laws, regulations, policies, procedures, and terms and conditions of the Assistance/Loan Agreement, and thus expended state funds properly and with supporting documentation.

DECD program specific audit reports are a primary tool used by DECD program managers to meet their stewardship responsibilities in overseeing these DECD programs and assuring the integrity of the funds. Program managers must act upon the areas of noncompliance and internal control weaknesses noted in these reports. To be of value, these reports must contain adequate information to give reported matters perspective and to allow the managers to take necessary corrective action.

DECD Audit Guide Applicability - Use of some or this entire guide is mandatory for all participants in the DECD programs. Exceptions are noted below. The distinction between whether all or parts of this guide should be followed depends on the different circumstances involved.

Program Specific Audits

Use of this audit guide is mandatory for audits required by State Statute, Regulation or Contract of auditees administering DECD programs when the auditee is not subject to a Federal and/or State Single Audit. This guide must be followed for all program specific audits of DECD grant/loan contracts and all audits of DECD State Housing Administration Funds. This includes those auditee's that are eligible to elect a program specific audit under Federal and/or State Single Audit requirements/regulations.

Federal and/or State Single Audits

If an auditee is audited under a Federal and/or State Single Audit, the only additional requirements of DECD are that the DECD programs be tested for compliance with laws and regulations using the DECD Compliance Supplement contained in Appendix A of this guide and that the financial statement format outlined in Exhibit 4-2 be followed. **A cumulative statement of program cost must be presented for all DECD grant/loan contracts as either a financial statement, supplemental schedule or as a note to the financial statement.** The inclusion of this statement will facilitate the financial closeout of the program. For any program not covered in the compliance supplement, the IPA may ascertain compliance requirements by researching the statutes, regulations, and agreements governing the particular program.

Exceptions to using the DECD Audit Guide

Exceptions include those participants who are authorized to follow HUD Handbook 2000.4 (REV-2, or latest revision) *Audit Guide for Audits of HUD Programs* or the CHFA audit requirements/

authorized format, when a DECD Project is funded jointly with HUD and/or CHFA funding. As a general rule, when there is HUD funding involved, DECD will defer to the HUD audit requirements, and the HUD Audit Guide outlined in HUD Handbook 2000.4 will be followed. When DECD and CHFA jointly fund a project, DECD will defer to CHFA's audit requirements, which normally consists of a Cost Certification Audit with the format determined by CHFA, performed in accordance with generally accepted auditing standards and *Government Auditing Standards*.

In addition, in lieu of performing a financial and compliance audit in accordance with the DECD audit guide, an auditor on certain DECD grant/loan contracts may perform Agreed-upon procedures in accordance with **Appendix E** of the audit guide. Agreed-upon procedure requests must be made in writing to the DECD Compliance, Audit and Financial Review Section (**See Appendix E**). Agreed-upon procedures normally include procedures such as, examining a predetermined percentage of costs from certain cost categories and examining the supporting documentation to ensure that costs were in conformance with the contract/budget and physically inspecting evidence to determine that items and services contracted for were used on the project. Also, ascertaining that expenditures were made only for obligations permitted by the budget, incurred after the effective date of the budget start date, but before the termination of the contract, and limited to those allowable deviations permitted without special authorization.

This guide is not intended to be a complete manual of procedures, nor is it intended to supplant the IPA's judgement of audit work required. Audit procedures contained herein may not cover all circumstances or conditions encountered in a particular audit. The IPA should use professional judgment to tailor the procedures so that the audit objectives may be achieved. However, the IPA must address all applicable compliance requirements contained in this guide. If the IPA desires technical assistance pertaining to DECD programs and their regulations and or operations, the IPA should contact the appropriate program division of the Department of Economic and Community Development.

For the purpose of this guide, an "auditee" means a local housing authority, municipality, limited equity cooperative, nonprofit corporation, private developer, company, regional development agency, economic development commission and any other entity that has contracted to receive State assistance in the form of a grant or loan with DECD to carry out a specific project or service.

CHAPTER 2 - DEPARTMENT OF ECONOMIC AND COMMUNITY DEVELOPMENT (DECD) ASSISTED PROGRAMS BACKGROUND

A. DECD Mission and Goals

The Department of Economic and Community Development (DECD) was created by the Connecticut General Assembly by merging the Department of Housing and the Department of Economic Development into a single agency. The mission of DECD is to provide leadership and service to enhance the state's economy and to expand opportunities for individuals, business and community prosperity, promote equity and improve the quality of life for Connecticut citizens. DECD as the lead agency for all housing and economic development related matters in the state is responsible for establishing statewide housing policy and providing direction to the state concerning these issues.

DECD offers programs to improve the business environment in Connecticut, to promote job creation, and to develop and revitalize housing, neighborhoods and communities. Community development teams manage projects and coordinate programs to assist companies, developers, and municipalities with business development assistance, housing assistance, and community programs.

B. Administration of DECD Assisted Programs

The Department of Economic and Community Development has direct responsibility for administering the state assisted housing and economic development programs. The DECD, acting through the Commissioner of Economic and Community Development, executes Assistance Agreements and contracts with auditees to provide state financial assistance in the form of grants and/or loans to assist such entities in the development and operation of a particular DECD program. As stipulated in the Connecticut General Statutes and reflected in the Assistance Agreement or Contract, the DECD may finance either in whole or in part the various types of authorized activities. The State funding requirements are based on the type of activity being financed and the source of funds. Certain activities are funded by federal, state, and local sources (e.g., municipalities) with a specified percentage rate or amount of funding for each agency. Certain other activities are funded by state and local sources with a specified percentage rate or amounts of funding for each agency and other programs are funded in full by the DECD. Refer to the Assistance Agreement and Budget to determine the specified amount of local or matching funds required.

Once the initial development of a housing or economic development project financed in whole or in part with DECD funds is completed and the project is available for occupancy, the DECD provides for an audit of the program or authorizes use of an Independent Public Accountant (IPA) to perform such an audit. After the audit is completed, DECD issues a Certificate of Approved Program Cost and State Funding or a similar document to closeout the funding provisions of a contract.

In addition, certain auditees, (particularly entities administering housing projects) are required to prepare and submit a Management Plan (Budget) for the annual operations of the projects to the DECD (or CHFA in the case of the State Housing portfolio administered by CHFA) for acceptance and approval. The auditee is then responsible to the Commissioner of Economic and Community Development for the overall administration of the program and any contracts (grants/loans).

C. Types of DECD Programs

State financial assistance is provided by the DECD to auditees for the development and operation of housing for low and moderate income families under a variety of programs and for the promotion of economic vitality through financial and technical assistance to businesses. More information may be found in the Connecticut General Statutes and the Department of Economic and Community Development regulations, if applicable, covering each program. The DECD Web page also contains a description of the DECD programs at <http://www.ct.gov/ecd/site/default.asp>. A brief description of some DECD programs follows:

Housing Programs:

1. **Affordable Housing Program** - grants to local housing authorities and nonprofit corporations to construct or rehabilitate rental-housing units for households with very low incomes. A tenant pays an established base rent or 30 percent of the tenant's adjusted monthly income, whichever is greater.
2. **Congregate Housing for the Elderly Program** - grants and loans to local housing authorities and nonprofit corporations to construct or rehabilitate congregate housing for the frail elderly who are at least 62 years old and with limited incomes. There are no asset limits for occupancy and tenants pay an established rent or 30 percent of the tenant's adjusted monthly income, whichever is greater.
3. **Federal Section 8 Housing Assistance Payment Program** - this federal funded program administered by the Connecticut Department of Economic and Community Development, provides rental subsidies to landlords (private owners and developers, nonprofit corporations, local housing authorities, and state housing finance agencies) for families with very low income (at or below 50 percent of the area median) for the difference between the amounts the families can afford to pay (30 percent of their incomes) and the fair market rents established or approved by HUD charged by the landlords. The subsidies may be used in existing or newly constructed units, or in new construction or substantially rehabilitated units.
4. **Housing for Elderly Persons Program** - grants and loans to local housing authorities, partnerships, municipalities, and nonprofit corporations to construct or rehabilitate housing for the elderly who are at least 62 years old or certified as disabled and with limited incomes. There are no asset limits. A tenant pays an established base rent or a rent based on a percentage of the tenant's adjusted monthly income, whichever is greater.
5. **Moderate Rental Housing Program** - grants and loans to acquire construct or rehabilitate rental housing for households with low and moderate incomes.
6. **Federal HOME Investment Partnership Program** - provides grants, loans, deferred loans to housing authorities, nonprofit developers, for profit developers and individuals for a variety of activities to develop and support affordable housing including: tenant-based assistance, assistance to rental housing units, assistance to first-time homebuyers and existing homeowners, for acquisition, new construction, moderate or substantial rehabilitation and site improvements.
7. **Housing Rehabilitation Program** - grants and loans to local housing authorities to upgrade and modernize state-financed moderate rental and elderly housing units to a safe and sanitary condition. Eligible activities include modernization or replacement of heating systems, electrical service, and installation of new roofs, siding, and insulation.
8. **Resident Services Coordinator** – provides grant funds to owners/developers of State financed Elderly Housing to hire staff to perform an evaluation of all tenants. The

evaluation process is used to determine the level of need of each tenant and to help coordinate those services available within the community.

9. **Limited Equity Cooperative Program** - grants, loans, or grant/loan combinations to nonprofit corporations to acquire, construct, or rehabilitate housing for the development of cooperatives for families with low and moderate incomes. Residents must contribute money, labor, or both to join a cooperative.
10. **Housing and Community Development Program** - grants to housing site development agencies and to nonprofit corporations, for as much as 67 percent of the cost of site acquisition, site improvements, relocation, and demolition, to develop housing for families with low and moderate incomes. Also, matching grants to municipalities to supply loans or grants to homeowners with low or moderate incomes to rehabilitate targeted residential areas.
11. **Rental Assistance Program** - rental subsidies in the form of grants to nonprofit organizations and housing authorities to assist elderly persons that are paying in excess of 30 percent their income toward rent and utilities.
12. **Land Bank and Land Trust Program** - grants to nonprofits to acquire property to develop and preserve affordable housing. The nonprofit sells or rents the units to low and moderate-income households, and leases the land, enabling certain resale restrictions that guarantee long-term affordability for qualifying households.
13. **Federal Small Cities Community Development Program** - federally funded program provides grants annually, on a competitive basis, to eligible municipalities for economic development, affordable housing, community facilities and services and revitalization or development projects. Single -purpose discretionary grants are available for the last resort funding that address unique, unanticipated threats to public health and safety.
14. **Hazardous Materials Abatement Program** - grants and loans for hazardous materials abatement are available to homeowners for lead-based paint abatement and asbestos removal.
15. **Housing Administration Fund Program** - after the development of a housing project funded in whole or part by the DECD, the project is occupied by residents who pay rent or carrying charges. A housing project in this occupancy or management phase is referred to as the Housing Administration Fund. Housing projects in the Administration Fund are required to operate the project in accordance with the DECD approved Management Plan (or the CHFA approved Management Plan for State portfolio administered by CHFA) and follow the rules and regulations established by DECD or CHFA with regards to the management and operation of the project.

Economic Development Programs:

1. **Historic Assets** - this program contributes to the state's overall historic preservation plan. It encourages quality tourism by supporting the acquisition, installation, interpretation, or renovation of historical assets in the state.
2. **Manufacturing Assistance Act** - The most comprehensive of the Department's financing programs, this act allows for the provision of financing for the projects that include planning, acquisition of real property, the purchase of machinery and equipment, construction and/or infrastructure improvements, substantial renovation, improvement or expansion of a facility, and offset the costs related to relocation.
3. **Special Act Grants** - the objectives of the special act grants program is to provide specific, targeted economic development assistance to municipalities, as decided annually through the special act appropriation of the General Assembly.

4. **Technical Assistance** - this program provides funding to municipalities and nonprofit organizations for technical assistance and planning for economic development.
5. **Urban Action Bonds** - the objectives of this program are to redirect, improve, and expand state activities that promote community conservation and development and improve the quality of life for urban residents of the state.
6. **Business Expansion - Municipalities with High Unemployment, Small Business Innovative Research** - this program promotes business expansion to create new job opportunities in municipalities with high unemployment and fund research projects that enhance small business development.
7. **Regional Economic Development Projects** - this program supports projects in thirteen self-determined economic regions that have developed long-term strategic economic plans. Grants are provided for projects that will promote economic diversification, stability and growth.

CHAPTER 3 - PLANNING AND CONDUCTING THE AUDIT

A. Audit Standards and Objectives

The objective of the financial audit is to obtain the IPA's opinion on the fairness of presentation of the auditee's financial statements. The audit must be conducted in accordance with auditing standards generally accepted in the United States of America (GAAS), *Government Auditing Standards*, issued by the Comptroller General of the United States (the "Yellow Book"), and the requirements of the State of Connecticut Department of Economic and Community Development as contained in this audit guide.

In conducting the financial audit, it is required that the IPA determines whether:

1. The auditee's financial statements present fairly the financial position and results of operations in accordance with the basis of accounting principles prescribed or permitted by the DECD.
2. The auditee has established internal control structure policies and procedures including those policies and procedures established to ensure compliance with applicable laws and regulations that have a direct and material effect on the financial statements.
3. The auditee has complied with applicable laws, regulations, policies, and procedures that have a direct and material effect on the financial statements.

B. Qualifications and Independence of Independent Public Accountants

1. Qualifications

An IPA must meet the auditor qualifications of *Government Auditing Standards*, including the qualification relating to independence and continuing professional education. Additionally, the audit organization is to meet the quality control standard of *Government Auditing Standards*.

The standards on auditor qualifications in *Government Auditing Standards* require that accountants and accounting firms comply with the applicable provisions of the public accountancy laws and rules of the jurisdiction in which they are licensed and where the audit is being conducted. If the IPA's office is located outside of Connecticut, the IPA must meet the licensing requirements to practice public accountancy in the State of Connecticut by obtaining both a license and a permit through the Connecticut Board of Accountancy to perform audit-related services in Connecticut. (The Connecticut State Board of Accountancy web site is located at <http://www.ct.gov/sboa>.)

2. Independence

In all matters relating to the audit work, the audit organization and the individual IPA should be free from personal and external impairments to independence, should be organizationally independent, and should maintain an independent attitude and appearance. An IPA will not be considered independent with respect to any auditee with which such IPA has, or has during the period covered by the audit, any interest direct or indirect such as family relationship with auditee members or officials, connection as an officer or employee (whether or not paid) of the auditee, and financial interest, either direct or indirect, in any auditee activity (other than in the

performance of the audit). The use of IPAs performing both accounting and auditing services will be prohibited unless prior approval is obtained from the DECD.

C. Accounting Records

In accordance with the Assistance/Loan Agreement or Contract, auditees shall maintain adequate accounting records and will, at such times as the Commissioner of Economic and Community Development may request, furnish the Commissioner with periodic financial statements and reports pertaining to the fund or program.

The auditee shall establish an adequate accounting system to ensure adequate internal control and compliance with the terms and conditions of the Assistance/Loan Agreement or Contract, state statutes, regulations, and policies of the DECD.

The auditee shall maintain, at a minimum, the following accounting records or similar records produced by an automated accounting system, to properly document the recording, approval and processing of accounting transactions in order to produce financial statements required by DECD and other parties.

1. General Ledger
2. Cash Receipts Journal
3. Cash Disbursements Journal
4. Payroll Register and quarterly state and federal tax returns
5. Source documents supporting all accounting transactions
6. Bank statements and canceled checks
7. General journal vouchers or entries
8. Payment vouchers
9. Tenants' Accounts Receivable Subsidiary Ledger
10. Furniture and Equipment Ledger
11. Insurance Register
12. Employee records (attendance records, forms W-2, W-4, etc.)

When required by the terms of the Assistance/Loan Agreement or contract, the auditee must establish and maintain a separate bank account for each fund or program. All state and local program funds and all income, including interest earned on program funds, must be promptly deposited in the bank account. The bank accounts may be governed by a Bank Fund Agreement, which grants the Commissioner of DECD the right to restrict or withdraw funds under certain conditions of noncompliance with the terms of the Assistance/Loan Agreement or Contract.

D. Audit Scope and Approach

The IPA shall prepare a letter of engagement and/or an audit contract between the auditee and the IPA to document the planning and scope of the audit. The letter and/or audit contract should state that the audit is to be performed in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the requirements of this Audit Guide. It should specify that the scope of the audit and the contents of the audit report meet the requirements of this Audit Guide. It should also specify that the IPA be required to provide the DECD access to working papers or other documents to review the audit. Access to working papers by DECD representatives includes making necessary photocopies.

The audit must be sufficiently comprehensive in scope to permit the expression of an opinion on the financial statements and supplementary information and/or schedules in the report. The opinion should state whether the basic financial statements present fairly, in all material respects, the financial position of the auditee as of the date of the financial statements and the results of its operations for the period then ended in conformity with the basis of accounting principles prescribed or permitted by DECD. Additionally, the opinion should state that the supplementary information and/or schedules have been subjected to the audit procedures applied in the audit of the basic financial statements and are fairly stated in all material respects in relation to the financial statements taken as a whole.

For the purpose of expressing an opinion on the financial statements, the IPA shall obtain and evaluate evidence about management assertions that are embodied in those financial statements. To be able to express an opinion, the IPA must establish specific audit objectives related to those assertions and then design and perform audit tests to obtain evidence that can be evaluated to determine whether the objectives have been met. Throughout the process, the IPA must make decisions about whether the evidence obtained is sufficient and appropriate, both qualitatively and quantitatively, to provide the necessary level of assurance for expressing an opinion. Therefore, the IPA should use professional judgment to determine the extent of testing to support his/her opinion.

Consideration of Internal Controls and Compliance

Government Auditing Standards requires the IPA to consider the internal control structure of the auditee as part of planning and performing the audit and to report on the internal control structure. *Government Auditing Standards* require the IPA to obtain a sufficient understanding of the internal control structure and to assess control risk for the assertions embodied in the financial statements. Overall guidance for the consideration of internal controls, testing and reporting requirements for State programs is provided in the *Government Auditing Standards*. The *Government Auditing Standards* require that a sufficient understanding of internal controls be obtained to plan the audit and to determine the nature, timing and extent of tests to be performed. In fulfilling the audit requirement relating to an understanding of internal controls and assessing the level of control risk, the auditor should follow, at a minimum, the guidance contained in the AICPA Statements on Auditing Standards. In addition, when auditing DECD programs, the IPA should perform tests of controls to evaluate the effectiveness of the design and operation of internal controls in preventing or detecting material noncompliance with the requirements of the DECD programs. The IPA should perform these procedures regardless of whether the IPA assesses the internal control risk below the maximum. The steps performed and conclusions reached should be clearly evidenced in the auditor's working papers. The working papers should clearly demonstrate the IPA's understanding and assessment of control risk related to internal controls established for DECD activities. DECD and *Government Auditing Standards* also require the IPA to test and report on the auditee's compliance with laws and regulations. The IPA should perform procedures to provide reasonable assurance that the auditee has complied with laws and regulations having a material effect on the financial statements and on each DECD program. The objectives of tests of compliance with laws and regulations are to determine whether the auditee has administered its DECD programs in accordance with applicable laws and regulations, thereby providing a basis for reporting, and to determine whether there have been instances of noncompliance that individually or in aggregate may have a material effect on the financial statements. Accordingly, tests of compliance with laws and regulations are substantive tests usually accomplished by examining supporting documentation. In determining the extent of substantive tests of compliance with laws and regulations that are required, the IPA may choose to rely on the internal control structure designed to ensure compliance with laws and regulations in order to restrict the extent of substantive testing. The IPA is also

required to issue a report on compliance with laws and regulations (See Chapter 4). In order to fulfill the audit requirement of testing and reporting on compliance with laws and regulations, the IPA should follow, at a minimum, the guidance contained in the AICPA Statement on Auditing Standards and *Government Auditing Standards*.

The tests of compliance must include the selection and testing of a representative number of transactions from each DECD assisted program and Administration Fund. The selection and testing of transactions shall be based on the IPA's professional judgment considering such factors as the amount of expenses/expenditures for the program; the newness of the program or changes in its conditions; prior experience with the program, particularly as revealed in audits and other evaluation (e.g., inspections, program reviews); the extent to which the program is carried out through subrecipients; the extent to which the program contracts for goods or services; the level to which the program is already subject to program reviews or other forms of independent oversight; the adequacy of the internal control structure established to ensure compliance with laws and regulations; the expectation of adherence or lack of adherence to the applicable laws and regulations; and the potential impact of adverse findings.

In performing the tests of transactions, the IPA shall determine whether:

- The expenses or expenditures incurred by the auditee are allowable under the provisions of the applicable statutes, regulations, rules, and policies governing the program(s);
- The expenses or expenditures incurred, by category and in total, are within the approved Management Plan/Program Financing Plan and Budget;
- The nature of the expenses or expenditures was provided for in the approved Management Plan/Program Financing Plan and Budget;
- The expenses or expenditures charged to the program(s) appear necessary and reasonable for proper and efficient performance and administration of State programs;
- Local matching was provided; and
- The expenses are adequately documented.

The IPA should test each of the compliance requirements applicable to each DECD program being audited as contained in the Compliance Supplement for Department of Economic and Community Development (DECD) Programs (Appendix A). For any program not covered in the compliance supplement, the IPA may ascertain compliance requirements by researching the statutes, regulations, and agreements governing the particular program. If the IPA decides not to perform detailed testing of a particular compliance requirement, the reasons must be appropriately explained and documented in the working papers. The IPA must also report all material instances of noncompliance and significant deficiencies, including material weaknesses, in the internal control structure as findings, even in those cases where corrective action was taken by the auditee after the audit period.

The schedule of findings and questioned costs (Chapter 4, Example C) must include the following information for each finding where applicable: (a) the number of items and the dollar value of the population; (b) the number of items and the dollar value of the selected sample; and (c) the number of items and the dollar value of instances of the noncompliance.

In addition, the IPA must include in the audit report comments on the status of corrective actions taken on prior audit findings (Chapter 4, Example D). Management's corrective action plan for current audit findings must be included in or submitted with the report to DECD.

Finally, the IPA is required to obtain written representations from management that include matters concerning compliance with laws and regulations that have a material effect on the financial statements and each DECD program as prescribed by SAS No. 74 (or latest update).

Criteria for Questioning Costs

Costs questioned normally fall under the following categories:

- (1) Costs which are specifically ineligible under the general and specific grant/loan conditions or instructions of the DECD. These may include pre or post grant/loan costs, per diem cost in excess of maximum limits, or other expenditures in excess of authorized or limited amounts.
- (2) Costs, which were not supported by adequate documentation. These may include lack of time and attendance records, personnel records, original invoices, etc.; and the IPA could not satisfy himself by any other evidential means that the costs were proper charges to the DECD program.
- (3) Costs, which were not in the approved budget. Those may include renovation costs, field trips, items of equipment, or staffing patterns which were either not contemplated in the proposed budget submitted or were specifically disapproved by DECD.
- (4) Costs, which were unreasonable. These costs may include costs that are not specifically ineligible or unsupportable, but which are taken under the circumstances and conditions that existed at the time the decision to incur the cost was made. It may also include unreasonable valuation assigned to In-Kind or matching contributions. For example, unreasonable costs would be the purchase of a six-month supply of materials during the last month of the grant, the rental of luxurious automobiles rather than lower priced models, or the inequitable allocation of overhead costs to the program.

E. Timing of Audit

The audit of a grant/loan program is to be arranged and conducted within ninety (90) days after completion of the project unless otherwise required by the Commissioner. In the case of an auditee subject to an audit in accordance with the Federal and/or State Single Audit Act, the contract between the auditee and the IPA shall require that the audit be conducted and submitted within the time frame allowed by federal and state law, whichever is stricter. Audits conducted on ongoing Housing Administration Funds must be completed and submitted to DECD no later than six months after the end of the period under audit.

F. Reference Materials

Prior to starting the audit of the auditee, it is suggested that the IPA request the auditee to have the reference materials and documents listed below available.

It is not necessary for the IPA to have an extensive knowledge of the contents of all DECD handbooks, manuals, and/or regulations because much of the material is not germane to the audit. However, it will be necessary for the IPA to become at least generally familiar with the following materials in order to satisfy the objectives of the audit.

1. Assistance Agreements and/or contracts between the auditee and DECD.

2. Declaration, By-laws, Policies adopted by the auditee's governing body, e.g., Personnel, Procurement, Disposition of Property, Rent Collection, etc.
3. Cooperation Agreements between the auditee and the local governing body (usually the municipality).
4. Management Plan (Administration Funds), Project Financing Plan and Budget (Development Funds), and/or Program Financing Plan and Budget (Contracts).
5. The following Department of Economic and Community Development publications:
 - a. Accounting Manual for Local Housing Authorities
 - b. Accounting Manual for DECD Financial Assistance Contracts
 - c. Accounting Manual for the Rental Assistance Payments Program
 - d. Housing Manual for the Management of State Financed Housing
 - e. Accounting Manual for Limited Equity Cooperatives
6. The names of the members of the Board of Commissioners/ Directors and management officials (e.g., Executive Director).
7. Contracts or agreements between the auditee and others (e.g., Architects, Contractors, etc.).
8. Department of Economic and Community Development and/or Independent Public Accountants audit reports covering periods prior to the current audit and any other program review reports of the Department of Economic and Community Development program staff.

The various DECD publications are also available to the IPA at the Compliance, Audit and Financial Review Section of the DECD.

G. Audit delays Due to Condition of Accounting Records

If the IPA determines that the auditee's records are not in a satisfactory condition for performing the audit, the audit should be discontinued unless the auditee is able to get the records in condition for audit within a short period of time (one or two weeks). If an audit is to be delayed more than two weeks because the auditee cannot get the records ready for audit, the IPA should inform the Compliance, Audit and Financial Review Section of the DECD and wait for further instructions before continuing the audit. If the IPA encounters poor accounting records, which are auditable but nonetheless will result in a disclaimer of opinion on the auditee's financial statements, the IPA should consult with DECD before continuing the audit. The IPA should submit a corrective action plan to DECD detailing what problems were encountered and what corrective measures must be taken by the auditee to resolve the problems before the audit can resume. In most cases it will be preferable for the IPA to suspend the audit until the records are brought into compliance with DECD requirements, thus enabling the IPA to render an opinion.

H. Errors, Irregularities, and Illegal Acts or Fraud

The IPA should specifically assess the risk of material misstatement of the financial statements due to fraud and should consider that assessment in designing the audit procedures to be performed. In

making this assessment, the IPA should consider fraud risk factors contained in AICPA SAS No. 99, Consideration of Fraud in a Financial Statement Audit (or latest update).

Normally, an audit in accordance with generally accepted auditing standards does not include audit procedures specifically designed to detect illegal acts or irregularities. However, procedures applied for the purpose of forming an opinion on the financial statements may bring possible illegal acts to the IPA's attention.

If the IPA becomes aware of illegal or fraudulent acts that have occurred or are likely to have occurred, the IPA should promptly prepare a separate written report and include all questioned costs. The IPA should submit this report in accordance with the requirements of the *Government Auditing Standards* to the Commissioner of DECD.

I. Exit Conference

Upon completion of the fieldwork, the IPA should hold a closing or exit conference with senior officials of the auditee. Any audit findings and recommendations, either of a financial, compliance, or internal control nature, should be fully discussed.

The exit conference gives the IPA an opportunity to obtain management's comments on the accuracy and completeness of the facts he or she presents and the conclusions he or she has reached. This conference also provides advance information to the auditee so that it may initiate corrective action without waiting for a final audit report. Whenever possible, the concurrence or the reasons for non-concurrence by the auditee should be obtained and incorporated in the audit report. Information on any corrective measures taken or promised to be taken by the auditee should also be included in the Schedule of Findings and Questioned Costs under a caption such as "Management's Response" or "Views of Responsible Officials and Planned Corrective Actions".

J. Corrective Action Plan

To assist the DECD in resolving instances of noncompliance and significant deficiencies including material weaknesses in the internal control structure identified by the IPA, the auditee is required to submit a corrective action plan as part of its audit report on DECD programs. The corrective action plan can be included as part of the audit finding or submitted separately on the auditee's letterhead. The auditee must describe the corrective actions taken or planned in response to findings or questioned costs identified by the IPA. In addition, the auditee must comment on the status of corrective actions taken on prior audit findings.

The submission of the corrective action plan is considered a necessary part of the auditee audit requirement. DECD required audit reports submitted without a corrective action plan shall be considered incomplete. The IPA should submit as many copies of the corrective action plan as copies submitted of the audit report. Additional guidance concerning the corrective action plan is contained in Chapter 4, Examples C & D of this guide.

K. Distribution of Audit Reports

Upon completion of the audit, the IPA shall forward sufficient copies of the audit report to the auditee as indicated in the audit contract. Three (3) copies of all audit reports must be submitted to the Compliance, Audit and Financial Review Section of the DECD. Management letters and

Adjusting Journal Entries rendered by the IPA, if issued, must accompany the audit reports submitted to DECD.

For audits of Housing Authorities, a copy of the audit report must be sent to the Connecticut Housing Finance Authority (CHFA), Town Clerk and appointing authority of the municipality in which the Housing Authority is located.

Audits of all DECD grant/loan contracts must be performed within ninety (90) days of the completion of the Project. Audits of Housing Administration Funds must be submitted no later than six months of the end of the audit period. In addition, if the audit was performed under the Federal and/or State Single Audit Acts, copies of the audit report must be submitted to the appropriate federal and state agencies within the time frames imposed by federal and state law.

L. Quality Control Review for Audit Reports

All audits performed by IPAs on auditees are subject to review by the DECD.

The DECD uses standard guidelines in reviewing audit work performed by IPAs. The review of IPA's work consists of two phases: desk reviews of audit reports and reviews of audit working papers. As part of this evaluation of completed audits, the audit working papers shall be made available upon request to the DECD at the completion of the audit and for a period of three years from the date of the audit report.

In general, the desk reviews of audit reports prepared by IPAs are intended to assure compliance with reporting requirements set forth by the American Institute of Certified Public Accountants (AICPA), *Government Auditing Standards*, issued by the Comptroller General of the United States, OMB Circular A-133 as applicable, the State Single Audit Act, and this audit guide, as required. Particular attention is paid to the IPA's comments contained in the reports on the internal control structure and on compliance with laws and regulations and on the IPA's opinion on the financial statements. Upon completion of the desk review, a determination will be made as to the audit report's acceptability.

If the audit report is received in a format not in compliance with this audit guide, the DECD may refuse to accept such report and require that the audit report be resubmitted within such time limits as the DECD may require. If the rejected report is not resubmitted within the time frame designated by the DECD, the report may be referred to appropriate professional bodies for disciplinary review. No cost may be charged to DECD programs for audits that are not performed in accordance with this audit guide, the Federal Single Audit Act, or the State Single Audit Act, as required. In conducting reviews of an IPA's working papers, the DECD's objectives are not to criticize the IPA's work but rather to ensure adherence to the DECD Audit Guide and single audit requirements as required. A letter detailing the review results will be issued to the IPA.

Whenever an evaluation of an audit report or working papers discloses inadequacies, the IPA may be asked to take corrective action. If the DECD determines that the audit report and working papers are substandard or contain major inadequacies, it will consider filing complaints with the Connecticut State Board of Accountancy.

Failure to correct deficiencies noted during a desk review or working paper review will result in notification to the Connecticut State Board of Accountancy. This is for information only and does not constitute a referral for disciplinary action. Such notification to the Connecticut State Board of Accountancy is concurrent with notification to the IPA.

M. Retention of Audit Working Papers and Reports

Audit working papers and reports shall be retained for a minimum of three years from the date of the audit report, unless the IPA is notified in writing by the DECD to extend the retention period. When IPA's are aware that DECD or the auditee is contesting an audit finding, the IPA shall contact the parties contesting the audit finding for guidance prior to destruction of the working papers and report.

N. Audit Costs

The cost of an audit made in accordance with the provisions of this audit guide is an allowable charge for each DECD program audited unless otherwise prohibited by program requirement.

The allocation of audit cost allowed to be charged to a DECD program shall be decided by the auditee with the approval of the DECD division administering the program. In general, the amount of audit cost allowable to a DECD program shall not exceed the amount approved for audit cost as stated in the Management Plan and/or Program Financing Plan and Budget. In addition, the charges in connection with the State and Federal Single Audit portion of the audit shall only be eligible to the project to the extent that the ratio of the cost charged to the project shall not exceed the ratios outlined in the State and Federal Single Audit Acts.

O. Inquiries Relating to this Audit Guide

Any inquiries or comments pertaining to this audit guide and/or audits of an auditee's books and accounts shall be directed to the Financial Review Section of the Department of Economic and Community Development at (860) 500-2409 or to the Asset Management Division of the Department of Housing (DOH) at 860-270-8204.

Additional copies of this audit guide can be obtained from the DECD web site at <http://www.ct.gov/ecd/cwp/view.asp?a=1096&q=249676>.

P. Guidance on Procurement of Audit Services

A Guide for Procurement of Audit Services (Appendix B) from an Independent Public Accountant along with a *Sample Request for Audit Proposal Notification* (Appendix C) and a *Sample Audit Agreement* (Appendix D) can be obtained from this Audit Guide or by contacting the Financial Review Section of the DECD at (860) 500-2409 or the Asset Management Section of DOH at 860-270-8204 or by visiting the DECD web site at <http://www.ct.gov/ecd/cwp/view.asp?a=1096&q=249676>.

CHAPTER 4 - REPORTING REQUIREMENTS AND SAMPLE REPORTS

A. Auditor's Reports

Government Auditing Standards requires that the IPA issue the following reports based on the audit of the financial statements: a report on the financial statements, a report on the internal controls, and a report on compliance with applicable laws and regulations. The audit report should be issued to the auditee's governing body and/or top official as appropriate and should clearly indicate the programs and periods that were audited. In addition, the auditee should transmit three (3) copies of the audit report and its corrective action plan to the DECD Compliance, Audit and Financial Review Section.

It is expected that the specific compliance requirements identified in this guide will cover those laws and regulations that, if not complied with, could have a direct and material effect on the financial statements. As such, the compliance report as illustrated in this guide is the only report necessary for reporting on the auditee's compliance with laws and regulations.

To meet the requirements of this audit guide, the IPA must submit the following reports:

1. The auditor's report on the financial statements and any required supplementary schedules, according to the particular program requirements. The report should state whether the information contained in those schedules have been subjected to the auditing procedures applied in the audit of the financial statements and whether that information is fairly stated in all material respects in relation to the financial statements taken as a whole.
2. The auditor's report on the internal controls as they relate to both financial reporting and administering the DECD programs and the assessment of control risk made as part of the audit of the basic financial statements. The report must identify any significant deficiencies and material weaknesses noted. Significant deficiencies and material weaknesses in the internal control structure should be presented in the Schedule of Findings and Questioned Costs. In addition, insignificant deficiencies may be included in this report or separately communicated in a letter to management. Such conditions when communicated in a separate letter to management should be referred to in the report on the internal controls. A copy of the Management letter shall be included with the report sent to DECD. The IPA should also include comments on the status of prior internal control structure findings noted in the prior IPA or DECD audit report. The internal control report may be issued separately or combined with the report on compliance. (See Chapter 4, Example B for a sample of a combined report.) You should also refer to the AICPA website (aicpa.org) for further explanation and possible updates of the reporting language.
3. The auditor's report on compliance with applicable laws and regulations that may have a direct and material effect on the financial statements and on each DECD program. The report should identify and include all material instances of noncompliance. The findings should include an identification of all questioned costs as a result of noncompliance. In addition, the findings should contain adequate information necessary to facilitate the audit resolution process (i.e. size of the universe and corresponding dollar amount, size and dollar amount of the sample, and number and corresponding dollar amount of the instances of noncompliance). Findings should be presented in the Schedule of Findings and Questioned Costs (Example C). Nonmaterial instances of noncompliance may be disclosed in the report on compliance or separately communicated in a letter to management. Such instances of noncompliance when communicated in a separate letter to management should be referred to in the report on compliance. A copy of the Management letter shall be included with the

report sent to DECD. The IPA should also include comments on the status of prior compliance findings noted in the prior IPA or DECD audit reports, or DECD management reviews.

4. Any illegal acts or indications of such acts that could result in criminal prosecution including all questioned costs found as a result of these acts that the IPA become aware of should be covered in a separate written report in accordance with the provisions of *Government Auditing Standards*. This report should be sent to the Department of Economic and Community Development. Illegal acts are to be reported on without regard to whether the condition giving rise to the questioned costs has been corrected or whether the auditee does or does not agree with the findings and questioned costs.
5. A corrective action plan developed by the auditee, wherein the auditee officials describe the corrective actions taken or planned in response to the findings identified by the IPA. The plan should also include comments on the corrective actions taken on prior findings resulting from IPA or DECD audits (Example D).

To meet the requirements of this audit guide, the IPA must include a statement in the reports on the financial statements and reports on internal controls and on compliance with laws and regulations based on an audit of the financial statements that the audit was conducted in accordance with the *Audit Guide for Audits of DECD Programs*.

Sample Auditor's Reports. The example reports contained in this chapter (**Examples A - D**) are illustrations of auditor's reports on financial statements, combined report on internal controls and compliance, schedule of findings and recommendations, and the auditee's corrective action plan that may be issued in an audit in accordance with this guide. These reports are not meant to be all-inclusive; IPA's should exercise professional judgement in tailoring their reports to the circumstances of individual audits. Guidance can be obtained in the AICPA Audit and Accounting Guide, *Audits of State and Local Governmental Units*, which illustrates sample auditor's reports to be issued in selected situations. It contains examples illustrating the reports required under GAAS, *Government Auditing Standards*, and the Federal Single Audit Act (OMB Circular A-133). The State of Connecticut Office of Policy and Management offer examples of reporting language when a State Single Audit report is issued. Guidance can be found at http://www.ct.gov/opm/cwp/view.asp?a=2985&q=383096&opmNav_GID=1807. The IPA should refer to **Exhibit 4-1** of this audit guide which illustrates the types of reports to be issued depending on the type of audit required.

B. Financial Statements

The audit report shall include the financial statements and supplementary schedules listed in **Exhibit 4-2**. The financial statements and supplementary schedules required will depend on the type of fund or contract and the status of the projects. If more than one fund and/or contract is involved, applicable financial statements are required for each; however, such statements may be presented on a combined statement by showing each fund and/or contract in a separate single column. In addition, a Schedule of Rehabilitation Program Expenditures, Rental Assistance Program Expenditures, Resident Services Coordinator Expenditures, and Congregate Subsidy Program Expenditures by line item must be presented as a supplementary schedule or included in the notes to the financial statements for those housing contracts that are accounted for in a housing administration fund. If a separate fund was established to account for those contracts, a separate Balance Sheet and Statement of Program Cost by line item must be presented as part of the basic financial statements.

The financial statements and supplementary schedules **must** be presented in the format referenced in **Exhibit 4-2** to meet the requirements of this audit guide.

C. Notes to the Financial Statements

In general, information that might affect the conclusions formed by users of the financial statements should be disclosed. Notes to the financial statements should inform the users of matters that may affect their interpretation of them, and may provide additional information that will facilitate their understanding and use of the statements. The Department of Economic and Community Development recommends that the following information be included in the notes to the financial statements:

1. Summary of Organization and Significant Accounting Policies

- (a) Scope of Operations - must state all the units administered by the auditee by funding source (State and Federal).
- (b) Basis of Accounting and Financial Reporting - should describe the basis of accounting used by the auditee to account for its funds. This note should also include a brief description of the basis of reporting used by the auditee for its financial statement presentation. A description of the various differences between the basis of accounting used by the auditee and generally accepted accounting principles (GAAP) should be included.
- (b) Revolving Fund - should contain a brief description of the revolving fund if used by the auditee for payment of items chargeable to any or all projects of the auditee.

2. Financial Reporting Entity - should include a description of the type of legal entity the organization is formed as and the organization's mission.

3. Deposits with Financial Institutions and Investments - should disclose the amount of auditee deposits that are insured by Federal Depository Insurance or protected by collateral.

4. Analysis of Balance Sheet Accounts - an analysis of the following accounts should be included in the notes:

- (a) Reserve Cash - Savings and Investments
- (b) Furniture and Equipment
- (c) Long-Term Debt
- (d) Sundry Accounts Receivable
- (e) Sundry Accounts Payable

5. Lease Purchase Agreements - should disclose the terms, original obligation, installment payments, and outstanding obligation for any lease purchase agreements outstanding.

6. Compensated Absences - should disclose the amount of the outstanding obligation related to vacation and sickness as of the latest Balance Sheet date.

7. Capital Grant by the State of Connecticut - Development Fund - shall include a description of each active development fund (construction project) of the auditee. This note should include information regarding the following matters:

- (a) Assistance/Loan Agreement
- (b) Cooperative Agreement
- (c) Architect's Contract
- (d) Construction Contract
- (e) Site

8. Other DECD Financial Assistance Programs (Grant/Loan Contracts) - should include a description of other DECD financial assistance programs such as Housing Rehabilitation (HR), Rental Assistance Program (RAP), Resident Services Coordinator Program (RSC), State Assisted Housing Sustainability Fund Program, Special Act Grants (SA), Manufacturing Assistance Act (MAA), Urban Act (UA) and Congregate Services Subsidy Programs (HS). The following information should be included in the description for each program:

- (a) Contract Number
- (b) Date of the Assistance/Loan Agreement
- (c) Amount of Contract/Loan
- (d) Contract Period
- (e) Total Program Cost Incurred
- (f) Amount due to/ from DECD
- (g) Objective of the Program

9. Contingent Liabilities and Litigation - should disclose any contingent liabilities and pending litigation having at least a reasonable possibility of occurrence and a direct and material effect on the financial statements.

10. Pension Plan - should include a description and a summary of financial information related to the pension plan that the auditee's employees participate.

11. Adjusting Journal Entries - should disclose whether the audited financial statements include adjusting journal entries rendered by the IPA at the balance sheet date. If the IPA renders adjusting journal entries, a copy of the entries should be included in the back of the audit report or accompany the audit report submitted.

12. Related Party Transactions - should disclose any transactions (e.g., receivables and payables) between the auditee and its officials and employees.

13. Subsequent Events - should disclose any events taking place after the Balance Sheet date having a direct and material effect on the financial statements.

The notes to the financial statements should include any other information required by accounting principles generally accepted in the United States of America and any other information that the IPA considers necessary to facilitate the interpretation and understanding of the auditee's financial statements and operations.

AUDIT REPORTING MATRIX AND SAMPLE REPORTS

<u>Type of Audit Report</u>	<u>Example Report</u>
1. Report on the Financial Statements and Supplemental Schedules	A
2. Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	B
3. Schedule of Findings and Questioned Costs	C
4. Corrective Action Plan	D
5. Report on Illegal Acts (issued only when illegal acts are detected)	
6. Financial Statements (Financial Statement Sample Formats are outlined in the Financial Statement Matrix located in Exhibit 4-2)	

Note: If a State and/or Federal Single Audit are required of an auditee, only the necessary reports as required by the respective laws should be included in the audit report. No additional reports would be required by DECD.

- See the State Office of Policy and Management (OPM) Web Site for the State Single Audit requirements and Sample Audit Reports at http://www.ct.gov/opm/cwp/view.asp?a=2985&q=383096&opmNav_GID=1807.
- You can obtain Federal Single Audit Guidance (OMB Circular A-133) at the Office of Management and Budget website <http://www.whitehouse.gov/omb/circulars/index.html>.

UNQUALIFIED OPINION ON FINANCIAL STATEMENTS AND SUPPLEMENTAL
INFORMATION

Independent Auditor's Report (Note 1)

[Addressee]

We have audited the accompanying financial statements of the [the Entity with respect to State Programs], as of December 31, 20xx, and for the year then ended, as listed in the table of contents. These financial statements are the responsibility of the [the Entity's] management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and requirements of the *Audit Guide for Audits of DECD Program*. Those standards and requirements require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in note 1 to the financial statements, these financial statements were prepared in conformity with the accounting practices prescribed or permitted by the State of Connecticut Department of Economic and Community Development, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the [the Entity with respect to State Programs], as of December 31, 20xx, and the results of its operations and changes in retained earnings for the year then ended, on the basis of accounting prescribed by DECD.

In accordance with *Government Auditing Standards*, we have also issued a report dated [date of report] on our consideration of [the Entity's with respect to State Programs] internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements of [the Entity with respect to State Programs] taken as a whole. The accompanying schedule(s) as listed in the table of contents are presented for purposes of additional analysis as required by DECD and are not a required part of the financial statements. The information in these schedule(s) have been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole.

This report is intended for the information of the Board of Directors/Commissioners, management, and the State of Connecticut Department of Economic and Community Development.

[Signature]

[Date]

Note 1 – Refer to the AICPA website (aicpa.org) for further explanation and possible updates of this report.

EXAMPLE B

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

[No material weaknesses, no significant deficiencies identified, no reportable instances of noncompliance or other matters noted] (Note 1)

[Addressee]

We have audited the financial statements of [the Entity with respect to State Programs] as of and for the year ended December 31, 20xx, and have issued our report thereon dated [date of report]. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and requirements of the *Audit Guide for Audits of DECD Programs*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the [the Entity's with respect to State Programs] internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the [name of entity]'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the [name of entity]'s internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the [name of entity]'s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the [name of entity]'s financial statements that is more than inconsequential will not be prevented or detected by the [name of entity]'s internal control.

A material weakness is a significant deficiency or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the [name of entity]'s internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the [the Entity's with respect to State Program]'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However,

providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of [name of entity] in a separate letter dated March 15, 20xx.

This report is intended for the information of the Board of Directors/Commissioners, management, and the State of Connecticut Department of Economic and Community Development and is not intended to be and should not be used by anyone other than these specified parties.

[Signature]

[Date]

Note 1 – Refer to the AICPA website (aicpa.org) for further explanation and possible updates of this report. Also refer to the AICPA website for sample reports when significant deficiencies, reportable instances of noncompliance, and other matters indentified are discovered.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

When the IPA identifies a finding, this schedule must include the following information for each finding, where applicable: (a) the size and corresponding dollar value of the population, (b) the size and dollar value of the sample tested, and (c) the size and dollar value of the instances of noncompliance.

In addition, *Government Auditing Standards* states that to the extent possible, in presenting audit findings such as deficiencies in internal control, auditors should develop the elements of criteria, condition, cause, and effect to assist management or oversight officials of the audited entity in understanding the need for taking corrective action. Following is guidance for reporting on elements of findings.

- Criteria – The criteria or specific requirement upon which the audit finding is based, including statutory, regulatory, or other citation.
- Condition – The condition found, including facts that support the deficiency identified in the audit finding. The nature of the deficiencies, e.g., a regulation not being followed, a control procedure not followed or one that is inadequate.
- Cause – The reason or apparent reason that the condition or situation occurred. Why the condition exists, e.g., the auditee was unaware of the regulation or internal control was not a high priority of the auditee
- Effect – The possible asserted effect to provide sufficient information to the auditee and State agency, or pass-through entity in the case of a subrecipient, to permit them to determine that cause and effect to facilitate prompt and proper corrective action.
- Questioned Cost – If applicable, identification of questioned costs and how they were computed.
- Recommendation – Recommendations to prevent future occurrences of the deficiency identified in the audit finding. What the auditee should do to correct the condition, normally addresses the cause, e.g., develop procedures to implement regulation or follow established procedures.
- Views of Responsible Officials and Planned Corrective Actions
(Note 1) – The organization should detail actions taken or planned to correct deficiencies identified in the report. Appropriate documentation should be submitted for actions taken. For planned actions, organization should provide projected dates for completion of major tasks. Officials responsible for completing the proposed actions should also be identified. If the organization believes a

corrective action is not required, a statement describing the reasons should be included.

The IPA should attempt to identify the criteria, condition, cause, effect, questioned cost, recommendation, and views of responsible officials and planned corrective action to provide sufficient information to DECD officials and to permit timely and proper corrective action. These findings may also serve as a basis for DECD to conduct additional audit work. As part of the finding, the IPA is required to make a recommendation for corrective action to the auditee. The IPA is also required to include the auditee's summary comments on the findings and recommendations in this schedule or as a separate Corrective Action Plan (**See Example D**). The IPA should also include comments on the status of prior internal control structure and compliance findings noted in the prior IPA or DECD audit report.

Note 1 – The auditor should report management views and planned corrective actions for the findings identified in the Schedule of Findings and Questioned Costs. Alternatively, depending on the status of the development of the corrective action plan at the time the auditor's reports are released, the auditor may be able to refer to the Corrective Action Plan as the required presentation of the auditee's views and planned corrective actions. **See Example D** for a sample separate presentation of a corrective action plan.

CORRECTIVE ACTION PLAN

The following is a recommended format to be followed by auditee's for submitting a corrective action plan to correct an audit finding or questioned cost. The corrective action plan should be on the auditee's letterhead and addressed to each State agency that was affected.

[AUDITEE'S LETTERHEAD]
CORRECTIVE ACTION PLAN

Department of Economic and Community Development
450 Columbus Boulevard, Suite 5
Hartford, CT 06103

Attention: Send to the DECD Program Office which provided the State Grant/Loan

(Auditee) respectfully submits the following corrective action plan for the audit period ended (Date). The audit was performed by (name of independent accounting firm).

Section I - Internal Control Structure Review

A. Comments on Findings and Recommendations

The auditee should provide a statement of concurrence or non-concurrence with the findings and recommendations. If the auditee does not agree with a finding, the auditee should provide specific information to support its position. If the information is voluminous, an appendix may be attached to the submission.

B. Actions Taken or Planned

The auditee should detail actions taken or planned to correct deficiencies identified in the report. Appropriate documentation should be submitted for actions taken. For planned actions, the auditee should provide projected date for completion of major tasks. Auditee officials responsible for completing the proposed actions should also be identified. If the auditee believes a corrective action is not required, a statement describing the reason should be included.

C. Status of Corrective Actions on Prior Findings

The auditee must comment on all prior findings whether or not corrective actions have been completed. The auditee should provide a report on the status of corrective actions taken on prior findings that remain open. An update should be included on dates for completion of major tasks and responsible officials for any actions not completed. In addition, documentation should be submitted for any actions that the auditee considers completed.

Section II - Compliance Review

A. Comments on Findings and Recommendations

(See Section I.A. above.)

B. Actions Taken or Planned

(See Section I.B. above.)

C. Status of Corrective Actions on Prior Findings

(See Section I.C. above.)

Section III – Questioned Costs

1. For each questioned cost, the auditee should identify the amount by state financial assistance or award program and the program period.
2. If the auditee believes a questioned cost is an allowable cost, a statement providing reasons for the auditee's position should be included.
3. If the auditee is questioned because the auditee failed to provide the auditors with documentation supporting the allowability of the questioned cost, and documentation subsequently becomes available, the auditee should provide such documentation as part of the submission of the corrective action plan. The auditee should describe how the records document the allowability of the cost.
4. If the auditee determines that the questioned costs are unallowable or that the charges cannot be supported, the auditee should provide a statement to that effect and remit payment for the unallowable or unsupported costs with the corrective action plan.

If the Department of Economic and Community Development has any questions regarding the Corrective Action Plan, please contact (Name) at (Telephone).

Sincerely yours,

[Name}

[Title]