



November 25, 2024

Melissa Soldano  
Shareholder  
Douglas Wilson & Company, P.C.  
1000 1st Avenue South  
Great Falls, MT 59401

**SUBJECT:** Quality Control Review of Douglas Wilson & Company's Single Audit Report of Great Falls Development Authority, Inc., for Fiscal Year 2022  
Final Report No. OIG-25-QCR-1

Dear Ms. Soldano:

The Office of Inspector General is committed to improving the quality of nonfederal audits. In accordance with our responsibilities for audit work performed on federal programs by nonfederal auditors, we are enclosing the quality control review (QCR) of your firm's single audit of Great Falls Development Authority, Inc., for the fiscal year ending June 30, 2022.

Premier Group Services, Inc., performed this QCR on our behalf to ensure the single audit was conducted in accordance with standards and requirements. These include the *Generally Accepted Auditing Standards* (GAAS), *Generally Accepted Government Auditing Standards* (GAGAS), and the requirements of 2 C.F.R. Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"), including the Compliance Supplement. Please see the enclosed Premier Group report for the QCR's scope and methodology.

Audits can receive a QCR rating of Pass, Pass with Deficiencies, or Fail. After considering your response to the draft report, Premier Group recommended a QCR rating of Fail. We reviewed the QCR report, related documentation, and your company's response (which is included in the QCR as an appendix), and we agree with Premier Group's rating.

When an audit fails a QCR, this means that the audit documentation contains quality deficiencies that affect the reliability of the audit results, does not support the audit report's opinions, or both, and that the audit under review requires correction. Your firm should evaluate the audit documentation related to the deficiencies detailed in the report and identify any additional audit procedures needed to ensure that the audit documentation meets GAAS, GAGAS, and the Uniform Guidance requirements (including the Compliance Supplement). If additional audit work is deemed necessary to support the audit opinions, your firm should follow the provisions of the American Institute of Certified Public Accountants' (AICPA's) *Clarified Statements on Auditing Standards* (AU-C §§ 585 & 935.44) with respect to reissuing the audit.

We are sending this letter and Premier Group's QCR report to officials at federal agencies with direct expenditures listed on the Schedule of Expenditures of Federal Awards to inform them of the results of this review. Additionally, when audit work as originally submitted fails a QCR,

our policy is to make referrals to the appropriate professional association. We are therefore referring the audit to the AICPA's Professional Ethics Division for review and appropriate action.

This letter and Premier Group's QCR will be posted on our website pursuant to the Inspector General Act of 1978, as amended (5 U.S.C. §§ 404 & 420).

Pursuant to Pub. L. No. 117-263, Section 5274, nongovernmental organizations and business entities specifically identified in the QCR report (i.e., the Great Falls Development Authority) have the opportunity to submit a written response for the purpose of clarifying or providing additional context to any specific reference. Any response must be submitted to Carmen Cook, Director of Standards and Quality Control, at [ccook@oig.doc.gov](mailto:ccook@oig.doc.gov) and [OAE\\_Projecttracking@oig.doc.gov](mailto:OAE_Projecttracking@oig.doc.gov) within 30 days of the report's publication date.

If the Great Falls Development Authority provides clarifications or additional context to any specific references in the report, its response will also be posted on our public website. If the response contains any classified or other nonpublic information, the Great Falls Development Authority should identify those portions in the response as needing redaction and provide a legal basis for the proposed redaction.

We appreciate the cooperation and courtesies your staff extended to Premier Group during the QCR. Please direct any inquiries regarding this report to me at (202) 793-3344 or Carmen Cook, Director of Standards and Quality Control, at (202) 763-6103 or [NonFederalAudits@oig.doc.gov](mailto:NonFederalAudits@oig.doc.gov).

Sincerely,



Richard Bachman  
Assistant Inspector General for Audit and Evaluation

Enclosure

cc: Jana Williams, Vice President/Accountant and Office Manager, Great Falls Development Authority, Inc.  
Joye Sistrunk, CPA and Principal, Premier Group Services, Inc.  
Kennedy Koukpresso, Audit Manager, Premier Group Services, Inc.  
Olivia Bradley, Senior Procurement Executive and Director of the Office of Acquisition Management, U.S. Department of Commerce  
John Geisen, Director, Financial Assistance Policy and Oversight Division, Department of Commerce  
Ann Marie Maloney, Audit Liaison, Economic Development Administration  
MaryAnn Mausser, Audit Liaison, Office of the Secretary, U.S. Department of Commerce  
Nadia Khang-Kaplan, Enterprise Risk Management Program Analyst, Economic Development Administration

Andy Kmetz, National Single Audit Coordinator, U.S. Department of Agriculture  
Cecilia Howland, Deputy Assistant Inspector General for Audit, U.S. Department of the  
Treasury

Jean Bloom, National Single Audit Coordinator, U.S. Environmental Protection Agency  
AICPA Professional Ethics Division



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November 1, 2024

Douglas Wilson & Company, P.C.  
Melissa Soldano  
Shareholder  
1000 1st Ave S  
Great Falls, MT 59401

**SUBJECT:** Quality Control Review of the Douglas Wilson & Company, P.C., Single Audit of Great Falls Development Authority, Inc. for the fiscal year ended 2022 Report

This report provides the results of our quality control review (QCR) of the single audit that Douglas Wilson & Company, P.C. (DWC) completed of the Great Falls Development Authority, Inc. (GFDA) for the fiscal year (FY) ending June 30, 2022.

Our review revealed deficiencies that affect the single audit's reliability (see **Appendix A** for details). Based on our review, we have assigned DWC an overall QCR rating of Fail.

### **Why We Did This Review**

According to the Code of Federal Regulations (2 C.F.R. § 200.501(b)), any nonfederal entity that expends \$750,000 or more in federal funds during its FY must undergo a single audit—a comprehensive audit of the entity's financial statements and federal programs. GFDA contracted with DWC to perform GFDA's single audit for FY 2022.

Premier Group Services, Inc (PGS) performed this QCR on behalf of the U.S. Department of Commerce (DOC), Office of Inspector General (OIG) to (1) determine whether the single audit was conducted in accordance with applicable standards and requirements; (2) identify any follow-up audit work needed; and (3) identify any issues that may require management's attention.

Our full objectives, scope, and methodology are detailed in **Appendix B**.

### **Our Opinion and Rating**

DWC performed its single audit and issued an unqualified opinion to GFDA on September 19, 2022. GFDA's Schedule of Expenditures of Federal Awards (SEFA) disclosed \$9,959,407 in federal expenditures, and the summary of its audit results reported on three major programs:

- Community Development Financial Institution Program, funded by the U.S. Department of Treasury (assistance listing number [ALN] 21.020)
- Community Development Financial Institution Rapid Response Program, funded by the U.S. Department of Treasury (ALN 21.024); and
- Brownfield Revolving Loan Fund (RLF) and Assessment Grant, funded by the U.S. Environmental Protection Agency (ALN 66.818)

After reviewing DWC's single audit report, related documentation, and response to our draft report we assigned DWC a rating of Fail. We concluded that DWC's single audit was not conducted in accordance with applicable standards, specifically the Generally Accepted Auditing Standards (GAAS), Generally Accepted Government Auditing Standards (GAGAS), and the requirements of Federal regulations at 2 CFR part 200, "Uniform Guidance" for federal awards. See the deficiencies identified in **Appendix A** below.

### **DWC's Response to Our Draft Report**

We provided a draft report of our QCR to DWC for review and response. In our draft report, we suggested that DWC evaluate its audit documentation related to the four deficiencies explained in **Appendix A**. We also suggested DWC identify any additional audit procedures needed to ensure that the audit documentation for FY 2022 meets GAAS, GAGAS, and the requirements of the Uniform Guidance, including the Compliance Supplement. If additional audit work was deemed necessary to support its audit opinions, we suggested DWC follow the provisions of the American Institute of Certified Public Accountants' (AICPA's) Clarified Statements on Auditing Standards (AU-C §§ 585 & 935.44) with respect to reissuing the audit.

We received DWC's response dated September 9, 2024, to our draft report and reviewed and summarized DWC's response to each deficiency (see **Appendix C**). In its response, DWC addressed each of the four deficiencies but did not explicitly state whether it agreed or disagreed. In addition, DWC acknowledged there were deficiencies with the audit documentation of the testing for the direct and material requirements for the three major programs. Based on DWC's response, we revised deficiency 1 in our report; however, our overall QCR rating of Fail remains valid. For DWC's full response see **Appendix D**.

We appreciate the cooperation and courtesies extended to us by your staff during our review.

If you have any questions concerning the results of our review or if we may be of assistance, please contact me at 301-577-6444 or via email at [info@pgs-cpa.com](mailto:info@pgs-cpa.com).

Sincerely,



Premier Group Services, Inc

cc: Richard Bachman, Assistant Inspector General for Audit and Evaluation, DOC OIG

Carmen Cook, Director of Standards and Quality Control, DOC OIG

## **Appendix A: Details of the Identified Deficiencies**

Our QCR of DWC's working papers for the FY 2022 single audit of GFDA focuses on the three major programs identified above and testing of the applicable requirements from the corresponding Compliance Supplement.

The deficiencies below have caused us to assign DWC an overall QCR rating of Fail.

### **Deficiency 1 - Improper Preparation of SEFA and Inclusion of Inaccurate Information.**

According to 2 C.F.R. § 200.514(b), the auditor must ensure that the SEFA is fairly stated in all material respects to the auditee's financial statements as a whole. We identified the following errors reported on the SEFA:

- Expenditures for ALN 21.020 and ALN 21.024 programs were not individually totaled on the SEFA, as required by the Uniform Guidance.
- Expenditures for ALN 66.818 program were passed-through to sub-recipients but were not reported and totaled separately on the face of the SEFA, as required by the Uniform Guidance.

### **Deficiency 2 - Failure to Properly Determine Direct and Material Compliance Requirements**

According to AU-C § 935.14, auditors are required to determine which compliance requirements to test per government audit requirements. AU-C § 935.28 also requires the auditor to evaluate the sufficiency and appropriateness of the evidence obtained.

The audit documentation did not support that the auditor properly determined the direct and material compliance requirements for two of the three major programs, specifically:

- The auditor determined that the special tests and provisions requirement relating to the Assessment grant for ALN 66.818 program was applicable; however, the auditor did not document the basis for determining that it was not direct and material to the program.
- In one work paper, the audit documentation stated that the cash management and period of performance requirements were not applicable and direct and material to the ALN 21.024 program. However, in another working paper, the documentation showed that the period of performance for the grant was from June 15, 2021, through June 30, 2023, and 90 percent of the funds were expended from June 15, 2021, through June 30, 2022, year 1 of the period of performance. Therefore, because the majority of the funds expended fell within the audit period, the auditor should have determined the cash management and period of performance requirements to be applicable and direct and material to the ALN 21.024 program and should have tested internal controls and compliance for both requirements.
- Furthermore, the auditor determined that the special tests and provisions requirement was applicable to the ALN 21.024 program, but the basis for determining that it was not direct and material to the program was not documented.

### **Deficiency 3– Sampling Plan Not Adequately Documented**

According to AU-C §§ 530 .06—.09, when designing a sample, the auditor should consider the purpose of the audit procedure and the characteristics of the population. The auditor should also determine a sample size that is sufficient to reduce the sampling risk to an acceptably low level, select items for the sample that are representative of the relevant population, and provide a reasonable basis for conclusions about the population.

The audit documentation did not include a sampling plan that properly defined the population and sampling unit for the testing of internal controls and compliance for some of the direct and material compliance requirements for the three major programs. We encountered challenges in assessing the representativeness and adequacy of the samples chosen for ALN 21.024 Activities Allowed and Allowable Costs, ALN 21.020 Matching requirement, and ALN 66.818 Program Income. Specifically, there was a lack of sample plan for Activities Allowed and Allowable Costs, which raises concerns about the samples' representativeness and the suitability of the population size for effectively evaluating the operating controls. Furthermore, there was ambiguity regarding whether the samples were specifically designed for the dual-purpose testing.

### **Deficiency 4 – Insufficient Documentation for Understanding Internal Controls and Testing Compliance for Major Programs**

According to C.F.R. (2 C.F.R. §§ 200.514(c)(2), (c)(3)(i)-(ii), and (d)(1)), auditors must perform procedures to gain an understanding of internal control over federal programs sufficient to plan the audit to support a low-assessed level of control risk to perform testing of internal controls as planned. The auditors must also determine whether the auditee complied with federal statutes, regulations, and the terms and conditions of federal awards that may have a direct and material effect on each of its major programs.

The audit documentation did not support that the auditor gained an understanding of internal controls for the direct and material compliance requirements for the three major programs (ALN's 66.818, 21.020, and 21.024). The auditor referenced specific workpapers to support their understanding of internal controls. However, the documentation only described the auditees' processes, which was not sufficient to plan the audit to support a low-assessed level of control risk for the direct and material compliance requirements.

There were some instances where the audit documentation was unclear about which compliance requirement was being tested and its related program. Moreover, the audit documentation did not provide sufficient evidence to support the auditors' conclusions that they had properly tested internal controls and compliance for the direct and material compliance requirements of the major programs. For instance:

- The auditor noted for the RLF grant for ALN 66.818 program, the sub-recipient monitoring requirement was deemed direct and material. However, upon review of the audit documentation, it was found that the auditor did not adequately plan and perform internal control and compliance testing to meet the audit objectives. Additionally, the audit documentation did not include the procedures the auditors performed to ensure that sub-recipients were being properly monitored.

- For the ALN 21.024 program, the auditor concluded that the reporting requirement was direct and material. The auditor referred to specific work papers to support the testing of internal control and compliance; however, the audit documentation did not provide sufficient evidence of the procedures the auditor carried out to test internal controls and compliance to meet the audit objectives for this requirement.
- The documentation for the activities allowed or unallowed, allowable costs/cost principles, and cash management requirements, referred to specific work papers for the testing of internal controls and compliance related to major programs (ALN's 66.818, 21.024, and 21.020). However, the audit test work did not identify the controls that were tested, nor did it define the attributes that were tested for compliance. This lack of clarity made it difficult to determine how the audit objectives were met for these requirements of the major programs.

The auditor's work did not have sufficient documentation to support their tasks completed, and opinions reached for the three major programs (ALN 21.020, ALN 21.024, and ALN 66.818). Even though DWC's management reviewed and approved the work papers, there were inconsistencies and quality errors in the audit documentation prior to submitting the single audit report. The supervisory reviews failed to recognize and correct these discrepancies that were present in the audit documentation.



## Appendix B: Background, Objectives, Scope, and Methodology

In 2023, we initiated this QCR on DWC's single audit. The objectives of a QCR are to (1) determine whether the single audit was conducted in accordance with applicable standards, including GAAS and GAGAS, and met Uniform Guidance requirements; (2) identify any follow-up audit work needed; and (3) identify any issues that may require management's attention. To accomplish our objectives, we assessed the following:

- qualification of auditors, including GAGAS continuing professional education requirements.
- independence, including reviewing for any non-attest services.
- professional judgment and due professional care.
- quality control.
- fieldwork:
  - identification of engagement team members.
  - relevant criteria applied throughout the audit's planning, testing, and reporting phases.
  - fraud considerations.
  - subsequent events.
  - inquiries on any retaining Attorney for any possible threatening or pending litigation.
- schedule of expenditures of federal awards.
- determination of major federal programs.
- schedule of findings and questioned costs.
- summary of prior-year audit findings and follow-up, if any, in relation to whether these prior-year recommendations were implemented or corrected in subsequent years or the year under audit by DWC.
- financial statement and related requirements:
  - risk assessment.
  - identification and evaluation of audit findings.
  - communication of audit findings.
  - compliance with AICPA standards.
- considerations related to audits of major federal programs.
- sampling: major federal program (internal control and compliance).
- testing of internal control over compliance.
- testing of compliance with direct and material compliance requirements.

We reviewed DWC's audit documentation for the ALNs 21.020, 21.024, and 66.818 programs and discussed the QCR results with DWC staff.

We performed our work remotely and in accordance with the Council of the Inspectors General on Integrity and Efficiency's Guide for Quality Control Reviews of Single Audit Reports. We believe that the evidence obtained supports the QCR rating.

## **Appendix C: Summary of DWC's Response and Premier's Comments**

DWC evaluated its audit documentation related to the four deficiencies found in **Appendix A** and provided a detailed response to each deficiency, and where applicable its corrective action (see **Appendix D**). Further, DWC did not agree with the Fail rating, stating that Pass With Deficiencies would be more appropriate. However, based on the responses below we maintain our original rating of Fail.

### **Deficiency 1 - Improper Preparation of SEFA and Inclusion of Inaccurate Information.**

DWC response: DWC agreed the expenditures for ALN 21.020 and ALN 21.024 programs were not individually totaled on the SEFA and noted in subsequent single audits it will total each ALN. However, DWC disagreed that the total amount paid to subrecipients was not reported properly on the SEFA and cited 2 C.F.R. § 200.510(b)(4) that states, at a minimum, the schedule must include the total amount provided to subrecipients from each federal program. Additionally, DWC disagreed that the documentation did not provide sufficient evidence of internal controls. DWC stated it acknowledges that the controls are not written in policy, but the controls are in place and were tested. Specifically, DWC obtained copies of all awards and agreed the amounts reported in the client prepared SEFA reconciled to the accounting records.

Premier response: DWC confirmed that the payments to subrecipients were reported on the SEFA but failed to meet the requirements of 2 C.F.R. 200.510(b)(2). Specifically, it did not identify the pass-through entity, or distinctly identify the total amount provided to subrecipients. Therefore, the expenditures were misreported as direct expenditures, the pass-through entity's name was not identified, and the amount provided to subrecipients was incorrectly presented.

Regarding internal controls for SEFA preparation, we concurred with DWC and omitted this portion of the deficiency from the final report.

### **Deficiency 2 - Failure to Properly Determine Direct and Material Compliance Requirements**

DWC response: DWC disagreed that the special tests and provisions requirement was direct and material to the Assessment grant for ALN 66.818 program because the contracts started in prior periods and there were no new contracts entered into during the audit period.

Furthermore, for ALN 21.024 program, DWC agreed that the cash management requirement should have been documented as applicable but disagreed it should have been direct and material to the program because GFDA received the full amount of funding. However, DWC agreed that the documentation supporting the assessment could be improved. Specifically, for the period of performance requirement, DWC agreed the requirement should have been documented as applicable and direct and material to the program. In addition, DWC maintained its position that the special tests and provisions requirement is not direct and material to the program but agreed the documentation supporting the assessment could be improved. To correct the issues, DWC said for subsequent single audits, it will better document the basis for its determination of applicability, as well as direct and material considerations.

Premier response: Based on our review of the audit documentation, we concluded that the FY 2022 audit period fell within the budget and project period. Therefore, DWC should have assessed the special tests and provisions requirement as direct and material to the Assessment grant for ALN 66.818 program.

Additionally, the audit documentation showed that 90 percent of the funds for ALN 21.024 program were disbursed in FY 2022 (June 15, 2021, through June 30, 2022). Therefore, cash management and period of performance requirements for ALN 21.024 program, should have been determined direct and material to the program.

Additionally, DWC agreed that its documentation on special tests and provisions for ALN 21.024 was insufficient and the basis for its determination was not documented.

### **Deficiency 3– Sampling Plan Not Adequately Documented**

DWC response: For ALN 21.024 program, DWC stated there were adequate internal controls but acknowledged the documentation could be improved by adding sample justification forms to demonstrate DWC’s testing for internal controls and compliance. In addition, for ALN 21.020 program, DWC stated it will update the documentation so that the testing it performed is clear. Finally, for ALN 66.818 program, DWC stated it believes the documentation supported adequate internal controls for these requirements but agreed the documentation relating to the items it chose to test, could be improved.

Premier response: As stated in our report, we found that the audit documentation did not include sampling plans for the testing of internal controls and compliance for the direct and material requirements. Therefore, we could not determine what specific steps or procedures DWC performed to meet the audit objectives to test internal controls and compliance for the direct and material requirements for the three major programs.

### **Deficiency 4 – Insufficient Documentation for Understanding Internal Controls and Testing Compliance for Major Programs**

DWC response: DWC stated that its understanding and testing of internal controls and compliance for the direct and material requirements for the three major programs are included in its working papers. However, DWC also stated for each of the three major programs, it will add a note in the control working paper and refer to the risk assessment.

Premier response: As stated in our report, we found that DWC did not document their understanding of the internal control structure. Specifically, it did not identify the relevant controls or attributes for the testing of internal controls and compliance, nor did it include the conclusions reached for those requirements. Therefore, we could not determine what specific steps DWC performed to meet the audit objectives for the direct and material requirements for the three major programs.

## **Appendix D: DWC's Response**

DWC's response begins on the following page.



Certified Public Accountants  
Since 1913

**Douglas WILSON**  
and Company, PC

Gerard K. Schmitz, CPA  
Myra L. Bakke, CPA  
Melissa H. Soldano, CPA  
Katherine A. Durbin, CPA

September 9, 2024

Premier Group  
7404 Executive Place, Suite 325  
Lanham, MD 20706

**RE: OFFICIAL MANAGEMENT RESPONSE TO QUALITY CONTROL REVIEW  
OF THE SINGLE AUDIT FOR GREAT FALLS DEVELOPMENT AUTHORITY FOR  
THE FISCAL YEAR ENDED JUNE 30, 2022**

We have received the QCR report on the single audit for Great Falls Development Authority, Inc. (GFDA) for the fiscal year ending June 30, 2022, dated September 4, 2024. Our response to the QCR results is detailed below. The audit work paper references and excerpts referenced in our response were pulled directly from our audit documentation provided to Premier Group.

**Deficiency #1: Improper Preparation of SEFA and Inclusion of Inaccurate Information**

The audit documentation did not provide proper support that the SEFA was accurately prepared, and the expenditures did not properly reconcile to the SEFA. We identified the following errors reported on the SEFA:

**Response:** None of the three comments below indicate the expenditures did not properly reconcile with the SEFA. Documentation is included in the audit working papers to demonstrate that client expenditures agree to reported SEFA amounts.

- 1) Expenditures for ALN 21.020 and ALN 21.024 programs were not individually totaled on the SEFA, as required by the Uniform Guidance.

**Response:** The total for ALN 21.024 total should be \$1,185,724 (which is reflected on the SEFA) and the total for ALN 21.020 should be \$820,955, and this sum is missing on the SEFA. That total for the Department of Treasury is reflected on the SEFA accurately. For subsequent single audits we will have a total for each ALN.

- 2) Expenditures for ALN 66.818 program were passed-through to subrecipients but were not reported and totaled separately on the face of the SEFA, as required by the Uniform Guidance.

**Response:** Financial statement requirements outlined in 2 CFR 200.510(b)(4) states: *At a minimum, the schedule must include the total amount provided to subrecipients from each federal program.* The SEFA did show \$369,661, the total amount paid to subrecipients for ALN 66.818, and this was reported on its own line on the SEFA.

- 3) Audit documentation did not provide sufficient evidence that the entity had adequate internal controls to fairly present the required information on the SEFA.

**Response:** The client prepared and provided the SEFA. The documentation of the internal controls over the SEFA preparation is included in the audit working papers and those controls documented are: *Support is maintained in QB [QuickBooks] for the SEFA. Appropriate award notices are retained for each award and support for each expenditure. The software appropriately captures data in order to complete the SEFA. Client has the individuals responsible for compliance with the programs review the SEFA for accuracy. We obtained copies of all awards and agreed the amounts reported in the client prepared SEFA to their accounting records. While we acknowledge that the controls the client has are not written in their policy, there are still controls in place that were tested, as noted here. We believe this is sufficient, appropriate evidence to demonstrate that the client has controls over the SEFA preparation.*

We do not believe that any of these issues impact the compliance opinion issued.

#### **Deficiency #2: Failure to Properly Determine Direct and Material Compliance Requirements**

The audit documentation did not support that the auditor properly determined the direct and material compliance requirements for two of the three major programs.

- 1) The auditor determined that the special tests and provisions requirement relating to the Assessment Grant for ALN 66.818 program was applicable; however, the auditor did not document the basis for determining that it was not direct and material to the program.

**Response:** In our working papers we stated the following for special tests and provisions: *based on reading the grant award documents, there are special tests and provisions that apply to the Brownfield Assessment. See documentation of QEP requirements in 9400.63 page 10/44. This is not considered a direct and material compliance requirement; these contracts were entered into in prior audit periods and are shown in the 2401S tab. No additional testing is necessary for this requirement. Our basis for determining that special tests and provisions was not direct and material for this audit period was the fact that contracts were entered into in prior audit periods. There were no (Qualified Environmental Professional) QEP contracts that were newly entered into during the audit period.*

- 2) In one work paper, the audit documentation stated that the cash management and period of performance requirements were not applicable and direct and material to the ALN 21.024 program. However, in another working paper, the documentation showed that the period of performance for the grant was from June 15, 2021, through June 30, 2023, and 90 percent of the funds were expended from June 15, 2021, through June 30, 2022, year 1 of the period of performance. Therefore, because the majority of the funds expended fell within the audit period, the auditor should have determined the cash management and period of performance requirements to be applicable, and direct and material to the ALN 21.024 program and should have tested internal controls and compliance for both requirements.

**Response:** The following information was pulled from the compliance supplement: “For major programs not included in the Supplement, the auditor must follow the guidance in Part 7 and use the types of compliance requirements in Part 3 to identify the applicable compliance requirements that could have both a direct and material effect on the program. The 2 CFR section 200.514(d)(3) states that for those federal programs not covered in the compliance supplement, the auditor must use the types of compliance requirements contained in the compliance supplement as guidance for identifying the types of compliance requirements to test and determine the requirements governing the federal program by reviewing the provisions of the federal award, and the laws and regulations referred in such awards. For programs not included in this Supplement, the auditor must determine the applicable compliance requirements. While a federal program may have many compliance requirements, normally there are only a few key compliance requirements that could have a direct and material effect on the program. Since the single audit process is not intended to cover every compliance requirement, the auditor’s focus must be on the 12 types of compliance requirements enumerated in Part 3 of the Supplement.”

We agree with the QCR statement that the Cash Management requirement should have been documented as applicable, but disagree that this should have been a direct and material. We also agree that period of performance should have been noted as applicable and direct and material.

- For cash management we noted the full amount, \$1,280,000, was received/drawn down by the client; this award was not reimbursement based. We believe our position for not testing cash management as a direct and material compliance requirement is correct, but documentation supporting this assessment could have been improved and stated differently, such as: *The full \$1,280,000 has been received, therefore this is an applicable compliance requirement, but not considered to be direct and material.* For subsequent single audits, we will better document our basis for our determination of applicability, as well as direct and material considerations.
- For period of performance, the comment in the QCR stated this requirement should have been direct and material and should have tested internal controls and compliance for this requirement. We believe documentation included in the audit working papers shows that internal controls and compliance were tested, but not documented as such. In the working papers we demonstrated that the amount required to be spent/deployed by Year 1 was met. We also documented in the working papers that the client keeps track of expenditures for the program to support the SEFA totals, and keeps a running spreadsheet tracking loans deployed with CDFI funding and tracks the period of performance requirement. It is our belief that we tested compliance and internal controls. The issue lies with us not documenting this in our determination of direct and material compliance work paper that period of performance was direct and material. In essence we tested it but didn’t take credit for it. We will include a document discussing internal controls over compliance for the period of performance requirement, using information already noted elsewhere in the engagement file. We do not believe there is any additional testing or additional information needed from the client to fulfill internal control and compliance testing for this requirement, only additional documentation in the engagement file.



- 3) Furthermore, the auditor determined that the special tests and provisions requirement was applicable to the ALN 21.024 program, but the basis for determining that it was not direct and material to the program was not documented.

**Response:** Based on reading the award document, we identified that there were two items that we determined were special tests and provisions for this program, and these were: tracking of funds and conflict of interest statements. We believe our position for not testing special tests and provisions as a direct and material compliance requirement is correct, but documentation supporting this assessment could have been improved. For subsequent single audits, we will better document our basis for our determination of applicability, as well as direct and material considerations.

As a side note, we did review the tracking of funds spreadsheet kept by the client 2500S.16 and obtained all conflict of interest forms in 2200.21

We do not believe that any of these issues impact the compliance opinion issued.

### **Deficiency #3: Sampling Plan not Adequately Documented**

The audit documentation did not include a sampling plan that properly defined the population and sampling unit for the testing of internal controls and compliance for some of the direct and material compliance requirements for the three major programs. We encountered challenges in assessing the representativeness and adequacy of the samples chosen for ALN 21.024 Activities Allowed and Allowable Costs, ALN 21.020 Matching requirement, and ALN 66.818 Program Income. Specifically, there was a lack of sample plan for Activities Allowed and Allowable Costs, which raises concerns about the samples' representativeness and the suitability of the population size for effectively evaluating the operating controls. Furthermore, there was ambiguity regarding whether the samples were specifically designed for the dual-purpose testing.

### **Response:**

**For ALN 21.024** direct and material compliance requirements were Activities Allowed, Allowable Costs, Procurement Suspension and Debarment and Reporting. The QCR report noted challenges in assessing the representativeness and adequacy of samples chosen for Activities Allowed and Allowable Costs. Documentation of control understanding and testing for Activities Allowed and Allowable Costs in our working papers is as follows: *[Client Name] is responsible for CDFI compliance. She is aware of what these funds can be used for. Management ensures that staff are aware of the importance of grant compliance. Staff have sufficient understanding of processes and controls to identify where allowable activities or costs could be charged to the grant or loan program. Support for charges is maintained and allocations to the grant program are done monthly. Organization-wide they have established internal and external communication channels. Grant agreements and general and administration requirements are available to staff who are responsible for determining activities allowed and allowable costs under federal awards. [Client Name] is responsible for the program compliance and works with [Client Name] (who is responsible for financial record keeping). An adequate financial system is in place to capture and process timely support and information for staff and provides adequate separation of federal and nonfederal activity. Management reviews supporting documentation and calculations for allowable costs. The board also*

*receives and reviews financial information. There is adequate segregation of duties, financial management procedures are in place, and there are established conflict of interest statements. Adequate supporting documentation exists for expenditures. [Client Name] codes the invoices on the support and they are approved by [Client Name] for payment. The accounting system (QB) [QuickBooks] captures financial information and different classes are used for each program.*

*Key controls: established policies, adequate review and approval, conflict of interest statements, source documents and supporting documentation is retained, tracking of activity in QB, communication with staff. For each key control above we did the following:*

1. *Established Policies: reviewed policies 2400.60*
2. *Review and approval: noted approval for CDFI loan to [Borrower] and support for the loan (all required loan documents were present)*
3. *COI: noted that all employees signed COI for the audit period (2200.21)*
4. *Source documentation: did walkthrough of expense and payroll allocation in 2400.20; noted that the admin % requirement was calculated in accordance with the award document (2300.36S)*
5. *QB tracking of activity: 2300.36S; this is the support for the SEFA and each program is tracked via its own class. Information is easily retrievable from the software.*
6. *Staff communication: We observed their communication with each other while on site. Every Monday morning there is a staff meeting. Also reviewed board minutes and committee meeting minutes.*

*Conclusion: controls are properly designed and implemented.*

*Compliance testing for Activities Allowed and Allowable Costs documented the following: The funds drawn for CDFI were used for loan issuance to [Borrower] (\$33,724.10), [Borrower] (\$10,000) and [Borrower] (\$950,000). All three of these borrowers are in the target market area (2500S.17). I observed on [Client Name] computer spreadsheets that track what the loaned funds are used for per borrower. See an example of the costs or budgets for [Borrower] in 2500S.18.*

*The 15% expense is as follows:*

*Dr. GFDA Lending CDFI Fund Revenue        \$\$*

*Cr. GFDA Lending Enterprise Fund Cash                                \$\$*

*For 2022 they drew down \$1,280,000, and 15% of that, \$192,000, was moved to operating. This is reasonable.*

*Dr. GFDA Cash – Operating                                \$\$*

*Cr. GFDA Grant Income    \$\$*

*Observed in GFDA QB that the same \$192,000 was deposited.*

*Based on review of the QB detail for GFDA (see the P&L with the \$192,000 in 2300.36S) the funds in that expense class also include application fees and other income. The types of expenses paid for with these funds are also shown here. The bulk are payroll related costs. We selected a sample of expenditures in the 7305.10, which included costs paid for with funds from this class. No issues identified.*

For Activities Allowed and Allowable Costs, the only key controls identified that would warrant sampling are the review and approval of loans to borrowers, and source documentation. For compliance testing, we tested and reviewed documentation for all three borrowers. However, in our internal control testing documentation we only noted (took credit for) testing one borrower (approval of loans to borrowers control). We believe our documentation supports that there were adequate internal controls by the organization over the approval of loans to borrowers key control, but documentation supporting that could be improved. For the source documentation key control, we tested a sample of expenditures paid with CDFI funds, and tested the payroll allocation. We will update our documentation to include sample justification forms to demonstrate that what we tested for internal controls and compliance were sufficient to determine that controls were operating effectively and were representative of the population for Activities Allowed and Allowable Costs, and document those that were designed for dual purpose testing. We do not believe there is any additional testing or additional information needed from the client to address this comment, only additional documentation in the engagement file.

**For ALN 21.020** direct and material compliance requirements were Activities Allowed, Allowable Costs, and Matching. The QCR report noted challenges in assessing the representativeness and adequacy of samples chosen for Matching. Documentation of control understanding and testing for Matching in our working papers is as follows: *[Client Name] is aware of the requirements for CDFI and has immediate access to the award documents. She, [Client Name] and [Client Name] are aware that there is a match requirement for the CDFI program. They are aware that they need to track matched dollars and that these funds cannot be used as match on other programs. [Client Name] keeps spreadsheets supporting the match and that the requirement was met. All financial activity is kept in QB [QuickBooks] and this spreadsheet is updated from QB deposits. Investor contributions to GFDA unrestricted are used as match support. Key control: spreadsheet tracking matched dollars.*

*For each key control above, we did the following:*

*Tracking of funds spreadsheet: observed spreadsheet and agreed [Donor] contribution to support (see spreadsheet in 2500S.30 and [Donor] support in 2500S.31).*

*Conclusion: controls are properly designed and implemented*

For compliance testing for Matching, audit documentation showed that there were 42 entities that donated and were considered as matched amounts for CDFI. Audit documentation also stated that: *We will tie 10% of the total back to receipts in QB. See those agreed as noted below [in the working paper]. The match information was submitted at the time of the award application. We will update our documentation in this work paper to clearly mark whether the testing attribute was control related on compliance on dual purposes. We do not believe there is any additional testing or additional information needed from the client to address this comment, only additional documentation in the engagement file.*

**For ALN 66.818** direct and material compliance requirements identified in the working papers are as follows:

- EPA Assessment Grant: Activities Allowed, Allowable Costs, Cash Management, and Reporting
- EPA RLF: Activities Allowed, Allowable Costs, Program Income, Reporting and Subrecipient Monitoring

The QCR report noted challenges in assessing the representativeness and adequacy of samples chosen for Program Income. Program Income was only direct and material for the EPA RLF, not the EPA Assessment Grant. Documentation of control understanding and testing for Program Income for RLF in our working papers is as follows: *[Client Name] has been responsible for Brownfield compliance for numerous years. She is aware of what these funds can be used for. Management ensures that staff are aware of the importance of grant compliance. Organization-wide they have established internal and external communication channels. Grant agreements and general and administration requirements are available to staff who are responsible for determining activities allowed and allowable costs under federal awards. [Client Name] is responsible for the program compliance and works with [Client Name] (who is responsible for financial record keeping). An adequate financial system is in place to capture and process timely support and information for staff and provides adequate separation of federal and nonfederal activity. Income received from loan payments and other interest are tracked by class in QB [QuickBooks], which differentiates each program. The board also receives and reviews financial information. There is adequate segregation of duties, financial management procedures are in place, and there are established conflict of interest statements. A separate loan tracking system (GMS) is used to record loan payments made by borrowers. The main source of program income for EPA is interest on loans receivable and a small amount from the financial institution holding the funds. The accounting system (QB) captures financial information and different classes are used for each program. Key controls: established policies, tracking of activity in QB, agreement of loan information in the subsidiary ledger (GMS) to QB. For each key control above we did the following:*

*Established policies: reviewed policies in 2400.60 [audit working paper reference]*

*Tracking of activity in QB: 2300.36S, this is support for the SEFA and each program is tracked via its own class. Information is easily retrievable from the software.*

*Agreement of GMS to QB: Noted the ending loan balance for [Name of Borrower] of \$95,800.76 agreed and the interest received of \$2942.84.*

*Conclusion: controls are properly designed and implemented.*

For compliance testing with ALN 66.818 Program Income, we agreed loan interest income for all loans to the subsidiary ledger, so there was not a sample.

For Program Income on the RFL, the only key control identified that would warrant sampling is the "agreement of GMS to QB" control. There was no sampling plan documented, but we agreed loan interest income for all loans, so only a sample was needed for new loans issued. For this audit period there were four loans with EPA RLF funds, but only one loan that received additional funding in the audit period. The other three loan balances were the same as the prior year or had a reduction of the loan amount due to the borrower making principal payments. Our documented internal control testing noted review of one borrower, the borrower that received additional funding in the audit period. We believe our documentation supports that there were adequate internal controls by the organization over compliance for these requirements, but documentation supporting how we chose items to test for our control testing could have been improved. We will update our documentation to include sample justification forms to demonstrate that what we tested for internal controls were

sufficient to determine that controls were operating effectively and were representative of the population for Program Income. We do not believe there is any additional testing or additional information needed from the client to address this comment, only additional documentation in the engagement file.

We do not believe that any of these issues impact the compliance opinion issued.

**Deficiency #4: Insufficient Documentation for Understanding Internal Controls and Testing Compliance for Major Programs**

The audit documentation did not support that the auditor gained an understanding of internal controls for the direct and material compliance requirements for the three major programs. The auditor referenced specific work papers to support their understanding of internal controls. However, the documentation only described the auditees' processes, which was not sufficient to plan the audit to support a low-assessed level of control risk for the direct and material compliance requirements. There were some instances where the audit documentation was unclear about which compliance requirement was being tested and its related program. Moreover, the audit documentation did not provide sufficient evidence to support the auditors' conclusions that they had properly tested internal controls and compliance for the direct and material compliance requirements of the major programs. For instance:

- The auditor noted for the RLF grant for ALN 66.818 program, the sub-recipient monitoring requirement was deemed direct and material. However, upon review of the audit documentation, it was found that the auditor did not adequately plan and perform internal control and compliance testing to meet the audit objectives. Additionally, -the audit documentation did not include the procedures the auditors performed to ensure that sub-recipients were being properly monitored.
- For the ALN 21.024 program, the auditor concluded that the reporting requirement was direct and material. The auditor referred to specific work papers to support the testing of internal control and compliance; however, the audit documentation did not provide sufficient evidence of the procedures the auditor carried out to test internal controls and compliance to meet the audit objectives for this requirement.
- The documentation for the activities allowed or unallowed, allowable costs/cost principles, and cash management requirements, referred to specific work papers for the testing of internal controls and compliance related to major programs (ALN's 66.818, 21.024, and 21.020). However, the audit test work did not identify the controls that were tested, nor did it define the attributes that were tested for compliance. This lack of clarity made it difficult to determine how the audit objectives were met for these requirements of the major programs.

The auditor's work did not have sufficient documentation to support their tasks completed, and opinions reached for the three major programs (ALN 21.020, ALN 21.024, and ALN 66.818). Even though DWC's management reviewed and approved the work papers, there were inconsistencies and quality errors in the audit documentation prior to submitting the single audit report. The supervisory reviews failed to recognize and correct these discrepancies that were present in the audit documentation.

**Response:** Our understanding and testing of internal controls for all requirements deemed direct and material for all three programs we believe are included in our audit working papers. Examples of this documentation is noted in *italics* in Deficiency 3 above. We use Knowledge Coach audit

software, and the first four pages of the internal control document are instructions, the fourth page includes the compliance requirement and the major program. An example of this information is shown in the image below, with the title showing the compliance requirement and the table showing the major program.

**UNDERSTANDING COMPLIANCE REQUIREMENT-LEVEL CONTROLS: MATCHING, LEVEL OF EFFORT, AND EARMARKING**

Purpose and Instructions

CLIENT NAME:	Great Falls Development Authority, Inc.
BINDER NAME:	Great Falls Development Authority, Inc.
DATE OF FINANCIAL STATEMENTS:	June 30, 2022
ASSOCIATED MAJOR PROGRAM:	CDFI
OTHER APPLICABLE MAJOR PROGRAMS:	Not applicable

MATERIALITY SUMMARY

Major Program/Cluster Name	Assistance Listing #	Program Level Materiality	Type of Compliance Requirement Level Materiality
* CDFI	20,020	41,000	30,700

**Responses to additional bulleted points in the QCR:**

- **ALN 66.818 for Subrecipient Monitoring.** Documentation of control understanding and testing for Subrecipient Monitoring in our working papers is as follows: *EPA assessment funds can be subgranted to eligible companies. Contracts are entered into with the company and GFDA for providing funding for cleanup work. [Client Name] is aware of the requirements for the RLF and Assessment and understands GFDA has the roll of monitoring compliance with the funds are passed to subrecipients. Most of this work is specialized, due to the nature of events happening with EPA and EPA regulations. GFDA has hired professionals to review the work of the contractors engagement by the subgrantees, and certify that they are meeting the regulations for EPA and certified payrolls. Key control: established contract, hiring of QEP [Qualified Environmental Professional], QEP approval for payment on invoices.*

*For each key control above we did the following:*

- *Established contracts: there were three that had contracts during the audit period and observed completed contracts for all three (2400S.55-2400S.57)*
- *QEP hiring see these in the 2401 tab*
- *QEP approval for payments: noted QEP approval for invoice payment, indicating the work was done in compliance with EPA regulations (2400S.51)*

*Conclusion: controls are properly designed and implemented*

Procedures we performed to ensure that subrecipients were being properly monitored was the review of QEP approval for payment of invoices (key control). Contracts with each QEP were included in the audit files. To get to low control risk we documented that we *“noted QEP approval for invoices payment, indicating the work was done in compliance with EPA regulations.”* Also in our documentation we noted: *we observed all invoices and approval from the QEP for payment. Subrecipients were appropriately monitored by the QEP to ensure*

*EPA funds were spent as required. Documentation of control risk for all three major programs is shown in the risk assessments as low. The risk assessment for this major program is in audit working paper 2100.51S. We will put a note in the control working paper referring the reader to the risk assessment, where low control risk is identified. We believe the compliance testing performed and documented is adequate for Subrecipient Monitoring.*

- **ALN 21.024 for Reporting.** Documentation of control understanding and testing for Reporting in our working papers is as follows: *[Client Name] is aware of what the CDFI funds can be used for. Management ensures that staff are aware of the importance of grant compliance. Staff have sufficient understanding of processes and controls to identify where allowable activities or costs could be charged to the grant program. Support for expenditures is maintained and allocations to the grant program are done monthly. Organization-wide they have established internal and external communication channels. Grant agreements and general and administration requirements are available to staff for those who are responsible for determining allowability under these federal awards. There is an adequate financial system to capture and process timely support and information for staff that provides adequate separation of federal and nonfederal transactions (this is done by class in QB). QB supports amounts reported in submitted reports. Loan activity is kept in GMS. Key controls: support for expenditures and financial information for reporting. For each key control above we did the following:*

- *Support for expenditures and support for financial reports: reviewed submitted reports and agreed to support (2400S.60-.62)*

*Conclusion: controls are properly designed and implemented*

Documentation of control risk for all three major programs is shown in the risk assessments as low. The risk assessment for this major program is in audit working paper 2100.52S. We will put a note in the control working paper referring the reader to the risk assessment, where low control risk is identified.

For compliance testing, within the compliance supplement under 'suggested audit procedures-compliance' section for Reporting we stated: *Required reports were submitted as noted in 2500S.19-.20. However, no funds were used at that point so no data is reported, which is reasonable. The reports for the 6/30/22 year end were not yet filed as of the time of the audit. No additional work needed for reporting for 21.024. We believe the compliance testing performed and documented is adequate for Reporting.*

- **Documentation for Activities Allowed or Unallowed, Allowable Costs and Cash Management for all three programs.** Documentation of control risk for all three major programs is shown in the risk assessments as low. The risk assessment for the major programs are in audit working papers 2100.50S, 2100.51S and 2100.52S.
  - a. **For ALN 66.818,** information included in the audit working papers have controls identified for Activities Allowed or Unallowed, Allowable Costs and those that were tested as follows: *[Client Name] has been responsible for Brownfield compliance for numerous years. She is aware of what these funds can be used for. Management ensures that staff are aware of the importance of grant compliance. Staff have sufficient understanding of processes and controls to identify where allowable activities or costs could be charged to the grant program. Support for charges is*

*maintained and allocations to the grant program are done monthly. Organization-wide they have established internal and external communication channels. Grant agreements and general and administration requirements are available to staff who are responsible for determining activities allowed and allowable costs under federal awards. [Client Name] is responsible for the program compliance and works with [Client Name] (who is responsible for financial record keeping). An adequate financial system is in place to capture and process timely support and information for staff and provides adequate separation of federal and nonfederal activity. Management reviews supporting documentation and calculations for allowable costs. The board also receives and reviews financial information. There is adequate segregation of duties, financial management procedures are in place, and there are established conflict of interest statements. Adequate supporting documentation exists for expenditures. [Client Name] codes the invoices on the support and they are approved by [Client Name] for payment. The accounting system (QB) captures financial information and different classes are used for each program.*

*Key controls: established policies, adequate review and approval, conflict of interest statements, source documents and supporting documentation is retained, tracking of activity in QB, communication with staff. For each key control above we did the following:*

- 1. Established Policies: reviewed policies 2400.60*
- 2. Review and approval: noted [Client Name] initials for approval and [Client Name] for approval for EPA RLF reviewed invoice to [Vendor] (paid 12/14/21 for \$16,500) and agreed to QB class; EPA assessment reviewed invoice paid to [Vendor] on 12/17/21 for \$2,103.50*
- 3. COI: noted that all employees signed COI for the audit period (2200.21)*
- 4. Source documentation: EPA RLF reviewed invoice to [Vendor] (paid 12/14/21 for \$16,500) and agreed to QB class; EPA assessment reviewed invoice paid to [Vendor] on 12/17/21 for \$2,103.50; did walkthrough of expense and payroll allocation in 2400.20.*
- 5. QB tracking of activity: 2300.36S; this is the support for the SEFA and each program is tracked via its own class. Information is easily retrievable from the software.*
- 6. Staff communication: We observed their communication with each other while on site. Every Monday morning there is a staff meeting. Also reviewed board minutes and committee meeting minutes.*

*Conclusion: controls are properly designed and implemented.*

We will put a note in the control working paper referring the reader to the risk assessment, where low control risk is identified.

For compliance testing, within the compliance supplement under 'suggested audit procedures-compliance' section for Activities Allowed or Unallowed we stated: 66.818 see testing in 2400S.15 for the assessment. For the 66.818 RLF loan funds were deployed to one borrower, [Borrower Name]. Observed invoices for this for reasonableness - see those tested noted in 2300.36S, loan receivable detail tab. Other expenses paid with these funds were for [Client Name] time and totaled approx.



*\$16K (2300.36S lending P&L by class tab). This is reasonable. Within 2300.36S we reviewed the invoices for compliance and within 2400S.15 we noted which invoices were tested for the assessment grant for allowability. We believe the compliance testing performed and documented is adequate for Activities allowed or Unallowed and Allowable Costs.*

**For ALN 66.818**, information included in the audit working papers have controls identified for Cash Management and those that were tested as follows: *[Client Name] is responsible for the administering the program and performance monitoring and reporting. [Client Name] is responsible for the financial reporting and draws. Adequate documentation is maintained for cash draws and are only for expenditures already paid. [Client Name] completes the check request, [Client Name] does the draw, [Client Name] signs the checks, and [Client Name] initials on draw request confirming the amount. [Client Name] does an allocation for payroll and uses this as support for the salary amount. The GFDA QB file is used and a specific class code is set up for this activity.*

*Key controls: support for cash draws, including approval; payroll allocation. For each key control above we did the following:*

- *Cash draw support and approvals:*
- *Payroll allocation: reviewed the allocation spreadsheet in 2400.20*
- *Cash draw support: reviewed support for cash draw done on 7/2/21 for \$10,885.70 for EPA Assessment (approval was shown on the documentation)*

*Conclusion: controls are properly designed and implemented*

We will put a note in the control working paper referring the reader to the risk assessment, where low control risk is identified.

For compliance testing, within the compliance supplement under 'suggested audit procedures-compliance' section for Cash Management, that item #7 was tested in working paper 2400S.15. In 2400S.15 we have a listing of all cash draws made for the year, and noted that we tested if the expenditure was incurred and payment made before cash draws, and noted that all cash draws there were no exceptions to this. We believe the compliance testing performed and documented is adequate for Cash Management.

- b. **For ALNs 21.024 and 21.020**, information included in the audit working papers have controls identified for Activities Allowed or Unallowed, Allowable Costs and those that were tested as follows: *[Client Name] is responsible for CDFI compliance. She is aware of what these funds can be used for. Management ensures that staff are aware of the importance of grant compliance. Staff have sufficient understanding of processes and controls to identify where allowable activities or costs could be charged to the grant or loan program. Support for charges is maintained and allocations to the grant program are done monthly. Organization-wide they have established internal and external communication channels. Grant agreements and general and*

*administration requirements are available to staff who are responsible for determining activities allowed and allowable costs under federal awards. [Client Name] is responsible for the program compliance and works with [Client Name] (who is responsible for financial record keeping). An adequate financial system is in place to capture and process timely support and information for staff and provides adequate separation of federal and nonfederal activity. Management reviews supporting documentation and calculations for allowable costs. The board also receives and reviews financial information. There is adequate segregation of duties, financial management procedures are in place, and there are established conflict of interest statements. Adequate supporting documentation exists for expenditures. [Client Name] codes the invoices on the support and they are approved by [Client Name] for payment. The accounting system (QB) captures financial information and different classes are used for each program. Key controls: established policies, adequate review and approval, conflict of interest statements, source documents and supporting documentation is retained, tracking of activity in QB, communication with staff. For each key control above we did the following:*

- 1. Established Policies: reviewed policies 2400.160*
- 2. Review and approval: noted approval for CDFI loan to [Borrower] and support for the loan (all required loan documents were present)*
- 3. COI: noted that all employees signed COI for the audit period (2200.21)*
- 4. Source documentation: did walkthrough of expense and payroll allocation in 2400.20; noted that the admin % requirement was calculated in accordance with the award document (2300.36S)*
- 5. QB tracking of activity: 2300.36S; this is the support for the SEFA and each program is tracked via its own class. Information is easily retrievable from the software.*
- 6. Staff communication: We observed their communication with each other while on site. Every Monday morning there is a staff meeting. Also reviewed board minutes and committee meeting minutes.*

*Conclusion: controls are properly designed and implemented.*

We will put a note in the control working paper referring the reader to the risk assessment, where low control risk is identified.

For compliance testing, within the compliance supplement under 'suggested audit procedures-compliance' section for Activities Allowed or Unallowed we stated: 21.024 - the bulk of funds were deployed to borrowers, and only \$192,000 was used for admin related costs. See 2100.36S and testing noted in 2500S.15. Compliance testing for 21.020 is also noted within working paper 2500S.15. We believe the compliance testing performed and documented is adequate for Activities Allowed or Unallowed, Allowable Costs.

For ALN 21.024 Cash Management is discussed in Deficiency #2.

For ALN 21.020 Cash Management is not applicable per the Compliance Matrix.

We believe our controls were identified and tested, and compliances tests completed were done in accordance with the suggested auditing procedures within the compliance supplement.

In the QCR report it says that we are to evaluate audit documentation related to the deficiencies noted. We believe we have done that and noted our thoughts on our audit documentation within this letter. Additionally, the QCR report states that we should identify any additional audit procedures needed to ensure that the audit documentation for GAAS, GAGAS, and the requirements of the Uniform Guidance, including the Compliance Supplement, and if additional audit work is deemed necessary to support its audit opinions, follow the auditing standards with respect to reissuing the audit. We noted our corrective actions within this letter. However, we understand that the correction of these items depend on OIG's instructions, so we will not change any auditing work papers until we have direction to do so from OIG.

We disagree with your assessment of a *Fail* grade based on our responses above. We believe that our audit should be considered a *pass with deficiencies*. We acknowledge that we made mistakes and can improve on documentation, as noted above in our responses. We believe that our corrective actions included in our response will address the QCR comments. We do not believe we need to perform additional audit testing for omitted procedures or reissue the report, and we believe our audit documentation does support our opinion that the GFDA complied with the applicable compliance requirements. Thank you for your time.

Sincerely,



MELISSA SOLDANO, SHAREHOLDER