Section 1. Section 4-236-21(c) of the Regulations of Connecticut State Agencies is amended to read as follows:

(c) A nonstate entity that is subject to the audit requirements of sections 4-230 through 4-236, inclusive, of the Connecticut General Statutes shall:

(1) Identify, in its records, any state financial assistance received, the program under which it is authorized, and the amounts expended. State program identification shall include, as applicable, the State Program Identification Number and program name, the contract number and year, the name of the state agency having awarded the assistance, and the name of the pass-through entity;

(2) Maintain internal control over state programs that provides reasonable assurance that the nonstate entity is managing state financial assistance in compliance with laws, regulations and the provisions of contracts or grant agreements that could have a material effect on each of its state programs;

(3) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each state program;

(4) Prepare appropriate financial statements, including a schedule of expenditures of state financial assistance, in accordance with section 4-236-23(a)(4) of the Regulations of Connecticut State Agencies;

(5) Ensure that each audit required by section 4-231 of the Connecticut General Statutes is properly performed and that each audit report is submitted when due;

(6) When notified of an extension to an audit report submission due date, promptly notify each applicable pass-through entity of the extension;

(7) Follow up on audit findings, prepare a corrective action plan <u>and a schedule of prior audit findings</u> in accordance with section 4- 236-24 of the Regulations of Connecticut State Agencies and take corrective action as necessary; And

(8) Promptly notify the cognizant agency and law enforcement officials of any violation of law including illegal acts and irregularities.

Sec. 2. Section 4-236-23(a)(5) of the Regulations of Connecticut State Agencies is amended to read as follows:

(5) A schedule of findings and questioned costs which shall include the following three components:

(A) A summary of the auditor's results which shall include:

(i) The type of report the auditor issued on the financial statements of the auditee (i.e., unqualified opinion, qualified opinion, adverse opinion, or disclaimer of opinion);

(ii) Where applicable, a statement that **[**reportable conditions**]** <u>significant deficiencies</u> in internal control were disclosed by the audit of the financial statements and whether any such **[**conditions**]** <u>deficiencies</u> were material weaknesses;

(iii) A statement as to whether the audit disclosed any noncompliance which is material to the financial statements of the auditee;

(iv) Where applicable, a statement that **[**reportable conditions**]** significant deficiencies in internal control over major programs were disclosed by the audit and whether any such **[**conditions**]** deficiencies were material weaknesses;
(v) The type of report the auditor issued on compliance for major programs (i.e., unqualified opinion, qualified opinion, adverse opinion, or disclaimer of opinion);
(vi) A statement as to whether the audit disclosed any audit findings, which the auditor is required to report under section 4-236-24 of the Regulations of Connecticut State Agencies;
(vii) An identification of major programs, including programs tested in accordance with section 4-233 of the Connecticut General Statutes; **[.]** and
(viii) the dollar threshold used to distinguish between type A and type B programs as provided under the risk-based approach used in determining major state programs.

(B) Findings relating to the financial statements which are required to be reported in accordance with GAGAS; and
(C) Findings and questioned costs related to state financial assistance, including those set forth in subsection (a) of section 4-236-24 of the Regulations of Connecticut State Agencies.

(i) Audit findings that relate to the same issue (e.g., internal control findings, compliance findings, questioned costs, or fraud) should be presented as a single audit finding.
(ii) Audit findings that relate to both the financial statements and state financial assistance, as reported in subdivisions (B) and (C) of this subsection, should be reported in each appropriate section of the schedule. However, a report in one section of the schedule may be in summary form with a reference to the more detailed report in another section of the schedule.

Sec. 3. Subsection (b) of Section 4-236-23 of the Regulations of Connecticut State Agencies is amended to read as follows:
(b) When internal control over some or all of the compliance requirements for a major program are likely to be ineffective in preventing or detecting noncompliance, the planning and performing of testing described in section 4-233 of the Connecticut General Statutes is not required for those compliance requirements. However, the independent auditor shall report a **[**reportable condition**]** significant deficiency (including whether any such **[**condition**]** deficiency is a material weakness) in accordance with section 4-236-24 of the Regulations of Connecticut State Agencies, assess the related control risk at the maximum, and consider whether additional compliance tests are required because of ineffective internal control.
(1) The compliance requirements of various state programs may be ascertained by referring to the Compliance Supplement for state financial assistance programs.
(2) For those state programs not covered in the compliance supplement, the independent auditor shall 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 state program by

reviewing the provisions of contracts and grant agreements and the laws and regulations referred to in such contracts and grant agreements.

(3) The independent auditor may consider the Compliance Supplement a "safe harbor" for identification of compliance requirements to be tested for the programs included therein if, the independent auditor: (A) Performs reasonable procedures to ensure that the requirements in the Compliance Supplement are current and to determine whether there are any additional provisions of contract and grant agreements that should be covered by an audit in accordance with sections 4-236-18 through 4-236-30 of the Regulations of Connecticut State Agencies, inclusive, and (B) updates or augments the requirements contained in the Compliance Supplement, as appropriate.

(4) The compliance testing shall include tests of transactions and such other auditing procedures necessary to provide the independent auditor sufficient evidence to support an opinion on compliance.

Sec. 4. Section 4-236-23 of the Regulations of Connecticut State Agencies is amended by adding subsection (c) as follows:

(NEW) (c) The independent auditor shall follow-up on audit findings, perform procedures to assess the reasonableness of the summary schedule of prior audit findings prepared by the auditee, and report as a current year finding, when the auditor concludes that the summary schedule materially misrepresents the status of any prior year audit finding. The independent auditor shall perform follow-up procedures regardless of whether a prior year audit finding relates to a major state program in the current year.

Sec. 5. Subsection (a) of Section 4-236-24 of the Regulations of Connecticut State Agencies is amended to read as follows:

(a) The independent auditor shall report the following as audit findings in a schedule of findings and questioned costs:

(1) **[**Reportable conditions**]** <u>Significant deficiencies</u> in internal control over major programs. The independent auditor's determination of whether a deficiency in internal control is a **[**reportable condition**]** <u>significant deficiency</u> for the purpose of reporting an audit finding is in relation to a type of compliance requirement for a major program or an audit objective identified in the compliance supplement. The independent auditor shall identify **[**reportable conditions**]** <u>significant deficiencies</u>, which are individually or cumulatively material weaknesses;

(2) Material noncompliance with the provisions of laws, regulations, contracts, or grant agreements related to a major program. The independent auditor's determination of whether a noncompliance with the provisions of laws, regulations, contracts, or grant agreements is material for the purpose of reporting an audit finding is in relation to a type of compliance requirement for a major program or an audit objective identified in the Compliance Supplement;

(3) **[**All identified questioned costs related to a major program. Additionally, if the independent auditor becomes aware of questioned costs for a state program which is not audited as a major program (e.g.**,** as part of an audit follow-up or other audit procedures) these questioned costs shall also be reported;**]** <u>Known questioned costs which are greater than $1,000 for a type of compliance requirement for a major</u>

program. Known questioned costs are those specifically identified by the auditor. In evaluating the effect of questioned costs on the opinion on compliance, the auditor considers the best estimate of total costs questioned (likely questioned costs), not just the questioned costs specifically identified (known questioned costs). The auditor shall also report known questioned costs when likely questioned costs are greater than $1,000 for a type of compliance requirement for a major program. In reporting questioned costs, the auditor shall include information to provide proper perspective for judging the prevalence and consequences of the questioned costs;

(4) **[**The circumstances concerning why the independent auditor's report on compliance for major programs is other than an unqualified opinion, unless such circumstances are otherwise reported as audit findings in the schedule of findings and questioned costs for state financial assistance;**]** Known questioned costs which are greater than $1,000 for a state program which is not audited as a major program. Except for audit follow-up, the auditor is not required under this section to perform audit procedures for such a state program; therefore, the auditor will normally not find questioned costs for a program which is not audited as a major program. However, if the auditor does become aware of questioned costs for a state program which is not audited as a major program (e.g., as part of audit follow-up or other audit procedures) and the known questioned costs are greater than $1,000, then the auditor shall report this as an audit finding;

(5) **[**Known fraud affecting state financial assistance, unless such fraud is otherwise reported as an audit finding in the schedule of findings and questioned costs for state financial assistance. This paragraph does not require the independent auditor to make an additional reporting when the independent auditor confirms that the fraud was reported outside of the independent auditor's report under the direct reporting requirements of GAGAS; and**]** The circumstances concerning why the independent auditor's report on compliance for major programs is other than an unqualified opinion, unless such circumstances are otherwise reported as audit findings in the schedule of findings and questioned costs for state financial assistance;

(6) **[**Uncorrected audit findings from the prior year.**]** Known fraud affecting state financial assistance, unless such fraud is otherwise reported as an audit finding in the schedule of findings and questioned costs for state financial assistance. This paragraph does not require the independent auditor to make an additional reporting when the independent auditor confirms that the fraud was reported outside of the independent auditor's report under the direct reporting requirements of GAGAS; and

(7) Instances where the results of audit follow-up procedures disclosed that the summary of prior audit findings prepared by the auditee materially misrepresents the status of any prior audit finding.

Sec. 6. Subsection (c) of Section 4-236-24 of the Regulations of Connecticut State Agencies is amended to read as follows:

(c) **[**At the completion of the audit, the auditee shall**]** The auditee is responsible for follow-up and corrective action on all audit findings. As part of this responsibility, the auditee, upon completion of the audit, shall prepare a corrective action plan to address each audit finding included in the current year independent auditor's **[**reports**]** report. The corrective action plan shall provide the name(s) of the contact person(s) responsible for

corrective action, the corrective action planned, and the anticipated completion date. If the auditee does not agree with the audit findings or believes corrective action is not required, then the corrective action plan shall include a statement to that effect and specific reasons in support of such opinion. Said plan shall be included in the State Single Audit Reporting package. In addition, the auditee is responsible for preparing a schedule of prior audit findings which shall report the status of audit findings reported in the prior year's audit report.

Sec. 7. Section 4-236-25(b) of the Regulations of Connecticut State Agencies is amended to read as follows:
(b) Reports, including program audit reports, prepared in accordance with sections 4-236-23 and 4-236-26 of the Regulations of Connecticut State Agencies shall be submitted by the auditee to the cognizant agency and, if applicable, state grantor agencies **[**that provided state financial assistance to the auditee**]** and pass-through entities. Reports shall be submitted no later than six months after the end of the period under audit, pursuant to section 4-232 of the Connecticut General Statutes.

Sec. 8. Section 4-236-26(b)(1) of the Regulations of Connecticut State Agencies is amended to read as follows:
(1) The auditee shall prepare the financial statement(s) for the state program that includes, at a minimum, a schedule of expenditures of state financial assistance for the program and notes that describe the significant accounting policies used in preparing the schedule, a summary schedule of prior audit findings and a corrective action plan consistent with the requirements of section 4-236-24(c) of the Regulations of Connecticut State Agencies.

Sec. 9. Section 4-236-30 of the Regulations of Connecticut State Agencies is amended to read as follows:
Section 4-236-30. Retention of working papers and reports
The independent auditor shall document in the working papers the risk analysis process used in determining major state programs. Following completion of an audit, working papers shall be made available, upon request, to the cognizant agency, its designee, the Auditors of Public Accounts and awarding agencies. Awarding agencies shall notify the cognizant agency of their intent to review working papers. Working papers and reports shall be retained for a minimum of **[**three**]** five years from the date of filing a certified copy of the audit report with the cognizant agency, unless the independent auditor is notified in writing by the cognizant agency to extend the retention period.