

STATE OF CONNECTICUT



***AUDITORS' REPORT
CONNECTICUT HOUSING FINANCE AUTHORITY
FOR THE CALENDAR YEAR ENDED DECEMBER 31, 2005***

AUDITORS OF PUBLIC ACCOUNTS

KEVIN P. JOHNSTON ❖ ROBERT G. JAEKLE

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July 6, 2007

**AUDITORS' REPORT
CONNECTICUT HOUSING FINANCE AUTHORITY
FOR THE CALENDAR YEAR ENDED DECEMBER 31, 2005**

We have examined the books, records, and accounts of the Connecticut Housing Finance Authority (CHFA), as provided in Section 2-90 and Section 1-122 of the General Statutes, for the calendar year ended December 31, 2005. Included in this examination is the State Housing Authority (SHA), a subsidiary of the CHFA established in accordance with Section 8-244b of the General Statutes.

SCOPE OF AUDIT:

This audit was primarily limited to performing tests of the CHFA's compliance with certain provisions of laws, regulations, contracts, and grants, including but not limited to a determination of whether the CHFA has complied with its regulations concerning the following areas:

- Affirmative action
- Personnel practices
- Purchase of goods and services
- Use of surplus funds
- Distribution of loans, grants and other financial resources

We also considered the CHFA's internal control over its financial operations and its compliance with requirements that could have a material or significant effect on its financial operations in order to determine our auditing procedures for the purpose of evaluating the CHFA's financial operations and compliance with certain provisions of laws, regulations, contracts and grants, and not to provide assurance on the internal control over those control objects. Our consideration of internal control included the five areas identified above.

Our audit included a review of a representative sample of the CHFA's activities during the calendar year in the five areas identified above and a review of other such areas as we considered necessary. The financial statement audit of the CHFA, for the calendar year ended December 31, 2005, was conducted by the Authority's independent public accountants.

This report on our examination consists of the Comments, Condition of Records, and Recommendations which follow.

COMMENTS

FOREWORD:

The Connecticut Housing Finance Authority (hereafter referred to as the CHFA or the Authority) operates under the provisions of Chapter 134, Sections 8-241 through 8-265qq of the General Statutes. It was established by the 1972 Session of the General Assembly as the successor to the Connecticut Mortgage Authority, which had been established by the General Assembly in 1969. The CHFA is a body politic and corporate, constituting a public instrumentality and political subdivision of the State. It was created to alleviate the shortage of housing for low and moderate income families, and to encourage the development of a balanced community of all income levels in the urban areas. Under Sections 8-244b of the General Statutes, the CHFA established a subsidiary to be known as the State Housing Authority (hereafter referred to as the SHA). The SHA was created to be the successor to the Connecticut Housing Authority. It was established to assist in ensuring continued occupancy of Authority-financed developments by low and moderate-income persons and families in accordance with the statutory purpose of the Authority.

Funds for financing permanent mortgage loans were obtained by issuing bonds, the interest from which has generally been exempt from Federal income tax to the bondholder, except during the period in which the Mortgage Revenue Bond (MRB) program was temporarily discontinued, from July 1992 through August 1993. The MRB program was extended indefinitely and made permanent in August 1993. In addition, financial market conditions permitted the CHFA to sell certain issues made during the period that were not exempt from Federal income tax. Loans made from the proceeds of such bonds must be secured by a first mortgage lien. Funds derived from the excess of interest income from loans over bond interest expenses are used to pay operating expenses of the CHFA.

Board of Directors and Administrative Officials:

In accordance with Section 8-244, subsection (a), of the General Statutes, the governing body of the Authority consists of 15 directors. Four directors are ex-officio, seven members are appointed by the Governor, and four are appointed by the General Assembly. Members of the CHFA Board of Directors as of December 31, 2005, were as follows:

Ex-officio members:

Denise L. Nappier	State Treasurer
John P. Burke	State Banking Commissioner
Robert L Genuario	Secretary, Office of Policy and Management
James Abromaitis	Commissioner, Dept. of Economic and Community Development

Appointed members:

Leslie Olear, Chairperson

Joseph H. Fisher, Vice Chairperson
Orest T. Dubno
Lena Ferguson
Jeffrey Freiser
J. Scott Guilmartin
Thomas W. Hynes
Jack McGregor
Steven Montesano
Diane Randall

One vacancy has existed since May 2002. The current vacancy is due to the resignation in November 2005 of the appointee of the Senate Minority Leader.

Gary E. King served as President – Executive Director during the audited period.

In accordance with Section 8-244, subsection (c), of the General Statutes, the governing body of the State Housing Authority (SHA) consists of three directors who are appointed by the board of directors of the CHFA. Members of the SHA Board of Directors as of December 31, 2005, were as follows:

Leslie Olear, Chairperson
Joseph H. Fisher
Thomas W. Hynes

Significant Legislation:

Public Act 05-287, effective July 13, 2005, requires State and quasi-public agencies to obtain from goods and service contractors an affidavit identifying consultants who will work with them on the contract if the contract is valued at \$50,000 or more in a calendar or fiscal year. The affidavit must indicate whether the consultant's duties include any communication concerning the business of the agency, whether direct or indirect, with the agency or a State official or employee.

Every State agency and quasi-public agency must include notice of the affidavit requirement in any bid specification or request for proposal. Under the Act, a bidder or vendor who refuses to submit the affidavit is disqualified from contracting and the agency can award the contract to the next highest ranked bidder, or it can seek new bids or proposals.

The Act requires state and quasi-public agency heads, and their deputies, and persons responsible for State procurement and contracting to report suspected ethics violations by public officials or contractors to the Office of State Ethics.

CHFA Programs:

The CHFA provides financing through several programs at interest rates below those generally available. The two most significant programs are described below. Other CHFA

programs include Downpayment Assistance, Police Homeownership, and Teachers Mortgage Assistance.

The homebuyer mortgage program finances the acquisition or rehabilitation of owner-occupied existing housing with no more than four living units. The program can also be used to purchase newly constructed two-family homes in targeted areas. Eligible condominiums and qualified mobile homes may also be financed. The Authority's homebuyer mortgage funds are distributed through participating lenders. Mortgages under this program are generally available for a maximum of 30 years.

Multi-family mortgage loans provide permanent and construction financing for building and rehabilitated pre-existing multi-family projects. Increasing the supply and availability of affordable housing for low and moderate income households is the primary role of the CHFA. By offering financing terms not generally available in the commercial market, the Authority can help developers achieve feasibility for projects which otherwise would not be possible.

Multi-Family Housing:

According to CHFA documentation, the Authority offers financing for the creation of new or rehabilitated units, and construction to permanent financing, first mortgage loans with interest rates at or below conventional rates with loan terms of up to 40 years.

Projects eligible for financing under this program may be designated for individuals, families, the elderly, or people with special needs. Projects must contain a minimum of 25 units, while smaller projects may be considered for non-profit organizations. Federal tax credits are available to developers under this plan, provided that certain set-aside requirements related to tenant income are met.

There is a Multi-family Housing Underwriting Unit that underwrites the financing of multi-family rental housing developments, providing direct construction and/or permanent mortgage loans to private developers and not-for-profit sponsors for construction and/or rehabilitation of rental housing. The staff reviews loan proposals, analyzes sites and financial statements, and performs feasibility analyses to determine a proposal's acceptability. Also, the Multi-family Technical Services Unit ensures that plans and specifications meet Authority standards and that construction proceeds are disbursed according to approved plans and timetables, and approves budget changes and observes the integrity of developments. The unit also verifies projected costs and reviews appraisals for accuracy and completeness. A Tax Credit Officer is responsible for the administration of State of Connecticut Low Income Housing Tax Credits (LIHTCs). The unit underwrites and verifies requests for LIHTCs and conducts ongoing monitoring for verification of unit compliance and tenant eligibility.

Single-Family Housing:

The Authority adopts at various times sales price and family income limitations for eligibility in its home mortgage programs. Both the sales price limitation and the family income limitation are determined based on geographical areas within the State.

The Authority requires the homeowner to occupy and use the residential property for a permanent, primary residence within 60 days of the closing of the mortgage loan. Various other criteria related to both borrower eligibility and property eligibility are contained in the *Procedures of the Connecticut Housing Finance Authority*. This document is revised annually to incorporate programmatic changes.

The Authority also operates an Urban Area Mortgages Program for home mortgages. Under this program, the Authority may finance mortgage loans in certain State and Federally designated urban targeted areas of the State without regard to the borrower's income. Applications under this program are considered only when desired loans are not available.

Mortgage Insurance:

Section 8-251 of the General Statutes currently permits the Authority to purchase or make \$750,000,000 of mortgage loans which are uninsured or not guaranteed by a Federal agency, a Federally chartered corporation, a private mortgage insurance company, the State or the Authority itself. As of December 31, 2005, the Authority had financed or firmly committed to finance approximately \$689,822,000 of such mortgage loans. This represents 92 percent of the allowable maximum.

RÉSUMÉ OF OPERATIONS:

During the calendar year ended December 31, 2005, the Authority maintained three funds in accordance with the provisions of Section 8-258 of the General Statutes: a Housing Mortgage General Fund (including its Capital Reserve), an Investment Trust Fund, and a Housing Mortgage Insurance Fund. In addition, the Authority maintained Special Needs Housing Funds, referring collectively to a Special Needs Housing Fund, a Special Needs Housing Capital Reserve Fund, a Special Needs Housing Renewal and Replacement Fund, a Housing Draw Down Fund referring collectively to a Bond Escrow Fund and a Rebate Fund. During the audited period, CHFA assets also consisted of various component units consisting of the aforementioned State Housing Authority and a number of subsidiary corporations created to hold foreclosed real estate. As noted above, we did not audit these funds since they were already audited by the independent public accounting firm of Blum, Shapiro and Company, P.C. Therefore, we will rely on the unqualified opinion expressed by the independent public accountants. Separate comments follow in this report under the caption for each fund mentioned is for informational purposes only. Detailed financial data concerning these funds is presented in the Authority's Annual Reports.

Housing Mortgage General Fund:

With the exception of the initial \$50,000,000 appropriation made by the General Assembly in the 1969-1970 fiscal year, no appropriations have been requested of or made by the General Assembly for the general operations of the Authority. The only exception to this is a one-time appropriation of \$4,000,000 for the Emergency Mortgage Assistance program. In order to use the services of the State for payrolls and related employee benefits, the CHFA issued wire transfers to the State Treasurer's Office in the total amount of \$11,901,658 to provide for such costs, during the fiscal year ended June 30, 2005. Our examination of the records of the State Comptroller indicated that these amounts were received and deposited as receivable collections against grant agreements deemed appropriated for the purposes of the Authority in accordance with the provisions of Section 3-39a of the General Statutes. Expenditures processed through this contribution account were \$11,899,158 for the corresponding period. These expenditures are only a small part of the total operating expenses of the Housing Mortgage General Fund. Most of the revenue received and expenses incurred by the CHFA are applicable to its own General Fund. During the period of this examination, monthly mortgage payments, including principal and interest, were made directly to various financial institutions which acted as servicing agents for the CHFA. The servicers deducted their service fees and wired the balance of their collections to the CHFA's credit at a Hartford bank. The monthly servicing fee for the CHFA's individual home mortgages generally is 1/12 of 3/8 of one percent of the unpaid balance.

Investment Trust Fund:

Under Section 8-258 of the General Statutes, the CHFA established this fund to account for assets which it determined "surplus funds" in accordance with the terms of its General Housing Mortgage Finance Program Bond Resolution of September 27, 1972, hereafter referred to as GBR.

As defined in Section 505, subsection (3), of the GBR, surplus funds represent the monthly excess of pledged receipts over funds required for the payment of operating expenses, principal and interest and the requirements of the Capital Reserve Fund. These amounts are to be deposited monthly in the General Fund surplus account. Section 506, subsection (1), of the GBR, provides that the amount in the General Fund surplus account may be transferred annually to the Investment Trust Fund. If these requirements and/or options are not executed on time, the amounts in the General Fund surplus account automatically revert to the redemption account. One of these options, which is set forth in Section 506, subsection (1) (c) (ii), of the GBR, authorizes the establishment of a separate account which is unrestricted and can be used by the CHFA for any purpose authorized by the General Statutes.

Housing Mortgage Insurance Fund:

As provided for under Section 8-258, subsection (d), of the General Statutes, the CHFA is authorized to also establish a Housing Mortgage Insurance Fund. This fund shall consist of mortgage insurance premium receipts; money or assets received from loan defaults or delinquencies (including sales, lease or rental of real property); moneys lent or paid by the State for inclusion in this fund; and any other moneys available to the Authority which it determines to

include therein. Loans and advances may be made from said funds as provided by Section 8-250 of the General Statutes (purpose and powers of the Authority).

Connecticut Housing Finance Authority Bonds:

In accordance with the provisions of Section 8-250, subsection (12), and Section 8-252 of the General Statutes, the Authority is authorized to issue bonds as, in its opinion, are necessary to provide sufficient funds for carrying out the purposes of the Authority. Except for bonds issued between July 1992 and August 1993, the period in which the Mortgage Revenue Bond Program was discontinued, most of the CHFA's bonds have been tax-exempt. The tax-exempt bonds are not backed by the full faith and credit of the State of Connecticut. However, the State, on or before December 1st, of each year without further legislative approval, must appropriate from the State General Fund whatever amount is certified by the Chairman of the Authority as necessary to restore the Capital Reserve Fund to the required minimum capital reserve. Such amounts must be repaid by the Authority and credited to the State's General Fund as soon as possible from any moneys in excess of the amounts which the Authority determines will keep it self-supporting. The CHFA has determined that such amounts may be paid from the Surplus Account. As of December 31, 2005, the amount on deposit in the Bond Resolution Capital Reserve Fund, valued in accordance with the Act, was \$627,869,480, which was in excess of the Bond Resolution Capital Reserve Fund minimum requirement of \$234,032,000. The amount on deposit in the Indenture Capital Reserve Fund, valued in accordance with the Act, was \$3,938,919, which was in excess of the Indenture Capital Reserve Fund minimum requirement of \$3,845,000. For both of these capital reserve funds, the minimum is the amount of debt service due in the following year and the maximum is the greatest amount of debt service due in any succeeding year.

As disclosed in the CHFA's *Housing Mortgage Finance Program Bonds*, bond issues were made prior to this examination and bonds totaling \$10,710,285,000 had been issued prior to December 31, 2004, with \$2,719,865,000 outstanding as of that date. Six Housing Mortgage Finance bonds were issued during the period of this examination totaling \$533,250,000. Bonds retired during this period were \$314,025,000. As of December 31, 2005, \$2,939,090,000 of Housing Mortgage Finance Program Bonds were outstanding. As of December 31, 2004, \$55,060,000 of Special Needs Housing Mortgage Finance Program Special Obligation bonds were outstanding. During the calendar year, \$10,955,000 of these bonds were issued and \$935,000 were retired. As of December 31, 2005, \$318,947,000 of Housing Draw Down Bonds were outstanding. During the calendar year, \$36,646,000 of these bonds were issued and \$77,647,000 were retired. The CHFA was able to maintain its "top tier" rating of "AAA/A-1+" from Standard and Poor's Corporation and "Aaa" from Moody's Investor Services. Detailed bond information is included in the CHFA's annual reports.

Temporary Investments:

Temporary investments are those made with funds not needed for immediate use. The nature of such investments is limited by Section 8-250, subsection (18), of the General Statutes to obligations issued or guaranteed by the United States of America or the State of Connecticut or to obligations which are legal investments for savings banks in this State.

Authority Staffing Levels:

According to the CHFA's monthly personnel staffing reports, the number of full-time employees increased by approximately three percent from December 2004 to December 2005, as presented below:

	<u>Pay Period Ended Dates</u>	
	<u>12/31/04</u>	<u>12/31/05</u>
Total number of employees	<u>104</u>	<u>107</u>

Personal services costs, including fringe benefits, increased by \$333,064 (.03 percent) for the year under review. This increase is due primarily to increased fringe benefit costs.

Other Examinations:

As noted previously in this report, the CHFA has been subject to annual audits by independent public accountants (IPAs) covering its financial operations, its loan servicing functions, and the Section 8 Federally assisted housing payments program under the United States Housing Act of 1937. The following summarizes the finding that arose from the IPA audit for the calendar year ended December 31, 2005. This finding was reported to the Board of Directors in a letter dated April 7, 2006:

- The Authority should lock-down the virus protection software on all personal computers so users cannot modify elements of the configuration or disable the software. This will enhance the overall security on the network.

Status: We made inquiries related to actions taken regarding this finding, and it appears that satisfactory action has been taken.

CONDITION OF RECORDS

Our review of the records at the Connecticut Housing Finance Authority disclosed some areas of concern. Those areas are described in this section of the report.

Affidavits and Certifications Required by Legislation:

Criteria:

- Section 4-251(a)(1) of the Connecticut General Statutes states that no State or quasi-public agency shall execute a large state contract (defined in Section 4-250 as having a total cost of more than \$500,000 in a calendar year) unless it obtains an affidavit from key personnel or agents of the firm submitting the bid or proposal that attests to whether the person or firm provided a gift during the two-year period preceding submission of the proposal to:
 - any public official or employee of the agency who participated in the preparation of the bid; or
 - any public official or state employee who has supervisory or appointing authority over the agency.

The affidavit should also attest whether key personnel of the firm know of any action by the firm to circumvent the requirements of the statute by providing a gift through an agent of the firm.

- Section 4-251 (a)(3) requires that the official or employee of the quasi-public agency authorized to execute the contract certify that selection of the person or firm was not the result of collusion, giving or promise of a gift, compensation, fraud, or inappropriate influence from any person.
- Public Act 05-287, effective July 13, 2005, codified as Section 4a-81, states that no State or quasi-public agency shall execute a contract for the purchase of goods or services with a total value of \$50,000 or more in any calendar year unless the agency obtains an affidavit signed by the chief official of the vendor awarded the contract attesting to whether any consulting agreement has been entered into in connection with the contract.
- Section 3-13j requires that any quasi-public agency entering into a contract for investment services defined in Section 9-333n must first obtain an affidavit disclosing all third party fees attributable to that contract.

Condition:

- The Authority's Board of Directors awarded a contract to a firm providing quantitative financial services on October 27, 2004.

Services provided by this firm totaled more than \$750,000 in the calendar year 2005. The affidavit required under Section 4-251 (a)(1) was signed by an official of the firm on April 21, 2005, between six and seven months after the bid was received by the Authority.

The certification required by Section 4-251 (a)(3) was signed by an Authority official on June 8, 2006, six months after the contract was signed and 20 months after the firm was awarded the contract by the Board.

The affidavit required under Public Act 05-287 was not obtained by the Authority. It must be noted that this Act was not in effect when the contract was awarded to the firm, but was in effect when the contract was executed on December 14, 2005.

- The Authority's Board of Directors approved the selection of two bond counsel firms on July 27, 2005. We found that the affidavits required by Section 3-13j for these firms were obtained ten months after the firms were approved by the Board.
- The Authority's Board of Directors also approved the selection of five special counsel firms on July 27, 2005. We found that the affidavits required by Public Act 05-287 for two of these special counsel firms were not obtained. The affidavits for the two aforementioned bond counsel firms were obtained ten months after the firms were approved by the Board.

Effect: The Authority was not in compliance with the above requirements.

Cause: The Authority did not follow its recently-approved procedures related to obtaining affidavits from these firms.

Recommendation: The Authority should follow procedures to ensure compliance with legislative requirements. (See Recommendation 1.)

Agency Response: "The Authority obtained all affidavits and certifications required by statutes and procedures for contracts for quantitative financial services; however, some delays occurred as noted by the Auditor. The Auditors noted Public Act 05-287 was enacted while negotiation of the contract for quantitative financial services was pending. The required affidavit was subsequently obtained.

The Authority obtained all affidavits and certifications required by statutes and procedures for contracts for bond counsel; however, some delays occurred as noted by the Auditor.

The Authority obtained affidavits and certifications required by statutes and procedures for contracts for special counsel; however, the affidavit required by Public Act 05-287 for contracts for special counsel was missing for two of five special counsel firms as noted by the Auditor. The two required affidavits have since been obtained.

The Authority has instituted internal processes to assure the timely delivery of required and anticipated affidavits and certifications on contracts.”

Contracts for Financial and Legal Services:

Criteria: An agreement between the Authority and a provider of professional services should be executed in a timely manner to ensure a clear understanding of services to be performed, fee structure, billings, and other administrative matters.

Condition: Our review of the procurement process for the firm providing quantitative financial services noted that the Board of Directors awarded the contract to a firm on October 27, 2004. The formal contract was not signed by all parties until December 14, 2005, almost 14 months later.

We performed a similar review of the procurement process for five firms providing legal services to the Authority. We noted that each contract was not formalized until three months after the Board approved the selection of the firm.

Effect: A delay in establishing the terms of a contract may lead to misunderstandings between the service provider and the Authority.

Cause: In the case of the contract for procuring quantitative financial services, protracted discussions regarding details of the agreement followed the Board award of the contract.

In the case of the contracts for the procurement of legal services, the cause is not known.

Recommendation: The Authority should reduce the time period between selecting a service provider and formalizing the contract for those services. (See Recommendation 2.)

Agency Response: “The Authority obtained contracts for quantitative financial services, bond and special counsel; however, some delays occurred as noted by the Auditors.

As directed by the Board of Directors, the President-Executive Director negotiated the scope of services and terms of employment for the quantitative financial services contract with a firm having an existing business relationship and prior contract with the Authority. As noted by the Auditor discussions were detailed and extensive regarding specific new service delivery methodologies to ensure clarity and efficiency, and while time consuming, were ultimately of benefit to the Authority.

Contracts for legal services were executed principally with firms handling pending legal matters in accordance with prior business relationships and contracts with the Authority. Agreement was reached with one new firm that did not have a prior relationship before any business was transacted.

The Authority will reduce the time period between selecting a service provider and formalizing the contract for those services.”

RECOMMENDATIONS

There were no recommendations included in our prior audit.

Current Audit Recommendations:

- 1. The Authority should follow procedures to ensure compliance with legislative requirements.**

Comment:

Affidavits required by legislation were signed late by the Authority or were not obtained at all. Other affidavits were not obtained in a timely manner.

- 2. The Authority should reduce the time period between selecting a service provider and formalizing the contract for those services.**

Comment:

The formal contract for the firm providing quantitative financial services to the Authority was not signed by all parties until 14 months after the Authority's Board of Directors awarded the contract.

Contracts for five firms providing legal services to the Authority were not formalized until three months after the Board approved the selection of each firm.

INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 and Section 1-122 of the General Statutes, we have conducted an audit of the Connecticut Housing Finance Authority's activities for the calendar year ended December 31, 2005. This audit was primarily limited to performing tests of the Authority's compliance with certain provisions of laws, regulations, contracts and grants, including but not limited to a determination of whether the Authority has complied with its regulations concerning affirmative action, personnel practices, the purchase of goods and services, the use of surplus funds, and the distribution of loans, grants and other financial resources, and to understanding and evaluating the effectiveness of the Authority's internal control policies and procedures for ensuring that the provisions of certain laws, regulations, contracts and grants applicable to the Authority are complied with. The financial statement audit of the Connecticut Housing Finance Authority, for the calendar year indicated above, was conducted by the Authority's independent public accountants.

We conducted our audit in accordance with the requirements of Section 2-90 and Section 1-122 of the General Statutes. In doing so, we planned and performed the audit to obtain reasonable assurance about whether the Connecticut Housing Finance Authority complied in all material respects with the provisions of certain laws, regulations, contracts and grants and to obtain a sufficient understanding of internal control to plan the audit and determine the nature, timing and extent of tests to be performed during the conduct of the audit.

Compliance:

Compliance with the requirements of laws, regulations, contracts and grants applicable to the Connecticut Housing Finance Authority is the responsibility of the Authority's management.

As part of obtaining reasonable assurance about whether the Connecticut Housing Finance Authority complied with laws, regulations, contracts and grants, noncompliance with which could result in significant unauthorized, illegal, irregular or unsafe transactions or could have a direct and material effect on the results of the Authority's financial operations for the calendar year ended December 31, 2005, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, including but not limited to the following areas:

- Affirmative action
- Personnel practices
- Purchase of goods and services
- Use of surplus funds
- Distribution of loans, grants, and other financial resources

Our examination included reviewing all or a representative sample of the Authority's activities in those areas and performing such other procedures as we considered necessary in the circumstances. The results of our tests disclosed the following instance of non-compliance, which is further described in the accompanying "Condition of Records" and "Recommendations" sections of this report: Affidavits required by legislation were signed late

by the Authority or were not obtained at all. Other affidavits were not obtained in a timely manner.

Internal Control:

The management of the Connecticut Housing Finance Authority is responsible for establishing and maintaining effective internal control over its financial operations and compliance with the requirements of laws, regulations, contracts and grants applicable to the Authority. In planning and performing our audit, we considered the Authority's internal control over its financial operations and its compliance with requirements that could have a material or significant effect on the Authority's financial operations in order to determine our auditing procedures for the purpose of evaluating the Authority's financial operations and compliance with certain provisions of laws, regulations, contracts and grants, and not to provide assurance on the internal control over those control objectives. Our consideration of internal control included, but was not limited to, the following areas:

- Affirmative action
- Personnel practices
- Purchase of goods and services
- Use of surplus funds
- Distribution of loans, grants, and other financial resources

Our consideration of the internal control over the Authority's financial operations and over compliance would not necessarily disclose all matters in the internal control that might be material or significant weaknesses. A material or significant weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with certain provisions of laws, regulations, contracts, and grants that would be material in relation to the Authority's financial operations or noncompliance with which could result in significant unauthorized, illegal, irregular or unsafe transactions to the Authority being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control that we consider to be material or significant weaknesses.

However, we noted certain matters involving internal control over the Connecticut Housing Finance Authority's financial operations and/or compliance, which are described in the accompanying "Condition of Records" and "Recommendations" sections of this report.

This report is intended for the information of the Governor, the State Comptroller, the Appropriations Committee of the General Assembly, and the Legislative Committee on Program Review and Investigations. However, this report is a matter of public record and its distribution is not limited. Users of this report should be aware that our audit does not provide a legal determination of the Connecticut Housing Finance Authority's compliance with the provisions of the laws, regulations, contracts, and grants included within the scope of this audit.

CONCLUSION

We wish to express our appreciation for the courtesies and cooperation extended to our representatives by the personnel of the Connecticut Housing Finance Authority during the course of our examination.

Timothy M. LePore
Principal Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts