

## **SCHEDULES OF CHAPTER 40B MAXIMUM ALLOWABLE PROFIT FROM SALES AND TOTAL CHAPTER 40B COSTS**

### **EXAMINATION PROGRAM**

***Instructions:***

This Model Program lists the major procedures and steps that should be performed in the examination of the Schedules of Chapter 40B Maximum Allowable Profit From Sales and Total Chapter 40B Costs under the attestation standards established by the American Institute of Certified Public Accountants. Obviously, no individual program can be used for every client on every engagement. Professional judgment must be used in deciding what steps should be added and what should be deleted. However, this Program should provide a good starting point.

**CLIENT NAME:** \_\_\_\_\_

**DATE OF CERTIFIED COST REPORT:** \_\_\_\_\_

- A. PRELIMINARY AND GENERAL EXAMINATION PROCEDURES**
- B. REVIEW OF INTERNAL CONTROLS AND TESTS OF PURCHASES, CASH  
DISBURSEMENTS, ACCOUNTS PAYABLE AND PAYROLL**
- C. RELATED-PARTY TRANSACTIONS**
- D. COMMITMENTS, CONTINGENCIES, RISKS, AND UNCERTAINTIES**
- E. FRAUD AND ILLEGAL ACTS**
- F. SUBSEQUENT EVENTS**
- G. SUBSTANTIVE TESTS OF REVENUES AND EXPENSES**

### **A. PRELIMINARY AND GENERAL EXAMINATION PROCEDURES**

- I. PLANNING**
- II. GENERAL LEDGER, TRIAL BALANCE, AND JOURNAL ENTRIES**
- III. USING THE WORK OF A SPECIALIST**
- IV. COMPLETING THE ENGAGEMENT**

**I. PLANNING**

*Examination Objectives:* To plan the examination adequately in accordance with professional standards and firm policies and procedures.

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| <p>1. Before commencing the assignment, the CPA should review the following materials provided by MHFA:</p> <ul style="list-style-type: none"> <li>• Guidance to Developers and Municipalities for the Preparation of Cost Certification Upon Completion of 40B Project for which MassHousing Serves as Project Administrator</li> <li>• Sample Form of Schedule of Total Chapter 40B Maximum Allowable Profit from Sales</li> <li>• Sample Form of Schedule of Total Chapter 40B Costs</li> <li>• Sample Form of Developer’s Certificate, and attached Exhibits <ul style="list-style-type: none"> <li>A – Disclosure of Related Party Transactions</li> <li>B – Identification of Appropriate RS Means Construction Data</li> <li>C – Release (sample form of letter from Developer to Developer’s CPA authorizing MassHousing to make inquiries of the CPA and look at workpapers)</li> </ul> </li> <li>• Sample Form of General Contractor’s Certificate</li> <li>• Sample Form of Independent Accountant’s Report</li> <li>• The steps outlined in this program</li> </ul> <p>If any matters remain unclear, the CPA should contact the Internal Audit Department at MassHousing (617-854-1225)</p> | _____                   | _____                          |
| <p>2. Also, before commencing the assignment, the CPA should review the Attestation Standards established by the American Institute of Certified Public Accountants and published in its Professional Standards as AT Section 101, <i>Attest Engagements</i>. Particular attention should be given to paragraphs 84 through 87 since this is intended to be an examination under the attestation standards.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | _____                   | _____                          |
| <p>3. Meet with the client and discuss:</p> <ul style="list-style-type: none"> <li>a. The following materials provided by MassHousing: <ul style="list-style-type: none"> <li>• Guidance to Developers and Municipalities for the</li> </ul> </li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | _____                   | _____                          |

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| Preparation of Cost Certification Upon Completion of 40B Project for which MassHousing Serves as Project Administrator                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |                         |                                |
| <ul style="list-style-type: none"> <li>• Sample Form of Schedule of Total Chapter 40B Maximum Allowable Profit from Sales</li> <li>• Sample Form of Schedule of Total Chapter 40B Costs</li> <li>• Sample Form of Developer’s Certificate, and attached Exhibits <ul style="list-style-type: none"> <li>A – Disclosure of Related Party Transactions</li> <li>B – Identification of Appropriate RS Means Construction Data</li> <li>C – Release (sample form of letter from Developer to Developer’s CPA authorizing MassHousing to make inquiries of the CPA and look at workpapers)</li> </ul> </li> <li>• Sample Form of General Contractor’s Certificate</li> </ul> |                         |                                |
| Particular attention should be given to (1) the necessity for the developer to identify ALL related party transactions on this project and (2) the ability of the developer to obtain from the general contractor a signed General Contractor’s Certificate                                                                                                                                                                                                                                                                                                                                                                                                             | _____                   | _____                          |
| b. The scope and timing of the examination                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | _____                   | _____                          |
| c. The client’s responsibility for gathering the necessary data and for disclosing to the CPA any potential errors, fraud, and illegal acts                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | _____                   | _____                          |
| d. Adequacy of working space for the examination team                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | _____                   | _____                          |
| e. Extent of client assistance in the preparation of the required components of the Certified Cost Report                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | _____                   | _____                          |
| f. The extent of involvement, if any, of specialists, consultants, or other CPA firms, in the preparation of the schedules                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | _____                   | _____                          |
| 4. Determine whether an appraisal has been obtained by MassHousing to be used as the Site Acquisition cost for the Schedule of Total 40B Costs.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | _____                   | _____                          |

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| 5. Obtain a signed engagement letter from the client.                                                                                                                                                                                                                                            | _____                   | _____                          |
| 6. Inquire of management about the following:                                                                                                                                                                                                                                                    |                         |                                |
| a. Compliance by the developer and the developer's company with laws and regulations                                                                                                                                                                                                             | _____                   | _____                          |
| b. The policies of the developer and the developer's company that may prevent illegal acts                                                                                                                                                                                                       | _____                   | _____                          |
| 7. If the client uses a service organization to process transactions (e. g., an outside payroll service and/or bookkeeping service), the CPA should consider the following:                                                                                                                      |                         |                                |
| a. The nature and materiality of the transactions processed by the service organization                                                                                                                                                                                                          | _____                   | _____                          |
| b. The accounting records, supporting information, and specific accounts in the components of the cost report involved in the processing and reporting of the client's transactions                                                                                                              | _____                   | _____                          |
| c. The degree of interaction between the internal controls at the developer and the controls at the service organization                                                                                                                                                                         | _____                   | _____                          |
| d. Whether it is necessary to obtain information on the service organization's controls that are significant to the developer's client's internal control (e.g., through user or technical manuals; reports by service auditors, internal auditors, or regulatory authorities; system overviews) | _____                   | _____                          |
| 8. Perform preliminary analytical procedures to:                                                                                                                                                                                                                                                 |                         |                                |
| a. Assist in planning the nature, timing, and extent of examination procedures                                                                                                                                                                                                                   | _____                   | _____                          |
| b. Identify the existence of unusual transactions and events                                                                                                                                                                                                                                     | _____                   | _____                          |

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| c. Identify high-risk areas (e.g., related party transactions, developer overhead) that may require increased examination emphasis         | _____                   | _____                          |
| 9. Calculate the planning materiality; document this in the workpapers                                                                     | _____                   | _____                          |
| 10. Prepare and give to the client a list of schedules and analyses to be prepared by the client.                                          | _____                   | _____                          |
| 11. Establish timing of the field work and staff requirements                                                                              | _____                   | _____                          |
| 12. Meet with the examination team and discuss the work plan, including:                                                                   |                         |                                |
| a. Special concerns or problems                                                                                                            | _____                   | _____                          |
| b. Individual responsibilities of the staff                                                                                                | _____                   | _____                          |
| c. Report requirements and deadlines                                                                                                       | _____                   | _____                          |
| 13. Obtain copies of, and review, all important agreements and contracts, including the following at a minimum:                            |                         |                                |
| • MassHousing site approval letter                                                                                                         |                         |                                |
| • Final permit from the town for the construction of the project                                                                           |                         |                                |
| • Executed Regulatory Agreement for the project                                                                                            |                         |                                |
| • Monitoring Services Agreement for the project                                                                                            |                         |                                |
| • Occupancy permit from the town for the project                                                                                           |                         |                                |
| • Final budget for the project                                                                                                             |                         |                                |
| • Quitclaim deed to the property developed in this project                                                                                 |                         |                                |
| 14. Prepare an examination program or modify this Model Program and obtain approval of engagement partner before starting the examination. | _____                   | _____                          |

Based on the procedures performed and the results obtained, it is my opinion that the objectives listed in this section the program have been achieved.

Performed by \_\_\_\_\_ Date \_\_\_\_\_

Reviewed and approved by \_\_\_\_\_ Date \_\_\_\_\_

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## II. GENERAL LEDGER, TRIAL BALANCE, AND JOURNAL ENTRIES

*Examination Objectives:* (1) To identify any significant or unusual postings from unfamiliar sources, and other unusual entries that might not have been identified through other examination procedures, and (2) to determine that the client’s accounting records, account analyses, and schedules are clerically accurate.

**[If the developer does not have a formal general ledger for this project, all subsequent references to “general ledger” should be deemed to apply to whatever original source documents are used to verify or prepare the data required in the schedules.]**

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| 1. Using a dollar amount scope (which should be documented in the workpapers), review the general ledger for this project and review all significant nonstandard journal entries to identify any significant or unusual postings from unfamiliar sources, and other unusual entries that might not have been identified through the other examination procedures outlined below. |                         |                                |
| 2. On a test basis, review the general journal entries for the period to verify that they have a sound accounting basis. Investigate any large or unusual balances. The basis for the selection of the entries for review should be documented in the workpapers.                                                                                                                |                         |                                |
| 3. On a test basis, trace entries in the general journal to the general ledger and review supporting documentation. The basis for the selection of the entries for review should be documented in the workpapers.                                                                                                                                                                |                         |                                |
| 4. Test the clerical accuracy of the trial balances, account analyses, and schedules provided by the client, as follows:                                                                                                                                                                                                                                                         |                         |                                |
| a. Trace amounts from account analyses and schedules provided by the client to the general ledger and/or other appropriate sources.                                                                                                                                                                                                                                              |                         |                                |

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- b. Test the mechanical accuracy of the account analyses and schedules provided by the client on a selective basis (i.e., footing, crossfooting, recalculation).

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Based on the procedures performed and the results obtained, it is my opinion that the objectives listed in this section of the program have been achieved.

Performed by \_\_\_\_\_ Date \_\_\_\_\_

Reviewed and approved by \_\_\_\_\_ Date \_\_\_\_\_

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### III. USING THE WORK OF A SPECIALIST

*Examination Objectives:* To determine that professional standards are complied with when the work of a specialist is used in connection with the examination.

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- 1. Evaluate the specialist's qualifications and consider the following:

- a. The professional certification, license, or other recognition of the competence of the specialist

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- b. The reputation and standing of the specialist in the views of peers and others familiar with his or her work

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- c. The specialist's experience in the type of work for which the CPA is considering relying on the results of the specialist's work.

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- 2. Obtain an understanding of the specialist's role and the nature of the work to be performed, including the following:

- a. The scope and objectives of the work performed or to be performed by the specialist

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| b. The specialist's relationship to the client                                                                                                                                                           | _____                   | _____                          |
| c. The methods and assumptions used or to be used by the specialist                                                                                                                                      | _____                   | _____                          |
| d. A comparison of the assumptions and methods used in the current engagement and those used in the preceding engagement                                                                                 | _____                   | _____                          |
| e. The appropriateness of using the specialist's work for the intended purpose                                                                                                                           | _____                   | _____                          |
| f. A description of the form and content of the specialist's findings that would allow the CPA to use the findings                                                                                       | _____                   | _____                          |
| 3. Perform additional procedures if there is a material difference between the specialist's findings and the representations in the financial statements, or if specialist's findings seem unreasonable. | _____                   | _____                          |

Based on the procedures performed and the results obtained, it is my opinion that the objectives listed in this section of the program have been achieved.

Performed by \_\_\_\_\_ Date \_\_\_\_\_

Reviewed and approved by \_\_\_\_\_ Date \_\_\_\_\_

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**IV. COMPLETING THE ENGAGEMENT**

*Examination Objectives:* To determine whether:

- The Schedule of Total Chapter 40B Maximum Allowable Profit from Sales and Schedule of Total Chapter 40B Costs and related footnotes are presented in accordance with the basis specified by MassHousing.
- A signed Developer's Certificate (with attached Exhibits A, B and C) has been obtained
- A signed General Contractor's Certificate has been obtained.

- The Independent Accountant’s Report is appropriate in the circumstances.
- The examination has been adequately supervised and completed, and the workpapers were reviewed in accordance with professional standards and firm policies and procedures.
- A proper evaluation has been made of all misstatements discovered during the examination.

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|                                                                                                                                                                                                                                                                                                                                                                                                               | <hr/>                   | <hr/>                          |
| 1. Document the nature and effect of aggregated misstatements and the conclusion reached about whether those misstatements cause the schedule comprising the cost certification to be materially misstated.                                                                                                                                                                                                   | <hr/>                   | <hr/>                          |
| 2. Accumulate all unadjusted differences, both errors and judgmental differences, and perform the following:                                                                                                                                                                                                                                                                                                  |                         |                                |
| a. Summarize the differences.                                                                                                                                                                                                                                                                                                                                                                                 | <hr/>                   | <hr/>                          |
| b. Evaluate whether the individual or combined effect of these differences is material to the financial statements, giving adequate consideration to (1) the types of misstatements, (2) the qualitative characteristics of the misstatements, (3) the planning materiality established at the start of the examination, and (4) whether the nature of the misstatements may be indicative of possible fraud. | <hr/>                   | <hr/>                          |
| 3. Obtain approval from the client of all adjustments made and passed.                                                                                                                                                                                                                                                                                                                                        | <hr/>                   | <hr/>                          |
| 4. Summarize any fraud risk factors or other conditions, in addition to the ones identified in the planning stage of the engagement, that were identified during the course of the examination that require a response, and perform the following:                                                                                                                                                            |                         |                                |
| a. Document those additional fraud risk factors or conditions and the CPA’s response in a memo or notes in the workpapers.                                                                                                                                                                                                                                                                                    | <hr/>                   | <hr/>                          |
| b. Document any modifications made to the initial program.                                                                                                                                                                                                                                                                                                                                                    | <hr/>                   | <hr/>                          |
| 5. Review or assist the client in drafting the schedules which comprise the cost report, and:                                                                                                                                                                                                                                                                                                                 |                         |                                |

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| a. Trace the amounts on the schedules which comprise the cost report to groupings made in the trial balance or report workpapers.                                                                                                                 | _____                   | _____                          |
| b. Determine if financial data included in the notes to the Schedule of Total Chapter 40B Costs agree to appropriate workpapers.                                                                                                                  | _____                   | _____                          |
| 6. Draft the Independent Accountant's Report and determine if it is appropriate, under the circumstances. If not, modify as necessary.                                                                                                            | _____                   | _____                          |
| 7. Review the examination workpapers (this review should be done by an executive such as a manager or a partner) and determine whether:                                                                                                           |                         |                                |
| a. The procedures called for in the program were adequately performed, signed, and cross-referenced to the workpapers.                                                                                                                            | _____                   | _____                          |
| b. The conclusions reached are clearly documented and adequately supported by the workpapers (e.g., all tick marks are clearly explained; unusual transactions are adequately researched, supported, and explained; no ambiguous comments exist). | _____                   | _____                          |
| c. The procedures performed were sufficient in view of the findings and changes in procedures were responsive to changes in conditions since the procedures were initially planned.                                                               | _____                   | _____                          |
| d. The examination was conducted in accordance with professional standards and firm policies and procedures.                                                                                                                                      | _____                   | _____                          |
| 8. Document unresolved differences of opinion among firm personnel, if any.                                                                                                                                                                       | _____                   | _____                          |
| 9. Ascertain that the workpapers include adequate and complete documentation in accordance with professional standards.                                                                                                                           | _____                   | _____                          |

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10. Ascertain that all review notes and “to do” lists have been appropriately addressed and resolved and are not included in the workpapers.

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Based on the procedures performed and the results obtained, it is my opinion that the objectives listed in this section of the program have been achieved.

Performed by \_\_\_\_\_ Date \_\_\_\_\_

Reviewed and approved by \_\_\_\_\_ Date \_\_\_\_\_

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## B. REVIEW OF INTERNAL CONTROLS AND TESTS OF PURCHASES, CASH DISBURSEMENTS, ACCOUNTS PAYABLE AND PAYROLLS

*Examination Objectives:*

- To obtain an understanding of the entity’s internal control and to determine whether they have been placed in operation, in order to help the CPA plan the engagement.
- To test whether purchases, cash disbursements, accounts payable and payroll transactions are (1) based upon valid, approved requests, (2) have been accurately recorded and (3) have been properly classified.

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1. Review with the client the internal controls that are in place in the following areas: (a) accounts payable and purchases; (b) disbursements and (c) payroll. [If deemed appropriate, use separate standardized checklists designed to facilitate this review.]

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2. For all expenditures of less than \$10,000 (other than expenditures made to related parties, which are handled elsewhere) perform a test of transactions of purchases, cash disbursements, and accounts payable to obtain an understanding of related control activities and to determine whether they have been placed in operation. (The sample

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| size and the basis for setting the sample size should be documented in the workpapers.) This involves tracing related transactions from inception to completion, noting the following:                                                                                                                                                                                 |                         |                                |
| a. Appropriateness of authorization of expenditure                                                                                                                                                                                                                                                                                                                     |                         |                                |
| b. Evidence of receipt of the goods or services                                                                                                                                                                                                                                                                                                                        |                         |                                |
| c. Evidence of processing and approval of the vendor's invoice                                                                                                                                                                                                                                                                                                         |                         |                                |
| d. Notation on the invoice indicating proper processing and cancellation to prevent duplicate payment                                                                                                                                                                                                                                                                  |                         |                                |
| e. Authorized signature                                                                                                                                                                                                                                                                                                                                                |                         |                                |
| f. Agreement of details per check (e.g., amount, payee, date) to the cash disbursements journal                                                                                                                                                                                                                                                                        |                         |                                |
| g. Proper account distribution and posting to the general ledger                                                                                                                                                                                                                                                                                                       |                         |                                |
| h. Evidence that the invoice is recorded in the proper period                                                                                                                                                                                                                                                                                                          |                         |                                |
| 3. Perform a test of transactions of payrolls to obtain an understanding of related control activities and to determine whether they have been placed in operation. (The sample size and the basis for setting the sample size should be documented in the workpapers.) This involves tracing related transactions from inception to completion, noting the following: |                         |                                |
| a. Authorized rate of pay                                                                                                                                                                                                                                                                                                                                              |                         |                                |
| b. Time cards, production records, or other evidence in support of payment                                                                                                                                                                                                                                                                                             |                         |                                |
| c. Evidence in support of payroll withholdings (e.g., W-4 form)                                                                                                                                                                                                                                                                                                        |                         |                                |
| d. Evidence of appropriate payment, including canceled                                                                                                                                                                                                                                                                                                                 |                         |                                |

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| checks and direct payment authorizations                                             | _____                   | _____                          |
| e. Evidence of client's review of payroll for clerical accuracy and reasonableness   | _____                   | _____                          |
| f. Agreement of details per check (e.g., amount, payee, date) to the payroll journal | _____                   | _____                          |
| g. Proper account distribution and posting to the general ledger                     | _____                   | _____                          |

Based on the procedures performed and the results obtained, it is my opinion that the objectives listed in this section of the program have been achieved.

Performed by \_\_\_\_\_ Date \_\_\_\_\_

Reviewed and approved by \_\_\_\_\_ Date \_\_\_\_\_

### **C. RELATED PARTY TRANSACTIONS**

*Examination Objectives:* To identify related-parties and related-party transactions, evaluate such transactions, and determine whether related-party transactions have been disclosed in both the Notes to the Schedule of Total Chapter 40B Costs and Exhibit A to the Developer's Certificate, *Disclosure of Related Party Transactions*, both in accordance with MassHousing requirements and in accordance with professional standards.

|                                                                                                                                                                               | <i>Performed<br/>By</i> | <i>Workpaper<br/>Reference</i> |
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| 1. Perform the following procedures for determining the existence of related parties and for identifying related-party transactions:                                          |                         |                                |
| a. Inquire about and evaluate the client's procedures for identifying, authorizing, accounting for, and disclosing related-party transactions.                                | _____                   | _____                          |
| b. Request from the developer or developer's personnel the names of all related parties and inquire whether there were any transactions with these parties during the period. | _____                   | _____                          |

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| c. Consider whether detailed tests of transactions and substantive tests of balances performed in other areas indicated the possibility that related parties or related-party transactions may exist.                                             |                         |                                |
| d. If any unit initially sold for below the budgeted price or below what was deemed to be the market value at the time of the sale, inquire whether the buyers of those units were related parties with respect to the developer.                 |                         |                                |
| e. Review records at the local Registry of Deeds to determine if any of the units were re-sold between the time of the initial sale(s) and the date of the certified cost report.                                                                 |                         |                                |
| If they were, inquire of the developer whether the initial buyers and/or the subsequent buyers were related parties with respect to the developer.                                                                                                |                         |                                |
| f. Consider the need to utilize the Secretary of State’s website, Google, and/or other Internet-based search engines to determine the possibility that certain purchasers of units and/or suppliers of goods and services may be related parties. |                         |                                |
| 2. Obtain from the developer Exhibits A and B to the Developer’s Certificate, <i>Disclosure of Related Party Transactions</i> , and discuss with the developer the completeness of the schedules.                                                 |                         |                                |
| a. Discuss with the developer whether there were any known re-sales of units to related parties. If there were, get full details.                                                                                                                 |                         |                                |
| b. Ascertain that Exhibit A to the Developer’s Certificate, <i>Disclosure of Related Party Transactions</i> , adequately disclose related-party transactions                                                                                      |                         |                                |
| 3. In determining the scope of any additional procedures to                                                                                                                                                                                       |                         |                                |

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| apply with respect to possible related-party transactions, perform the following:                                                                                                    |                         |                                |
| a. Obtain an understanding of management responsibilities and the relationships of each component of the total entity.                                                               | _____                   | _____                          |
| 4. When related-party transactions are identified, perform the following:                                                                                                            |                         |                                |
| a. Obtain an understanding of the business purpose of the transaction.                                                                                                               | _____                   | _____                          |
| b. Examine supporting documents (e.g., invoices, contracts) that substantiate the transaction.                                                                                       | _____                   | _____                          |
| c. Test the reasonableness of numbers compiled for Exhibit A to the Developer’s Certificate.                                                                                         | _____                   | _____                          |
| 5. If the procedures performed above do not result in satisfactory examination evidence, consider performing the following extended procedures:                                      |                         |                                |
| a. Confirm transaction amounts and terms and conditions with the related party.                                                                                                      | _____                   | _____                          |
| b. Inspect supporting documents and additional evidence in the possession of the other party.                                                                                        | _____                   | _____                          |
| c. Verify the existence of the other party by referring to other sources, as described in step 1f above.                                                                             | _____                   | _____                          |
| 6. Consider the effect of related parties and related-party transactions on the fraud risk assessment and the possible need to perform additional procedures, such as the following: |                         |                                |

|                                                                                                                                         | <i>Performed<br/>By</i> | <i>Workpaper<br/>Reference</i> |
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|                                                                                                                                         | _____                   | _____                          |
| a. Reviewing material cash disbursements, advances, and investments to consider whether the company provided funds to a related entity. | _____                   | _____                          |

7. Consider the following reporting issue:

|                                                                                                                                                                                                              |       |       |
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| a. If sufficient appropriate assurance cannot be obtained regarding related parties and transactions with such parties, consider whether a modification to the Independent Accountant's Report is necessary. | _____ | _____ |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------|-------|

Based on the procedures performed and the results obtained, it is my opinion that the objectives listed in this section of the program have been achieved.

Performed by \_\_\_\_\_ Date \_\_\_\_\_

Reviewed and approved by \_\_\_\_\_ Date \_\_\_\_\_

\_\_\_\_\_

## **D. COMMITMENTS, CONTINGENCIES, RISKS, AND UNCERTAINTIES**

*Examination Objectives:* To determine whether litigation, claims, assessments, commitments, contingencies, risks, and uncertainties exist; evaluate whether they require adjustment of or disclosure in the schedules which comprise the cost report; and determine their effect on the CPA's report.

|                                                                                                                 | <i>Performed<br/>By</i> | <i>Workpaper<br/>Reference</i> |
|-----------------------------------------------------------------------------------------------------------------|-------------------------|--------------------------------|
|                                                                                                                 | _____                   | _____                          |
| 1. Inquire of management regarding:                                                                             |                         |                                |
| a. The existence of pending or threatened litigation related to the project, and asserted and unasserted claims | _____                   | _____                          |
| b. Violations or possible violations of laws or regulations                                                     | _____                   | _____                          |
| c. Fraud involving management or employees                                                                      | _____                   | _____                          |
| d. Communications from regulatory agencies concerning                                                           | _____                   | _____                          |

|                                                                                                                                                                                                  | <i>Performed<br/>By</i> | <i>Workpaper<br/>Reference</i> |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|--------------------------------|
| noncompliance with, or deficiencies in, financial reporting practices                                                                                                                            |                         |                                |
| e. Circumstances that require the use of accounting estimates                                                                                                                                    |                         |                                |
| 2. Inquire of management about the existence of or potential for environmental remediation liabilities, including the following:                                                                 |                         |                                |
| a. Whether the entity is aware of any hazardous wastes on its site                                                                                                                               |                         |                                |
| b. Whether the entity is involved in any civil or criminal investigations involving environmental issues                                                                                         |                         |                                |
| 3. Perform the following procedures to determine whether significant estimates and assumptions and concentrations have been properly identified:                                                 |                         |                                |
| a. Inquire of management if all circumstances that give rise to accounting estimates have been identified by the entity.                                                                         |                         |                                |
| b. Identify those assertions implied in the schedules which compromise the cost report that may require an accounting estimate.                                                                  |                         |                                |
| c. Review subsequent events and transactions occurring between the balance-sheet date and the date of fieldwork to test the reasonableness of accounting estimates as of the balance-sheet date. |                         |                                |
| d. Summarize in the working papers information about significant estimates and concentrations for disclosure in the notes to the financial statements.                                           |                         |                                |

Based on the procedures performed and the results obtained, it is my opinion that the objectives listed in this section of the program have been achieved.

Performed by \_\_\_\_\_ Date \_\_\_\_\_

Reviewed and approved by \_\_\_\_\_ Date \_\_\_\_\_

## E. FRAUD AND ILLEGAL ACTS

*Examination Objectives:* To determine the implications of fraud and illegal acts for other aspects of the examination.

|                                                                                                                                                                                                                                                     | <i>Performed<br/>By</i> | <i>Workpaper<br/>Reference</i> |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|--------------------------------|
| 1. Inquire of management about any fraud and illegal acts involving employees or management that could affect the financial statements.                                                                                                             | _____                   | _____                          |
| 2. If a determination is made that a misstatement is or may be the result of fraud, <u>but the effect of the misstatement is not material</u> to the schedules comprising the cost report, perform the following:                                   |                         |                                |
| a. Consider the implications for other aspects of the examination.                                                                                                                                                                                  | _____                   | _____                          |
| b. Reevaluate the assessment of the risk of material misstatement due to fraud and its impact on:                                                                                                                                                   |                         |                                |
| (1) The nature, timing, and extent of the tests of balances or transactions                                                                                                                                                                         | _____                   | _____                          |
| (2) The assessment of the effectiveness of controls                                                                                                                                                                                                 | _____                   | _____                          |
| 3. If a determination is made that a misstatement is or may be the result of fraud and <u>the effect of the misstatement is material to the schedules</u> comprising the cost report, or the effect could not be determined, perform the following: |                         |                                |
| a. Consider the implications for other aspects of the examination                                                                                                                                                                                   | _____                   | _____                          |
| b. Reevaluate the assessment of the risk of material misstatement due to fraud and its impact on:                                                                                                                                                   |                         |                                |

|                                                                                                                                                                                                                                                | <i>Performed<br/>By</i> | <i>Workpaper<br/>Reference</i> |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|--------------------------------|
| (1) The nature, timing, and extent of the tests of balances or transactions                                                                                                                                                                    | _____                   | _____                          |
| (2) The assessment of the effectiveness of controls                                                                                                                                                                                            | _____                   | _____                          |
| c. Reevaluate the level of experience or degree of supervision of the staff assigned to the engagement.                                                                                                                                        | _____                   | _____                          |
| d. Notify the developer of the matter.                                                                                                                                                                                                         | _____                   | _____                          |
| e. Recommend that the developer consult with legal counsel.                                                                                                                                                                                    | _____                   | _____                          |
| f. Consider withdrawing from the engagement and communicate the reasons to the owner. (The CPA firm should consult with its own legal counsel regarding the firm's legal responsibilities, including possible withdrawal from the engagement.) | _____                   | _____                          |
| g. Insist that the schedules which comprise the cost report be revised and, if they are not, express a qualified or adverse opinion.                                                                                                           | _____                   | _____                          |
| 4. If there is evidence of illegal acts, perform the following:                                                                                                                                                                                |                         |                                |
| a. Obtain an understanding of the nature of the illegal act and the circumstances giving rise to it by performing procedures such as the following:                                                                                            |                         |                                |
| (1) Inspect supporting documentation (e.g., canceled checks, invoices) and compare it with accounting records.                                                                                                                                 | _____                   | _____                          |
| (2) Confirm significant information with other parties to the transaction or intermediaries.                                                                                                                                                   | _____                   | _____                          |
| (3) Determine if the transaction has been properly authorized.                                                                                                                                                                                 | _____                   | _____                          |
| (4) Consider whether similar transactions have occurred and, if they have, attempt to identify them.                                                                                                                                           | _____                   | _____                          |

|                                                                                                                                                                                                                                                              | <i>Performed<br/>By</i> | <i>Workpaper<br/>Reference</i> |
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| b. Obtain sufficient information to evaluate the effects of the illegal act on the schedules which comprise the cost report and the Independent Accountant's Report.                                                                                         | _____                   | _____                          |
| c. If possible, deal with management at least one level above those involved in the illegal act.                                                                                                                                                             | _____                   | _____                          |
| d. Consult with the developer's legal counsel or other specialists.                                                                                                                                                                                          | _____                   | _____                          |
| e. Consider possible effects on amounts presented in the schedules which comprise the cost report, including any loss contingencies.                                                                                                                         | _____                   | _____                          |
| f. Consider potential effects on the operations of the entity (e.g., possible loss of a significant business relationship or of assets).                                                                                                                     | _____                   | _____                          |
| g. Consider the implications of the illegal act on other aspects of the examination. Of primary concern is the CPA's ability to rely on management's representations and the validity and accuracy of records and documents obtained during the examination. | _____                   | _____                          |
| h. Determine if a duty exists to notify third parties outside the client of the illegal act, e.g., to comply with certain legal and regulatory requirements, or to respond to a subpoena.                                                                    | _____                   | _____                          |
| i. Consider withdrawing from the engagement and communicate the reasons to the owner. (The CPA firm should consult with its own legal counsel regarding the firm's legal responsibilities, including possible withdrawal from the engagement.)               | _____                   | _____                          |

Based on the procedures performed and the results obtained, it is my opinion that the objectives listed in this section of the program have been achieved.

Performed by \_\_\_\_\_ Date \_\_\_\_\_

Reviewed and approved by \_\_\_\_\_ Date \_\_\_\_\_

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## F. SUBSEQUENT EVENTS

*Examination Objectives:* To determine whether events or transactions have occurred from the date of the certified cost report that would affect the balances reflected on the schedule which comprise the cost report.

|                                                                                                                                                               | <i>Performed<br/>By</i> | <i>Workpaper<br/>Reference</i> |
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|                                                                                                                                                               | _____                   | _____                          |
| 1. For any amounts accrued or estimated on the schedules which comprise the cost report, determine what the final, actual balance was.                        |                         |                                |
| a. If the actual amount differed from the accrued or estimated amount, determine whether the final amount would have affected the computed profit from sales. | _____                   | _____                          |
| b. If the final balances would have increased the computed profit from sales % to more than the allowed 20%.                                                  | _____                   | _____                          |
| c. If the computed profit from sales % would be increased to more than the allowed 20%, inform the developer that he/she should inform MassHousing.           | _____                   | _____                          |

Based on the procedures performed and the results obtained, it is my opinion that the objectives listed in this section of the program have been achieved.

Performed by \_\_\_\_\_ Date \_\_\_\_\_

Reviewed and approved by \_\_\_\_\_ Date \_\_\_\_\_

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## G. SUBSTANTIVE EXAMINATION PROCEDURES – REVENUES AND COSTS

*Examination Objectives:*

- Sales revenue is recorded correctly, broken down between market unit and affordable unit

sales

- The deeds to affordable units contain the required affordable deed rider
- The site land value is recorded either at its appraised value at the start of the project (based on an appraisal prepared by an appraiser approved by MassHousing) or in limited circumstances at the lesser historic acquisition cost, and that any carrying costs meet MassHousing’s specifications
- All expenses and costs of products and services are valid, complete and recorded as to account category (hard costs vs. soft costs), and amount
- All expenses and costs apply only to this project; any expenses and costs related to the project for which payment has not been made as of the date of the Schedule of Total Chapter 40B Costs have been appropriately accrued or estimated
- All related party transactions have been appropriately accounted for and disclosed
- All revenues and costs are properly classified in the Schedule of Chapter 40B Maximum Allowable Profit from Sales and the Schedule of Total Chapter 40B Costs
- The date of the Schedules represents the date of substantial completion of the project
- The accurate square footage of the project has been presented by the developer.
- The Developer’s Certificate is complete.

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | <i>Performed<br/>By</i> | <i>Workpaper<br/>Reference</i> |
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| 1. Obtain and review the executed project regulatory agreement to determine: (1) what the allowable profit level is, if indicated in the agreement; and (2) what other dividend restriction language, if any, may be included in the agreement, particularly relating to land values, permissible overhead expenses, and related party expenditures.                                                                                                                                                                                                                         |                         |                                |
| 2. Obtain and review the final comprehensive permit to determine: (1) what the allowable profit level is, if indicated in the document and if it is different from the standard 20% of total project costs; and (2) what other dividend restriction language, if any, may be included in the document, particularly relating to land values and permissible overhead and related party expenditures. If there is a conflict between the comprehensive permit and the executed regulatory agreement, make a note of it but follow the provisions in the regulatory agreement. |                         |                                |
| 3. Review the quitclaim deed to the property and compare the details to the details of the comprehensive permit document.                                                                                                                                                                                                                                                                                                                                                                                                                                                    |                         |                                |
| 4. If the developer uses the original (i. e., historic) acquisition cost of the project site as the Site Acquisition cost, examine the documents that support this original cost and retain appropriate documentation in the workpapers. [NB.                                                                                                                                                                                                                                                                                                                                |                         |                                |

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | <i>Performed<br/>By</i> | <i>Workpaper<br/>Reference</i> |
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| Acquisition cost is appropriate for land value only when it is a MassHousing financed transaction for which the site approval application was submitted prior to 11/7/05, the land was purchased within the three years prior to the site approval application and the cost is less than the as-is appraised value of the property. This will be rare.]                                                                                                                                                                                                                                                                                                                                                                                                                   |                         |                                |
| If the land used for this project represents only a portion of the original site purchase, review the cost allocation methodology to determine its appropriateness.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |                         |                                |
| 5. If the developer uses an appraised value for the Site Acquisition cost (appropriate in most cases), obtain and review the land appraisal to determine: (1) that the indicated value for the land was in an undeveloped state; (2) the methodology used to determine land value (this should reflect the value of the site under its highest and best use without the use of a comprehensive permit, unless stated otherwise in the regulatory agreement); (3) that the as of right zoning for the site is properly identified (this will require obtaining a copy of the appropriate zoning by law and map); (4) that the assumptions in the report appear generally reasonable; and (5) that the report was prepared by a licensed appraiser approved by MassHousing. |                         |                                |
| 6. If the developer has added carrying costs to the acquisition costs or appraisal value, review these to determine the appropriateness of the item added. If the total amount of carrying costs is material, examine all components in excess of \$10,000 to supporting documentation.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |                         |                                |
| (N. B.: Per MassHousing’s instructions, reasonable carrying costs may not exceed 20% of the As-Is-Market Value of the site unless the carrying period exceeds 24 months from the date of application for Site Approval.)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |                         |                                |
| 7. Obtain the occupancy permit issued to the developer by the town to determine whether the indicated date of “substantial completion” is correct.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |                         |                                |
| 8. Obtain the latest version of the project budget approved by MassHousing. If the project is subject to Final Approval (all projects for which the site approval letter was issued after 7/22/02), this will be the budget submitted to MassHousing                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |                         |                                |

|                                                                                                                                                                                                                                                                                                                                                                                                            | <i>Performed<br/>By</i> | <i>Workpaper<br/>Reference</i> |
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| in connection with the developer’s application for Final Approval. If the project is not subject to Final Approval, this will be the pro forma budget submitted with the site approval application.                                                                                                                                                                                                        |                         |                                |
| 9. Review the final project costs in relation to the budgeted costs, on a line-by-line basis.                                                                                                                                                                                                                                                                                                              |                         |                                |
| Discuss with the developer the reasons for any material variances between the actual costs and expenses and the final budgeted amounts for the same line item. Document the discussion in the workpapers. Obtain documentation of the explanation, where available, and retain in the workpapers.                                                                                                          |                         |                                |
| 10. Obtain a project plan or other documentation showing the square footage (so that an analytical review can be performed of the per sq. ft. costs)                                                                                                                                                                                                                                                       |                         |                                |
| 11. Obtain the RS Means data that MassHousing has indicated are representative of the project                                                                                                                                                                                                                                                                                                              |                         |                                |
| 12. a. Refer to page 8 of the MassHousing “Guidance to Developers and Municipalities for Preparation of Cost Certification upon Completion of Single-Family 40B Project for which MassHousing Serves as Project Administrator” for the specified limits for the allowable developer overhead. Test the developer’s overhead against these limits.                                                          |                         |                                |
| b. Obtain explanations (and documentation, where available) for developer’s overhead above the specified limit for the size of the project. Retain in the workpapers.                                                                                                                                                                                                                                      |                         |                                |
| 13. a. Refer to page 8 of the MassHousing “Guidance to Developers and Municipalities for Preparation of Cost Certification upon Completion of Single-Family 40B Project for which MassHousing Serves as Project Administrator” for the specified limits for the allowable commissions on the sales of the market units and the marketing/lottery costs. Test these developer’s costs against these limits. |                         |                                |
| b. Obtain explanations (and documentation, where available)                                                                                                                                                                                                                                                                                                                                                |                         |                                |

|                                                                                                                                                                                                                                                                                                                                                                                                                                                     | <i>Performed<br/>By</i> | <i>Workpaper<br/>Reference</i> |
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| for developer's cost %s above the specified limits. Retain in the workpapers.                                                                                                                                                                                                                                                                                                                                                                       |                         |                                |
| 14. a. Refer to pages 9 and 10 of the MassHousing "Guidance to Developers and Municipalities for Preparation of Cost Certification upon Completion of Single-Family 40B Project for which MassHousing Serves as Project Administrator" regarding loans from developer or a related entity. [Interest may only be recognized on developer contributions that exceed 20% of total development costs. Also see pages 9 and 10 for other restrictions.] |                         |                                |
| b. Determine whether these restrictions have been followed.                                                                                                                                                                                                                                                                                                                                                                                         |                         |                                |
| If they have not, obtain an explanation (and documentation, where available) for failure to follow the restrictions. Retain in the workpapers.                                                                                                                                                                                                                                                                                                      |                         |                                |
| 15. Obtain or prepare the Schedule of Chapter 40B Maximum Allowable Profit from Sales and the Schedule of Total Chapter 40B Costs. Follow the sample Schedule of Total Chapter 40B Costs provided by MassHousing for the classification of hard costs and soft costs in preparing the schedule or verifying that the client has followed these categories.                                                                                          |                         |                                |
| 16. Trace (or reconcile) the amounts on the schedules to the developer's general ledger or other original source records.                                                                                                                                                                                                                                                                                                                           |                         |                                |
| 17. a. Obtain from the developer the signed Developer's Certificate.                                                                                                                                                                                                                                                                                                                                                                                |                         |                                |
| b. Review the Certificate for completeness and to verify that all items required by MassHousing have been included.                                                                                                                                                                                                                                                                                                                                 |                         |                                |
| c. Discuss with the developer the disclosures in Exhibit A, Disclosure of Related Party Transactions, to determine that the schedule accurately reflects all material related party transactions.                                                                                                                                                                                                                                                   |                         |                                |
| d. Perform whatever substantive procedures are deemed appropriate in the circumstances to substantiate the <b>accuracy</b> of the data in Exhibit A.                                                                                                                                                                                                                                                                                                |                         |                                |

|                                                                                                                                                                                                                                                                                                                                                                                                                                 | <i>Performed<br/>By</i> | <i>Workpaper<br/>Reference</i> |
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| <p>e. Perform whatever additional substantive procedures are deemed appropriate in the circumstances to determine the <b>completeness</b> of the related party data presented in Exhibit A.</p> <p>[Also refer to section C of this program, Related Party Transactions, regarding related party matters as well as the definition of related parties included in MassHousing “Guidance to Developers and Municipalities.”]</p> | _____                   | _____                          |
| <p>18. For any major cost item that is based upon a standard rate or percentage (such as real estate commissions), perform an appropriate analytical review and compare the calculated total against the balance in the general ledger or other original source records.</p> <p>Investigate any material difference. Document in the workpapers the reason(s) for any differences.</p>                                          | _____                   | _____                          |
| <p>19. If the developer has incurred loan fees and interest in connection with this project, trace the amounts to appropriate documentation and retain copies in the workpapers.</p> <p>Also review the loan documents to determine that the loan was granted solely for this project.</p>                                                                                                                                      | _____                   | _____                          |
| <p>20. For any hard costs paid to a contractor, review all progress billing submitted by the contractor to the developer and trace the total of the costs to the final billing submission.</p>                                                                                                                                                                                                                                  | _____                   | _____                          |
| <p>21. For any hard costs incurred directly by the developer, verify all components over \$10,000 by tracing to supporting documentation. Document this step in the workpapers.</p>                                                                                                                                                                                                                                             | _____                   | _____                          |
| <p>22. a. If the general contractor is a related party, refer to page 9 of the MassHousing “Guidance to Developers and Municipalities for Preparation of Cost Certification upon Completion of Single-Family 40B Project for which MassHousing Serves as Project Administrator” for the specified limits for the allowable builder’s profit % and other limits. Test the developer’s percentages against these limits.</p>      | _____                   | _____                          |

|                                                                                                                                                                                                                                                                                                                                                                                          | <i>Performed<br/>By</i> | <i>Workpaper<br/>Reference</i> |
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| b. Obtain explanations (and documentation where available) for developer's %s above the specified limits. Document in the workpapers the discussion and documentation obtained.                                                                                                                                                                                                          |                         |                                |
| 23. a. Either on a test basis or 100% validation (depending upon the number of units in the project), verify the per unit sales data through comparison to the sales price recorded at the Registry of Deeds or HUD settlement sheets.                                                                                                                                                   |                         |                                |
| b. Document this step in the workpapers.                                                                                                                                                                                                                                                                                                                                                 |                         |                                |
| 24. Review unit sales for any unusual items:                                                                                                                                                                                                                                                                                                                                             |                         |                                |
| <u>Market Rate Units</u>                                                                                                                                                                                                                                                                                                                                                                 |                         |                                |
| a. Identify any market units which appear to have been sold for less than market rates.                                                                                                                                                                                                                                                                                                  |                         |                                |
| b. Identify any under-priced market rate sales to related parties or trusts.                                                                                                                                                                                                                                                                                                             |                         |                                |
| c. If any were sold to a trusts, identify trust beneficiaries for any under-priced unit sales.                                                                                                                                                                                                                                                                                           |                         |                                |
| d. Determine the current status of the under-priced units:                                                                                                                                                                                                                                                                                                                               |                         |                                |
| i) Were any resold? If so, to whom and for what price?                                                                                                                                                                                                                                                                                                                                   |                         |                                |
| ii) Are they being rented out or occupied by the original owner?                                                                                                                                                                                                                                                                                                                         |                         |                                |
| e. Document the results of this step in the workpapers.                                                                                                                                                                                                                                                                                                                                  |                         |                                |
| <u>Affordable Units</u>                                                                                                                                                                                                                                                                                                                                                                  |                         |                                |
| a. Either on a test basis or 100% validation (depending upon the number of units), ensure that there is an affordable deed rider in place through verification to the deeds filed at the Registry of Deeds.                                                                                                                                                                              |                         |                                |
| b. Either on a test basis or 100% validation (depending upon the number of units), verify that the affordable unit buyers had received approval from CHAPA, or from any other designated monitoring agent for affordability compliance. The designated monitoring agent should be identified in the form of monitoring services agreement attached to the recorded regulatory agreement. |                         |                                |
| c. Review the terms of any resales to verify compliance with the terms of the deed rider (a/k/a Affordable Housing Restriction).                                                                                                                                                                                                                                                         |                         |                                |
| d. Verify that the affordable unit sale prices agree with the values predetermined through the regulatory and monitoring agreements or other recorded instrument                                                                                                                                                                                                                         |                         |                                |

|                                                                                                                                                                                                                                                                                       | <i>Performed<br/>By</i> | <i>Workpaper<br/>Reference</i> |
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| signed by MassHousing.                                                                                                                                                                                                                                                                |                         |                                |
| e. Document the results of this step in the workpapers.                                                                                                                                                                                                                               |                         |                                |
| 25. a. For all related party expenses, determine the breakdown between materials, labor, overhead and profit.                                                                                                                                                                         |                         |                                |
| b. Verify that these expenses do not represent goods and services which are also obtained through a non-related party vendor and were for expected goods or services needed to complete the project.                                                                                  |                         |                                |
| 26. Determine the extent of labor-related expenditures made directly to the developer and related parties. Discuss with the developer whether these are valid project expenses. Examine the documents that support this cost and retain appropriate documentation in the workpapers.  |                         |                                |
| 27. Determine the extent of construction management fees and developer overhead costs included in expenses. Discuss with the developer whether these are valid project expenses. Examine the documents that support this cost and retain appropriate documentation in the workpapers. |                         |                                |
| 28. Determine whether the revenues and expenses reported on the schedules is consistent with the amounts reported on the developer's federal income tax return.                                                                                                                       |                         |                                |
| 29. Consider the need to modify the standard wording of the Independent Accountant's Report to reflect any exceptions noted in the examination work outlined in steps 12, 13 and 14 above, or in any other aspect of the examination work.                                            |                         |                                |

Based on the procedures performed and the results obtained, it is my opinion that the objectives listed in this section the program have been achieved.

Performed by \_\_\_\_\_ Date \_\_\_\_\_

Reviewed and approved by \_\_\_\_\_ Date \_\_\_\_\_