

**RICHMOND HOUSING AUTHORITY**  
**SINGLE AUDIT REPORT**  
**FOR THE YEAR ENDED JUNE 30, 2011**

This Page Left Intentionally Blank

**RICHMOND HOUSING AUTHORITY**

**SINGLE AUDIT REPORT  
For The Year Ended June 30, 2011**

**TABLE OF CONTENTS**

	<u>Page</u>
Schedule of Findings and Questioned Costs.....	1
Section I - Summary of Auditor's Results.....	1
Section II – Financial Statement Findings.....	2
Section III – Federal Award Findings and Questioned Costs.....	7
Section IV - Status of Prior Year Findings and Questioned Costs.....	10
Schedule of Expenditures of Federal Awards.....	22
Notes to Schedule of Expenditures of Federal Awards.....	23
Independent Auditor's Report On Internal Control over Financial Reporting and On Compliance And Other Matters Based on an Audit of Financial Statements Performed In Accordance With <i>Government Auditing Standards</i> .....	25
Independent Auditor's Report On Compliance with Requirements That Could have A Direct and Material Effect On Each Major Program and On Internal Control Over Compliance In Accordance With OMB Circular A-133 .....	27

This Page Left Intentionally Blank

**RICHMOND HOUSING AUTHORITY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For The Year Ended June 30, 2011**

**SECTION I—SUMMARY OF AUDITOR’S RESULTS**

**Financial Statements**

Type of auditor’s report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified?  X  Yes   No
- Significant deficiency(ies) identified that are not considered to be material weaknesses?  X  Yes   None Reported

Noncompliance material to financial statements noted?   Yes  X  No

**Federal Awards**

Type of auditor’s report issued on compliance for major programs: Unqualified

Internal control over major programs:

- Material weakness(es) identified?   Yes  X  No
- Significant deficiency(ies) identified that are not considered to be material weaknesses?  X  Yes   None Reported

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?  X  Yes   No

Identification of major programs:

<u>CFDA#(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>14.850</u>	<u>Low-Income Housing Program</u>
<u>14.871</u>	<u>Section 8 Housing Choice Vouchers</u>
<u>14.907</u>	<u>Lead Based Paint Hazard Control in Privately Owned Housing</u>
<u>14.872, 14.885</u>	<u>Public Housing Capital Fund, ARRA- Public Housing Capital Stimulus (Formula) Recovery Act Funded</u>

Dollar threshold used to distinguish between type A and type B programs: \$760,439

Auditee qualified as low-risk auditee?   Yes  X  No

## SECTION II – FINANCIAL STATEMENT FINDINGS

Our audit disclosed significant deficiencies and material weaknesses and instances of noncompliance material to the basic financial statements as listed below.

The numbering begins at 2011-19 as the Housing Authority financial statement findings were included in our Memorandum On Internal Control dated February 7, 2012 which was prepared for the City of Richmond and all of its Component Units, including Richmond Housing Authority. Only those financial statement findings relevant to the Richmond Housing Authority have been included in this Single Audit Report.

### MATERIAL WEAKNESSES:

#### 2011-19 Cash Balances And Going Concern

**Condition:** As auditors of the Richmond Housing Authority, the Board has engaged us to perform an audit of the Authority's financial statements and opine on the Authority's financial statements and provide assurance to readers of the statements, including Board, that they are prepared in accordance with generally accepted accounting principles. The Authority's financial statements are prepared assuming the Authority is a going concern. That is, the assumption that Authority has the ability to pay its bills as they come due without substantial disposition of assets outside the normal course of operations, restructuring of debt or forced revisions of its operations. As part of that work we are required to consider conditions and events which indicate that there is substantial doubt about the Authority's ability to continue as a going concern through June 30, 2012, its next fiscal year end. Conditions which indicate there is substantial doubt about the Authority's ability to pay its bills on time include:

- The Authority has not reimbursed the City for payroll and benefit costs from September 2010.
- For the year ended June 30, 2011, operating expenses exceeded operating revenues by \$1.36 million.
- In addition, the allowance for HUD disallowed costs was increased to \$2.4 million.

In cases where there is substantial doubt about an entity's ability to continue to operate, there are two primary considerations auditors are required to address that affect the audit opinion. The first consideration is the disclosure of the issue in the audit opinion. This additional paragraph is considered a modification and informs the reader that there is substantial doubt about the entities ability to continue. We have included such a modification in our opinion this year.

**Criteria:** The Authority should be paying the City timely.

**Effect:** The Authority's financial condition has deteriorated to the point that it is not paying bills timely.

**Cause:** The Authority's operating expenses exceed its federal funding. Staff have indicated that future federal funding cuts are expected.

**Recommendation:** We recommend the Authority restructure its operations to return to financial health.

## SECTION II – FINANCIAL STATEMENT FINDINGS (Continued)

### MATERIAL WEAKNESSES (Continued):

#### *Management's Response: (As of January 18, 2013)*

Per HUD regulatory changes during this fiscal year, Public Housing Authorities were required to use Restricted Cash to pay operating expenses which accounted for the reduction in operating revenues. The Housing Authority has consistently paid its disbursements in a timely manner with only one large debt obligation owed to the City of Richmond, which is currently under a Memorandum of Agreement (MOA). There's no existing condition which would indicate that the Housing Authority will not continue to pay its bills and thus we disagree that there's a Going Concern in this area. As a result of this finding, the Housing Authority finance division was relocated to City finance department and report directly to Finance Director for fiscal oversight and supervision.

**Corrective Action Plan:** The Housing Authority is planning to sell its component unit to provide the necessary resources to retire the outstanding indebtedness to the City of Richmond and the HUD Disallowed Cost.

Name of Contact: Tim Jones, Executive Director

Anticipation Date of Completion: 6/30/13

### 2011-20 Year End Closing Process

**Criteria:** This comment is a repeat of our prior year comment. The accounting records and financial statements are the responsibility of the Authority. Data is to be accurately prepared and maintained to permit the efficient completion of the financial statements and allow sufficient time to complete the audit prior to reporting deadlines.

**Condition:** At interim we reviewed the year end closing schedule with staff to ensure data would be ready timely to permit the orderly completion of the audit prior to the City's deadlines. However, our year end work was rescheduled several times. Once we arrived, we noted numerous areas where data had not been completed such as capital assets, compensated absences, deposits, receivables, and interfunds.

During fiscal 2010-11, there were twenty post closing adjustments which were required to revise general ledger data to bring it into conformity with generally accepted accounting principals. By comparison there were seven in fiscal 2008-09.

**Effect:** This condition impeded our progress and adversely impacted the audit process both in terms of audit effort and timing. We were not able to complete our work by the original deadline.

**Cause:** Insufficient resources.

**Recommendation:** The Authority should provide sufficient resources to ensure a complete and timely close of the books.

**SECTION II – FINANCIAL STATEMENT FINDINGS (Continued)**

**MATERIAL WEAKNESSES (Continued):**

***Management's Response: (As of January 18, 2013)***

The Housing Authority hired financial consultants to assist in the year-end closing process. The consultant provided the unaudited Financial Data Schedule along with the work papers to facilitate the year-end closing process.

**Corrective Action Plan:** The Housing Authority consultants will assist with monitoring the monthly closing process to help facilitate the year-end closing process.

Name of Contact Person: Tony Taplin, Finance Manager  
Anticipate Date of Completion: 06/30/13

**2011-21      FDS Data Schedule Submission and Compliance**

**Criteria:** This is a repeat of our prior year comment. In accordance with HUD's Uniform Financial Reporting Standards, a Housing Authority is required to submit its financial statements in the electronic format as specified by 24 CFR section 5.801. In addition, for fiscal years beginning July 1, 2007 and later, Housing Authorities will be required to manage properties according to an Asset Management Model, consistent with the management norms in the broader multi-family management industry. Under asset management rules, Housing Authorities will be required to provide project-specific data through the Financial Data Schedule (FDS).

**Condition:** For fiscal 2008/09, the Authority did not submit their unaudited Financial Data Schedule by the August 31, 2009 deadline nor the audited submission by the March 31, 2010 deadline. Staff had not completed the conversion to the Fee for Service approach until August 2011 which is needed to complete these schedules. The Authority has not completed the Schedules for fiscal 2010-11 as of the date of this report.

**Effect:** The Authority is currently out of compliance with its reporting requirements.

**Cause:** For fiscal 2008-09 the Authority was required to overhaul their standard operating procedures in terms of budgeting and accounting. Prior to this fiscal year the Authority budgeted and accounted for federal grants on a fund by fund basis. The Authority currently maintains five projects, Nystrom Village, Nevin Plaza, Triangle Court, Hacienda, & Friendship Manor. Converting from the old system of budgeting and accounting to the new system has been a difficult process because historical balance sheet data and current income statement data has never been allocated to projects in this manner.

**Recommendation:** The Authority should complete remaining parts needed to submit the FDS.

***Management's Response: (As of January 18, 2013)***

The Housing Authority has completed and submitted the unaudited Financial Data Schedule for fiscal year 2010-11 to the Real Estate Assessment Center (REAC), which has been subsequently approved.

**Corrective Action Plan:** In conjunction with CAP for Finding 2011-20, the FDS will be completed and submitted in a timely manner.

Contact Person: Tony Taplin, Finance Manager  
Anticipated Date of Completion: 6/30/13

## SECTION II – FINANCIAL STATEMENT FINDINGS (Continued)

### SIGNIFICANT DEFICIENCIES:

#### 2011-22      Timely Preparation and Review of the Bank Reconciliations

**Condition:** The February 2011 and June 2011 bank reconciliations did not indicate when they were prepared or reviewed or by whom.

**Criteria:** The Authority should indicate when the reconciliations were completed and who reviewed them on the face of the bank reconciliations to ensure that they are being prepared and reviewed by two distinct individuals and in a timely manner.

**Effect:** Controls over the bank reconciliation process are inadequate, and the staff may not detect errors in the bank reconciliations in a timely manner.

**Cause:** No date was inscribed on the document to indicate when they were prepared and reviewed.

**Recommendation:** It is recommended the client implement procedures to ensure the timely preparation of the bank reconciliations and that they are prepared and reviewed by two distinct individuals. To ensure there is documentation of such, the reviewer and the preparer should sign and date the face of the reconciliations.

***Management's Response:***

Bank reconciliations were completed in a timely manner and reviewed by Finance Manager and prepared by Accountant I until March 2011, when the Finance Manager started preparing the reconciliation due to a shortage of staff. After reviewing the reconciliation the Finance Manager would sign but not date approving the report. The Housing Authority will implement a procedure to ensure reconciliation are signed and dated.

**Corrective Action Plan:** Due to reduction in staff resources, the Finance Manager is solely responsible for preparing the Bank Reconciliation. The Housing Authority is planning to hire additional staff to perform this task and the Finance Manager will review and approved.

Name of Contact Person: Tony Taplin, Finance Manager

Anticipated Date of Completion: 6/30/13

**SECTION II – FINANCIAL STATEMENT FINDINGS (Continued)**

**SIGNIFICANT DEFICIENCIES (Continued):**

**2011- 23      Journal Entries Review Process**

**Condition:** We selected 40 samples of journal entries for control testing over the journal entry process. It was noted that 29 out of the 40 samples did not show that someone other than the preparer was reviewing journal entries prior to them being posted to the general ledger.

**Criteria:** All journal entries should be reviewed by someone else other than the preparer for accuracy before they are posted to the general ledger.

**Effect:** Unauthorized, incorrect and fraudulent transactions could be posted to the general ledger without being detected in a timely manner.

**Cause:** Due to the organizational structure of the Authority when the Finance Manager is forced to prepare the entries, the staff at the Authority does not review the documents.

**Recommendation:** We recommend the Authority implement procedures to guarantee all journal entries, regardless of who prepares them, are reviewed by someone other than the preparer prior to being posted to the general ledger.

***Management's Response:***

The City of Richmond Chief Accountant will review and approve all journal entries prepared by Housing Authority Finance Manager.

**Corrective Action Plan:** The City of Richmond Finance Department Chief Accountant will review and approved Journal Entries prepared by Finance Manager.

Name of Contact: Tony Taplin, Finance Manager

Anticipated Date of Completion: 04/01/13

### SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Our audit disclosed the following findings and questioned costs required to be reported in accordance with section 510(a) of OMB Circular A-133.

**Finding SA2011-01:**     **Omission of Section 8 Voucher Utility Allowance Form**  
**Federal Agency:**     **Department of Housing and Urban Development (HUD)**  
**Program Affected:**    **Section 8 Housing Choice Vouchers (CFDA #14.871)**

*Criteria:* The Authority does a study every year to calculate average utility rates per month per atmosphere. This rate that determines the allowance for the specific tenant must be included in the Utility Allowance Form attached to the most recent examination report.

*Condition:* Per testing of the March 2011 Section 8 tenant files, there appeared to be no audit evidence of a utility allowance form attached to the most recent annual examination for three of sixty selected samples.

*Effect:* The omission of a Utility Allowance Form could indicate that documents are not being properly documented and reviewed. In addition, the amount for the utility allowance for tenants that is in the Authority's system could be false. Without any evidence of documentation, there is no verification that the utility allowance in the Authority's system is accurate.

*Cause:* The lack of a proper review of all the required documents that are kept in a given file.

*Recommendation:* The Authority should implement procedures to ensure all documents are included in the tenants file as required by HUD. It is understood that the annual examination reports include a checklist of all documents that are submitted. However, because of the volume of Section 8 tenants and the number of documents that are needed to be kept in file, it is recommended that another review is in place to ensure forms are easily accessible and located. Additionally, the organization of the documents could be improved by implementing a formal order to the forms and sectioning off by year.

**Corrective Action Plan (Prepared by Management):** The current procedures implemented are sufficient enough to yield 95% accuracy, and should not change. Quality control measures will be reviewed to ensure Utility Allowance forms are maintained in all tenant files. Although, there's no HUD requirement that all files must include a Utility Allowance Schedule. The Utility Allowance is included on the 50058, which is transmitted to HUD at least annually for each tenant and is maintain electronically in the computer system as a required populated field. The Housing Authority will review the 3 files and locate the Utility Allowance Schedule to satisfy this finding.

**Name of Contact Person:** William Bounthon, Assisted Housing Manager  
Anticipated Date of Completion: 6/30/13

### SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

**Finding SA2011-02:**    **Implementing a Budget for All Asset Management Properties**  
**Federal Agency:**    **Department of Housing and Urban Development**  
**Program Affected:**    **Low-Income Housing Program (CFDA #14.850)**

*Criteria:* In fiscal year 2009-10, the RHA has implemented the accounting for the asset management for each property but has not implemented the budget for each property.

*Condition:* Per 24 CFR section 990.280(b)(1), the Authority's implementation of asset management shall require the Authority to develop and maintain a system of budgeting and accounting for each project in a manner that allows for analysis of actual revenues and expenses associated with each property.

*Effect:* The Authority is not in compliance with 24 CFR section 990.280(a).

*Cause:* The Authority's priority was to implement the accounting for the central office cost center and then the Authority will implement and approve a budget.

*Recommendation:* We recommend that the Authority implement the budget for each property so there can be an analysis of actual revenues and expenses associated with each property.

**Corrective Action Plan (Prepared by Management):** We agree with this finding and as of the date of this response, the Housing Authority has completed a budget for all Asset Management Properties.

**Name of contact person:** Tony Taplin, Finance Manager, (510) 621-1320  
**Anticipated Date of Completion:** 02/1/13

**Finding SA2011-03:**    **Physical Inventory of Low Income Public Housing Equipment**  
**Federal Agency:**    **Department of Housing and Urban Development**  
**Program Affected:**    **Low-Income Housing Program (CFDA #14.850)**

*Criteria:* The A-102 Common Rule for equipment acquired under Federal awards received directly from a Federal awarding agency states that equipment records shall be maintained, a physical inventory of equipment shall be taken at least once every two years and reconciled to the equipment records.

*Condition:* Per our request the Authority has been unable to provide current records or documents to verify a physical inventory has been completed for equipment.

*Effect:* The Authority is unable to verify compliance with the A-102 Common Rule for equipment acquired under Federal awards received directly from a Federal awarding agency.

*Cause:* The Authority does not appear to have a procedure to maintain equipment records by funding source for the Low Income Public Housing Program (LIPH).

*Recommendation:* The Authority should perform a physical inventory and reconciliation at least once every two years for equipment acquired with LIPH Federal funds.

**Corrective Action Plan (Prepared by Management):** The Authority has always maintained records of all equipment purchases. However, we do agree that a physical inventory of equipment must be conducted to determine if equipment is currently serviceable.

**Name of contact person:** Tony Taplin, Finance Manager  
**Anticipated Date of Completion:** 6/30/13

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

**Finding SA2011-04:** Submission of HUD 60002, Section 3 Summary Report, Economic Opportunities for Low - and Very Low – Income Persons

**Federal Agency:** Department of Housing and Urban Development

**Program Affected:** Low-Income Housing Program (CFDA #14.850)

*Criteria:* For each public housing grant that involves development, operating, or modernization assistance, the prime recipient must submit HUD 60002 (24 CFR sections 135.3(a) and 135.90).

*Condition:* The Authority did not submit HUD 60002 for fiscal year 2010-11 for its Low-Income housing program grant.

*Effect:* The Authority is currently out of compliance with the above HUD regulation.

*Cause:* The Authority has not submitted the HUD 60002 form in prior years.

*Recommendation:* The Authority should begin submitting HUD 60002 in a timely manner for all of its programs which involve development, operating, or modernization assistance.

**Corrective Action Plan (Prepared by Management):** Since the Housing Authority had no Section 3 activity under its Low Income Public Housing program, the filing of the form has been omitted, while the other programs have been submitting form 60002 in a timely manner. The Housing Authority will assign the task of submitting the form for its LIPH program to the contract monitor.

**Name of contact person:** Tony Taplin, Finance Manager

**Anticipated Date of Completion:** 6/30/13

**SECTION IV - STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS –**  
Prepared by Management

**Financial Statement Prior Year Findings**

**PRIOR YEAR MATERIAL WEAKNESSES:**

**2010 - 1: Fee-For-Service Based Financial Records**

**Criteria:** PHAs that own and operate 250 or more dwelling rental units must establish a central office cost center (COCC) to account for non-project specific costs. The COCC must share each project using a fee-for-service approach. Each project shall be charged for the actual services received and only to the extent that such amounts are reasonable. We noted in our 2009 single audit report that this approach was not implemented for fiscal 2008-09. Fiscal 2009-10 is the second year that the Authority has not implemented the Fee-For-Service approach.

**Condition:** The Authority has not converted to the Fee-For-Service approach as described in Section 7.1 to the supplement to HUD Handbook 7475.1. (24 CFR section 990.280 (d)). By establishing the Fee-For-Service approach a central office cost center (COCC) must also be established. The COCC is designed to monitor costs associated with the new project based budgeting and accounting system. Under this system the COCC will charge each project for services rendered such as accounting, maintenance, and management fees.

**Effect:** The Authority is currently out of compliance with HUD's fee-for-service approach. This approach will have a material impact on overall financial statements if not implemented.

**Cause:** Insufficient resources.

**Recommendation:** The Authority should implement the fee-for-service approach as quickly as possible.

**Current Status:** The Authority has implemented the Fee-For-Service conversion of its financial records.

**SECTION IV - STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS – (Continued)**

***Financial Statement Prior Year Findings (Continued)***

**PRIOR YEAR MATERIAL WEAKNESSES (Continued):**

**2010 - 2: Financial Data Schedule Submission and Compliance**

**Criteria:** In accordance with HUD’s Uniform Financial Reporting Standards, a Housing Authority is required to submit its financial statements in the electronic format as specified by 24 CFR section 5.801. In addition, for fiscal years beginning July 1, 2007 and later, Housing Authorities will be required to manage properties according to an Asset Management Model, consistent with the management norms in the broader multi-family management industry. Under asset management rules, Housing Authorities will be required to provide project-specific data through the Financial Data Schedule (FDS).

**Condition:** For fiscal 2010/11, the Authority did not submit their unaudited Financial Data Schedule by the August 31, 2011 deadline nor the audited submission by the March 31, 2012 deadline.

**Effect:** The Authority is currently out of compliance with its reporting requirements.

**Cause:** Prior to fiscal year 2009/10 the Authority budgeted and accounted for federal grants on a fund by fund basis. The Authority currently maintains five projects, Nystrom Village, Nevin Plaza, Triangle Court, Hacienda, & Friendship Manor. Converting from the old system of budgeting and accounting to the new system has been a difficult process because historical balance sheet data and current income statement data has never been allocated to projects in this manner.

**Recommendation:** The Authority should complete the conversion process as soon as possible. This issue will begin to compound itself because currently the Authority is requesting operating subsidies based on the new project based reporting requirements without first setting up a system to budget and account for these funds.

**Current Status:** See Material Weakness 2011-21 above. The Housing Authority has completed its Federal Data Schedule submissions for FY2010 and Unaudited FDS submissions for FY2011 and FY2012.

**SECTION IV - STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS – (Continued)**

**Financial Statement Prior Year Findings (Continued)**

**PRIOR YEAR MATERIAL WEAKNESSES (Continued):**

**2010 - 3: Procurement Non-Compliance**

**Criteria:** Recipients are required to comply with federal procurement requirements contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*.

**Condition:** Just after the completion of our financial statement audit on December 17, 2009, the Authority received a report from the Office of Inspector General (OIG) about the Authority's procurement practices. The scope of work covered a period going back approximately ten years. The report lists a number of serious procurement findings and questioned costs. The OIG has required the Authority's Local Fund to repay \$1.7 million back to the Low Rent Public Housing Fund and \$534,721 back to the Housing Choice Vouchers Fund for housing related costs which were originally charged to the Local Fund.

**Effect:** Lack of adequate procurement controls does not result in the most cost effective contracts.

**Cause:** Internal controls and insufficient support for procuring contracts.

**Recommendation:** The Authority must comply with requirements of Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*.

**Current Status:** The Authority has completed a comprehensive HUD procurement training with key Housing Authority staff responsible for procuring goods and services. In addition to the HUD training, the Authority has hired a contract administrator to coordinate and monitor contracts for all programs. In addition, the Local Fund is required to repay the \$2.2 million from non-federal sources over a fourteen year period beginning July 1, 2013.

## SECTION IV - STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS – (Continued)

### Financial Statement Prior Year Findings (Continued)

#### PRIOR YEAR MATERIAL WEAKNESSES (Continued):

##### **2010 - 4: Year End Closing Process**

**Criteria:** The accounting records and financial statements are the responsibility of the Authority. Data is to be accurately prepared and maintained to permit the efficient completion of the financial statements and allow sufficient time to complete the audit prior to reporting deadlines.

**Condition:** At interim we reviewed the year end closing schedule with staff to ensure data would be ready timely to permit the orderly completion of the audit prior to the City's deadlines. However, our year end work was rescheduled several times. Once we arrived, we noted numerous areas where data had not been completed such as capital assets, compensated absences, deposits, receivables, and interfunds.

During fiscal 2009-10, there were fifteen post closing adjustments which were required to revise general ledger data to bring it into conformity with generally accepted accounting principals. By comparison there were seven in fiscal 2008-09.

**Effect:** This condition impeded our progress and adversely impacted the audit process both in terms of audit effort and timing. We were not able to complete our work by the original deadline.

**Cause:** Insufficient resources. Staff is still expending significant effort on the Fee-For-Services conversion including training and a software conversion.

**Recommendation:** The Authority should provide sufficient resources to ensure a complete and timely close of the books.

**Current Status:** See Material Weakness 2011-20 above.

**SECTION IV - STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS – (Continued)**

**Financial Statement Prior Year Findings (Continued)**

**PRIOR YEAR SIGNIFICANT DEFICIENCIES:**

**2010 - 5: Security of Undeposited Remittances at Nevin Plaza.**

**Criteria:** Undeposited rent remittances should be kept under lock and key to prevent loss or interception.

**Condition:** During our observations and tests of cash remittances at Nevin Plaza, we noted that the receptionist places rent remittances in an envelope and in an unlocked drawer.

**Effect:** Too many employees at Nevin Plaza have access to the undeposited remittances.

**Cause:** Poor internal controls.

**Recommendation:** Undeposited rent remittances should be kept under lock and key to prevent loss or interception.

**Current Status:** Currently undeposited rent remittances are kept in a safe located in the administrative offices.

**2010 - 6: Review of End of the Day Report at Nevin Plaza**

**Criteria:** Internal controls should provide for good checks and balances so that no one employee has complete control over a transaction cycle. With regard to cash collections it is important to involve another employee when one employee has complete control over cash collections.

**Condition:** The Senior Accountant reconciles rent remittances received at Nevin Plaza with the “End of the Day” report, but there is no review process to ensure all collections have been accounted for.

**Effect:** A misstatement in a deposit or posting of remittances can occur.

**Cause:** Poor internal controls.

**Recommendation:** After the Senior Accountant reconciles the remittances received at Nevin Plaza with the “End of the Day” report, another responsible employee should review the reconciliation and ensure remittances have been deposited intact.

**Current Status:** The Authority has implemented a procedure where as a responsible finance staff member reviews and approves the end of the day report.

## SECTION IV - STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS – (Continued)

### Financial Statement Prior Year Findings (Continued)

#### PRIOR YEAR SIGNIFICANT DEFICIENCIES (Continued):

##### 2010 - 7: Journal Entry Review

**Criteria:** Internal controls should provide for good checks and balances so that no one employee has complete control over a transaction cycle. With regard to journal entries it is important to provide for sufficient review of entries to ensure the amounts and entries are appropriate.

**Condition:** Journal entries which are prepared by the Authority's Finance Manager are not subject to a review by another employee before they are posted to the general ledger. In our testing of forty journal entries, we noted that seventeen were prepared by the Finance Manager.

**Effect:** Internal controls are weak without a secondary review.

**Cause:** Insufficient staffing.

**Recommendation:** With regard to journal entries, it is important to provide for sufficient review of entries to ensure the amounts and entries are appropriate.

**Current Status:** See Significant Deficiency 2011-23 above.

### Federal Award Prior Year Findings and Questioned Costs

**Finding 10-01:** Submission of HUD 60002, Section 3 Summary Report, Economic Opportunities for Low - and Very Low – Income Persons.

**Federal Agency:** Department of Housing and Urban Development

**Program Affected:** Low-Income Housing Program (CFDA #14.850), Public Housing Capital Fund Program Cluster (CFDA #14.885, 14.872)

**Criteria:** For each public housing grant that involves development, operating, or modernization assistance, the prime recipient must submit HUD 60002 (24 CFR sections 135.3(a) and 135.90).

**Condition:** The Authority did not submit HUD 60002 for FY 09/10 for its Low-Income housing program grant.

**Effect:** The Authority is currently out of compliance with the above HUD regulation.

**Cause:** The Authority has not submitted the HUD 60002 form in prior years.

**Recommendation:** The Authority should begin submitting HUD 60002 in a timely manner for all of its programs which involve development, operating, or modernization assistance.

**Current Status:** See Finding SA2011-04 above.

**SECTION IV - STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS – (Continued)**

***Federal Award Prior Year Findings and Questioned Costs (Continued)***

**Finding 10-02:**            **Implementing a Budget for All Asset Management Properties**  
**Federal Agency:**       **Department of Housing and Urban Development**  
**Program Affected:**      **Low-Income Housing Program (CFDA #14.850)**

*Criteria:* In FY 09/10, the RHA has implemented the accounting for the asset management for each property but has not implemented the budget for each property.

*Condition:* Per 24 CFR section 990.280(b)(1), the Authority’s implementation of asset management shall require the Authority to develop and maintain a system of budgeting and accounting for each project in a manner that allows for analysis of actual revenues and expenses associated with each property.

*Effect:* The Authority is not in compliance with 24 CFR section 990.280(a).

*Cause:* The Authority’s priority was to implement the accounting for the central office cost center and then the Authority will implement and approve a budget.

*Recommendation:* We recommend that the Authority implement the budget for each property so there can be an analysis of actual revenues and expenses associated with each property.

**Current Status:** See Finding SA2011-02 above.

**Finding 10-03:**            **Payroll Operating Procedures**  
**Federal Agency:**       **Department of Housing and Urban Development**  
**Program Affected:**      **Low-Income Housing Program (CFDA #14.850)**

*Criteria:* The authority is required under its Annual Contributions Contract (ACC) with HUD, “to maintain complete and accurate employee records” relevant to its operations.

*Condition:* The Authority is not following the procedures it has put in place in regards to reviewing and reconciling payroll which is processed by the City.

*Effect:* The Authority is currently out of compliance with their ACC and with HUD.

*Cause:* The City of Richmond processes the payroll for RHA and this procedure should be removed from the policy.

*Recommendation:* The Authority should begin completing the review and reconciliation process as stated in the payroll procedures manual. This includes reviewing “Payroll Hash Totals” to ensure the accuracy of payroll check disbursements. This also includes a reconciliation process which will ensure that payroll billings and labor or salary account distributions are accurate. If the procedures are not necessary, then the RHA should remove the procedure removed and approved by HUD.

**Current Status:** The Authority has implemented procedures to record and reconcile payroll billings from the City of Richmond and do not need HUD approval.

**SECTION IV - STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS – (Continued)**

**Federal Award Prior Year Findings and Questioned Costs (Continued)**

**Finding 10-04:**            **Reconciliation of Calendar Year 2009 & 2010 Low-Income Housing Subsidy to Actual Activity**

**Federal Agency:**        **Department of Housing and Urban Development**

**Program Affected:**      **Low-Income Housing Program (CFDA #14.850)**

*Criteria:* The Authority should maintain detailed accounting records showing the total amount of Low-Income Housing Grant revenues received for the Authority’s fiscal year.

*Condition:* The Authority receives Low-Income Housing program grant revenue on a calendar year basis. This grant works as an operating subsidy for the Authority due to the Authority receiving rental revenue from its five projects as its primary source of revenue for this particular fund. For fiscal year 2009-10 the Authority could not provide a reconciliation showing the two calendar year subsidies equaling the amount reported on the Schedule of Expenditures of Federal Awards (SEFA) for fiscal year 2009-10.

*Effect:* We could not accurately agree the Low-Income Housing Fund expenditures reported on the SEFA to HUD 52723 “Operating Fund Calculation of Operating Subsidy” for the Authority’s projects.

*Cause:* The Authority does not appear to have a procedure of reconciling the two calendar year subsidy amounts to the Authority’s fiscal year reporting period.

*Recommendation:* The Authority should reconcile the two calendar year housing subsidies it receives to the fiscal year actual amounts.

**Current Status:** The Authority has kept accurate records of the funding received by HUD.

**Finding 10-05:**            **Physical Inventory of Low Income Public Housing Equipment**

**Federal Agency:**        **Department of Housing and Urban Development**

**Program Affected:**      **Low-Income Housing Program (CFDA #14.850)**

*Criteria:* The A-102 Common Rule for equipment acquired under Federal awards received directly from a Federal awarding agency states that equipment records shall be maintained, a physical inventory of equipment shall be taken at least once every two years and reconciled to the equipment records.

*Condition:* Per our request the Authority has been unable to provide current records or documents to verify a physical inventory has been completed for equipment.

*Effect:* The Authority is unable to verify compliance with the A-102 Common Rule for equipment acquired under Federal awards received directly from a Federal awarding agency.

*Cause:* The Authority does not appear to have a procedure to maintain equipment records by funding source for the Low Income Public Housing Program (LIPH).

*Recommendation:* The Authority should maintain records for equipment acquired with LIPH Federal funds and documents to verify a physical inventory of such equipment.

**Current Status:** See Finding SA2011-03 above.

**SECTION IV - STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS – (Continued)**

**Federal Award Prior Year Findings and Questioned Costs (Continued)**

**Finding 10-06:**            **Annual Housing Quality Standards (HQS) Inspections**  
**Federal Agency:**       **Department of Housing and Urban Development**  
**Program Affected:**      **Section 8 Housing Choice Vouchers (CFDA #14.871)**

*Criteria:* There should be documentation of passed HQS inspections within each tenant file as required by 24 CFR sections 982.158(d) and 982.404(b). Furthermore, all tenants should have had an HQS inspection scheduled, completed and documented within the current fiscal year, and have record of such in each tenant file.

*Condition:* Of the forty selections made for Section 8 voucher tenant files testing, three files did not have documentation of passing an HQS inspection.

*Effect:* The Authority is not in compliance with 24 CFR sections 982.158(d) and 982.404(b), which requires it to at least annually inspect units to ensure they meet Housing Quality Standards.

*Cause:* Due to the increase of the workload on Authority personnel, there were not enough personnel allotted or available to ensure compliance with HQS inspections.

*Recommendation:* Either decrease the workload attributed to the personnel of the Authority so they have time to ensure the HQS inspections are completed for all tenants; or hire more staff to share the increase of the workload to ensure HQS inspections are completed and documented for each tenant. Also, ensure staff is properly trained so staff can determine that required inspections have been completed and documented in the tenant files as required by the above regulations.

**Current Status:** The Authority has completed the documentation of HQS inspections for all tenants' files.

**SECTION IV - STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS – (Continued)**

**Federal Award Prior Year Findings and Questioned Costs (Continued)**

**Finding 10-07:**            **Annual Reexamination and Family Report HUD 50058**

**Federal Agency:**        **Department of Housing and Urban Development**

**Program Affected:**      **Section 8 Housing Choice Vouchers (CFDA #14.871)**

*Criteria:* 24 CFR section 982.516 and 24 CFR section 982.158 require that the Authority reexamine family income and composition annually, and adjust the tenant rent and housing assistance payments as needed. When the annual reexamination is completed a HUD 50058, Family Report is required to be completed. Each tenant should have an annual reexamination as well as HUD 50058 included within his/her file.

*Condition:* Per review of sixty selections of Section 8 Housing Choice Vouchers tenant files, one did not have an annual reexamination and subsequently did not complete an up to date HUD 50058 form.

*Effect:* The Authority is not in compliance with the above regulations for the file without the form.

*Cause:* Due to the increase of the workload on Authority personnel, there were not enough personnel allotted or available to ensure compliance with this particular HUD regulation.

*Recommendation:* Either decrease the workload attributed to the personnel of the Authority so they have time to ensure the annual reexamination and the procedures that follow that reexamination are performed. Also, ensure staff is properly trained so they ensure that reexaminations have been completed and documented in the tenant files as required by the above regulations.

**Current Status:** The Authority has implemented procedures for ensuring reexaminations are being performed and staff is properly trained.

**SECTION IV - STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS – (Continued)**

***Federal Award Prior Year Findings and Questioned Costs (Continued)***

**Finding 10-08:** Procurement Non-Compliance  
**Federal Agency:** Department of Housing and Urban Development  
**Program Affected:** Section 8 Housing Choice Vouchers (CFDA #14.871), Low-Income Housing Program (CFDA #14.850)

*Criteria:* Recipients are required to comply with federal procurement requirements contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*

*Condition:* Just after the completion of our financial statement audit on December 17, 2009, the Authority received a report from the Office of Inspector General about the Authority's procurement practices. The scope of work covered a period going back approximately ten years. The report list a number of serious procurement findings and questioned costs. On June 29, 2010, prior to the completion of the Single Audit Report, HUD issued a follow up report due to not responsiveness by staff.

*Questioned Costs:* Approximately \$2.5 million has been questioned. The largest contract represented \$1.5 million covering a period going back to 1998.

*Effect:* Lack of adequate procurement controls does not result in the most cost effective contracts.

*Cause:* Weak internal controls and insufficient support for procuring contracts.

*Recommendation:* The Authority must comply with requirements of Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*.

**Current Status:** The Authority has completed a comprehensive HUD procurement training with key Housing Authority staff responsible for procuring goods and services. In addition to the HUD training, the Authority has hired a contract administrator to coordinate and monitor contracts for all programs. In addition, the Local Fund is required to repay the \$2.2 million from non-federal sources over a fourteen year period beginning July 1, 2013.

**SECTION IV - STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS – (Continued)**

**Federal Award Prior Year Findings and Questioned Costs (Continued)**

**Finding 10-09:**            **Calculating and Reporting Post 2003 and Pre 2004 Administrative Fees**

**Federal Agency:**        **Department of Housing and Urban Development**

**Program Affected:**      **Section 8 Housing Choice Vouchers (CFDA #14.871)**

*Criteria:* The Authority needs to compute post 2003 and pre 2004 Section 8 Housing Choice Vouchers administrative fee amounts for submission in accordance with HUD PIH Notice 2010-7.

*Condition:* The Authority had a consultant complete the FDS report for the 2009-10 fiscal year and noticed that the Authority has not computed the post 2003 and pre 2004 Section 8 Administrative fee amounts.

*Effect:* The submission of the Real Estate Assessment Center (REAC) report for 2009-10 must have the correct amounts of post 2003 and pre 2004 administrative fees.

*Cause:* The Authority staff has not had time to calculate these administrative fees.

*Recommendation:* The Authority must comply with HUD PIH Notice 2010-7 and ensure that the administrative fees are correctly computed from post 2003 and pre 2004 for the Section 8 Housing Choice Vouchers program.

**Current Status:** The Administrative Fees were calculated as part of the submission of the Financial Data Schedule and approved by the Real Estate Assessment Center (REAC).

**RICHMOND HOUSING AUTHORITY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For the Fiscal Year Ended June 30, 2011**

<b>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Federal Expenditures</b>
Department of Housing and Urban Development <b>Direct</b> Programs		
Low Income Housing Program	14.850	\$1,956,220
Demolition and Revitalization of Severely Distressed Public Housing (HOPE IV)	14.866	741,481
Section 8 Housing Choice Voucher	14.871	20,442,208
Lead Based Paint Hazard Control in Privately Owned Housing	14.907	<u>934,121</u>
Subtotal Department of Housing and Urban Development <b>Direct</b> Programs		<u>24,074,030</u>
Public Housing Capital Fund Cluster		
Department of Housing & Urban Development <b>Direct</b> Programs		
ARRA - Public Housing Capital Fund Stimulus (Formula) Recovery Act Funded	14.885	287,800
Formula Capital Fund Stimulus Grant	14.872	<u>986,126</u>
Total Public Housing Capital Fund Cluster		<u>1,273,926</u>
		<u>\$25,347,956</u>
Total Expenditures of Federal Awards		

See Accompanying Notes to Schedule of Expenditures of Federal Awards

**RICHMOND HOUSING AUTHORITY**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For The Year Ended June 30, 2011**

**NOTE 1-REPORTING ENTITY**

The Schedule of Expenditure of Federal Awards (the Schedule) includes expenditures of federal awards for the Richmond Housing Authority, California and its component units as disclosed in the notes to the Basic Financial Statements

**NOTE 2-BASIS OF ACCOUNTING**

Basis of accounting refers to *when* revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus applied. All proprietary funds are accounted for using the accrual basis of accounting. Expenditures of Federal Awards reported on the Schedule are recognized when incurred.

**NOTE 3-DIRECT AND INDIRECT (PASS-THROUGH) FEDERAL AWARDS**

Federal awards may be granted directly to the Authority by a federal granting agency or may be granted to other government agencies which pass-through federal awards to the Authority. The Schedule includes both of these types of Federal award programs when they occur.

This Page Left Intentionally Blank

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

Board of Commissioners  
Housing Authority of the City of Richmond  
Richmond, California

We have audited the financial statements of the Richmond Housing Authority (Authority) as of and for the year ended June 30, 2011, and have issued our report thereon dated January 25, 2012. We conducted our audit in accordance with generally accepted auditing standards in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

***Internal Control over Financial Reporting***

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis. We have identified certain deficiencies we consider to be material weaknesses. These are listed as material weaknesses in the report under 2011-19 through 2011-21.

A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies 2011-22 and 2011-23.

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Authority's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of Board of Commissioners, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "M. J. Asst".

January 25, 2012

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE  
WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL  
EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Commissioners  
of the Housing Authority of the City of Richmond, California

*Compliance*

We have audited Housing Authority of the City of Richmond, California's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2011. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Authority's compliance with those requirements.

In our opinion, the Authority complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items: SA2011-01, SA2011-02, SA2011-03 and SA2011-04.

### ***Internal Control Over Compliance***

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We identified no deficiencies in internal control over compliance that we consider to be a material weakness, as defined above. However, we identified certain deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as item: SA2011-02. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

### ***Schedule of Expenditures of Federal Awards***

We have audited the financial statements of the Authority as of and for the year ended June 30, 2011, and have issued our report thereon dated January 25, 2012. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Authority's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the Board of Commissioners, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



January 18, 2013

This Page Left Intentionally Blank