RICHMOND HOUSING AUTHORITY

SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2012
RICHMOND HOUSING AUTHORITY

SINGLE AUDIT REPORT
For The Year Ended June 30, 2012

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RICHMOND HOUSING AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2012

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: __________ Qualified

Internal control over major programs:
  • Material weakness(es) identified? __X__ Yes __________ 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:

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

Dollar threshold used to distinguish between type A and type B programs: $715,769

Audittee 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.

MATERIAL WEAKNESSES:

Finding SA2012 - 1:  Cash Balances And Going Concern - Update

**Condition:** As we discussed in our 2012-19 finding last year, 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 the 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, 2013, its next fiscal year end. Conditions which indicate there is substantial doubt about the Authority’s ability to pay its bills on time include:

- June 30, 2012 current liabilities exceeded current assets by $5.2 million.
- For the year ended June 30, 2012, operating expenses exceeded operating revenues by $5.8 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 entity’s 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 has indicated that future federal funding cuts are expected.

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

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

MATERIAL WEAKNESSES (Continued):

The Housing Authority is in process of selling component unit Westridge, to provide resources to settle outstanding indebtedness to City of Richmond. The estimated date of sale of Westridge, 8/22/13.

SIGNIFICANT DEFICIENCIES:

Finding SA2012 - 2: Preparation and Review of the Bank Reconciliations

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

Condition: The March 2012 and June 2012 bank reconciliations did not indicate when they were prepared or reviewed, or by whom.

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

Cause: Due to a shortage of staff, the preparation and review of the bank reconciliations was overlooked due to other more pressing job responsibilities.

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: The Housing Authority agrees with this finding and is currently requesting to add one Accountant II position to staff to perform the Bank Reconciliation functions and the Finance Manager will review and approve the report on a monthly basis.

Corrective Action Plan: Hire Accountant II position to prepare Bank Reconciliation.

Name of Contact Person: Tony Taplin, Finance Manager
Anticipated Date of Completion: August 31, 2013

Finding SA2012 - 3: Journal Entry Review Process

Criteria: This is a repeat of a prior year comment. All journal entries should be reviewed by someone else other than the preparer for accuracy before they are posted to the general ledger.

Condition: We selected 25 manual journal entries for control testing over the journal entry process. It was noted that 16 out of the 25 selections did not provide audit evidence that someone other than the preparer was reviewing the journal entries prior to them being posted to the general ledger.
SECTION II – FINANCIAL STATEMENT FINDINGS (Continued)

SIGNIFICANT DEFICIENCIES (Continued):

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 Housing Authority agrees with this finding and will implement procedures that ensure all journal entries are properly reviewed and approved.

Corrective Action Plan: The Finance Manager will review and approve all journal entries prepared by staff and the City Finance Department Chief Accountant will review and approve journal entries prepared by Finance Manager.

Name of Contact Person: Tony Taplin, Finance Manager
Anticipated Date of Completion: 04/01/13

Finding SA2012 - 4: Purchasing Policy - Purchase Orders and Contracts

Criteria: The Authority’s procurement policy requires purchase orders for purchases below $100,000. A purchase in excess of the $100,000 requires the use of contracts and bids.

Condition: We selected 25 disbursements to test the Authority’s compliance with its procurement policy. During our test, we noted seven of the disbursements tested were below the $100,000 threshold and did not have purchase orders.

Effect: The Authority is not in compliance with its Procurement Policy.

Cause: The Authority’s Procurement Policy is outdated and not reflective of current purchasing procedures.

Recommendation: We recommend the Authority follow the procedures stated in its procurement policy and apply it consistently to all purchases of goods and services. If the existing policy does not reflect its current practices, the Authority should perform a review of current purchasing procedures in conjunction with the procurement policy and should revise it accordingly to reflect current practices.

Management's Response:
The Housing Authority agrees with this finding and is currently working on procedures to address this issue.
SECTION II – FINANCIAL STATEMENT FINDINGS (Continued)

SIGNIFICANT DEFICIENCIES (Continued):

Corrective Action Plan: The Housing Authority will work with City procurement division to improve its purchasing policies and procedures.

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

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 SA2012-5: Implementing a Budget for All Asset Management Properties
Federal Agency: Department of Housing and Urban Development (HUD)
Program Affected: Low-Income Housing Program (CFDA #14.850)

Criteria: 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.

Condition: In fiscal year 2011-12, the Richmond Housing Authority implemented the accounting for the asset management for each property but did not implement the budget for 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): The Housing Authority has completed budgets for all Asset Management Properties.

Name of Contact Person: Tony Taplin, Finance Manager, (510) 621-1320
Anticipated Date of Completion: 02/01/13
SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

Finding SA2012 - 6:  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 completes a study every year to calculate average utility rates per month per atmosphere. This rate determines the allowance for the specific tenant and must be included in the Utility Allowance Form attached to the most recent examination report.

Condition: Per testing of the November 2011 Section 3 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 tested files.

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 client should implement procedures to ensure all documents are included in the tenant files 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 be completed 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 and quality control measures will be reviewed to ensure Utility Allowance forms are maintained in all tenant files.

Name of Contact Person: William Bounthon, Assisted Housing Manager

Anticipated Date of Completion: 6/30/13

Finding SA2012 - 7:  Physical Inventory of Low Income Public Housing Equipment
Federal Agency: Department of Housing and Urban Development (HUD)
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. We also noted that per our tests of seven out of 66 Installation/Disposition Forms dated: July 7, 2011; November 16, 2011; January 4, 2012; February 10, 2012; March 1, 2012; April 4, 2012 and May 22, 2012 and noted there was no authorizing signature on the forms.
SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

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 Housing Authority will work with the City Finance Fixed Asset Division to conduct comprehensive physical inventory of equipment.

Name of Contact Person: Tony Taplin, Finance Manager, (510) 621-1320

Anticipated Date of Completion: 6/30/13

Finding SA2012 - 8: Depository Agreements
Federal Agency: Department of Housing and Urban Development (HUD)
Program Affected: Low-Income Housing Program (CFDA #14.850) and Section 8 Housing Choice Vouchers (CFDA #14.871)

Criteria: Public Housing Authorities are required to enter into a depository agreement with their financial institution using the HUD-51999 (OMB No. 2577-0270) or a form required by HUD in the Annual Contributions Contract (ACC) for the development and operations of public housing projects. The agreement serves as safe guards for Federal funds and provides third party rights to HUD (Section 9 of the ACC).

Condition: The Authority did not have the required HUD-51999 depository agreement executed during the fiscal year.

Effect: The Authority is not in compliance with the HUD requirements for the development and operations of its public housing projects.

Cause: The Authority could not locate the requisite forms.

Recommendation: The Authority should enter into a depository agreement using the HUD-51999 agreement.

Corrective Action Plan (Prepared by Management): The Housing Authority has executed the Depository Agreement with its financial institution.

Name of Contact Person: Tony Taplin, Finance Manager, (510) 621-1320

Date of Completion: 3/27/13
SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

Finding SA2012-9: Submission of HUD 60002, Section 3 Summary Report, Economic Opportunities for the Public Housing Capital Fund Programs

Federal Agency: Department of Housing and Urban Development (HUD)

Program Affected: Public Housing Capital Fund (CFDA #14.872) and ARRA-Funded Public Housing Capital Fund Stimulus Recovery Act Funded (CFDA #14.885)

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 2011-12 for its Public Housing Capital Fund program grants.

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

Cause: The Authority did not submit the HUD 60002 form in the current fiscal year.

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): The Housing Authority Management Analyst will submit all outstanding HUD 60002 reports and will submit subsequent reports in a timely manner.

Name of Contact Person: Tony Taplin, Finance Manager, (510) 621-1320

Anticipated Date of Completion: 6/30/13

Finding SA2012-10: Housing Quality Standards Inspection Enforcements

Federal Agency: Department of Housing and Urban Development (HUD)

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

Criteria: The Authority must inspect a unit leased to a family at least annually to determine if the unit meets Housing Quality Standards (HQS) and the Authority must conduct quality control re-inspections as required by 24 CFR section 982.405. For units that fail to meet HQS, the Authority must require the owner to correct any life threatening HQS deficiencies with 24-48 hours of the inspection and all other HQS deficiencies within 30 calendar days of the inspection or within approved extensions. If the owner does not correct the cited HQS deficiencies within the specified correction period, the Authority must stop housing assistant payments (HAPs) beginning no later than the first of the month following the specified correction period or must terminate the HAP contract.

Condition: We selected forty failed inspections and verified whether the files documented the correction of the HQS deficiencies were repaired within the required timeframe. We also verified whether the Authority stopped HAPs because the owner did not correct the repairs.

We found that four of the failed inspections did not have proper documentation and an inspector was not available for re-inspection within the required timeframe.
SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

a. The original failed date of inspection occurred on 9/26/11 and a re-inspection was scheduled on 9/28/11. On behalf of the owner, the tenant contacted the Inspector on 9/27/11 and 9/28/11 to r.o avail and as a result the Authority stopped the housing assistant payments for two and half months. The inspector was not available to re-inspect the unit and therefore the Authority released the payments to the owner.

b. The original failed date of inspection occurred on 5/15/12 and a re-inspection appointment was scheduled on 6/11/12. Within the 30 day timeframe, the owner contacted the Assistant Housing Manager by phone stating the repairs were fixed, however, there was no documentation in the tenant file. In addition, their file included a statement in writing by the owner stating all repairs were fixed. However, since the inspector did not inspect the unit, the Authority stopped payments for July 2012 and August 2012. The Authority eventually released the payments to the owner.

c. The original failed date of inspection occurred on 7/20/11 and the re-inspection appointment was scheduled on 7/29/11. The Authority did not schedule the re-inspection within the next 24-48 hours.

d. The original failed date of inspection occurred on 11/29/11 and because the tenant did not show up, three subsequent appointments were made on 11/30/11, 12/14/11 and on 12/20/11, at which time the unit finally passed. The Authority should have sent a proposed termination letter to the tenant.

Effect: Without proper documentation in a tenant file and re-inspections not being completed within the required timeframe, HAPs will be stopped.

Cause: The lack of a proper review of all the required documents that are kept in a given file and insufficient resources for inspectors.

Recommendation: The Authority should implement procedures to ensure all documents are included in the tenant files as required by HUD. Additionally, the Authority should have procedures to ensure re-inspections are completed within the required timeframe.

Corrective Action Plan (Prepared by Management): The Housing Authority HQS inspections are completed by contracted professional service provider. The contract includes HUD required protocols and a comprehensive scope of work. If these procedures are not being adhered to, then appropriate action in regards to contract compliance will be taken.

Name of Contact Person: William Bounthon, Assisted Housing 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:

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 has indicated that future federal funding cuts are expected.

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

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

Financial Statement Prior Year Findings (Continued)

PRIOR YEAR MATERIAL WEAKNESSES (Continued):

Current Status: The Housing Authority is in process of selling component unit Westridge, to provide resources to settle outstanding indebtedness to City of Richmond. The estimated date of sale of Westridge, 8/22/13.

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.

Current Status: Implemented.

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).
SECTION IV - STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS — (Continued)

Financial Statement Prior Year Findings (Continued)

PRIOR YEAR MATERIAL WEAKNESSES (Continued):

Condition: For fiscal 2008/09, the Authority did not submit their unaudited Financial Data Schedule by the August 31, 2009 deadline or 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.

Current Status: Implemented.

PRIOR YEAR 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.

Current Status: See response to SA2012-2.
SECTION IV - STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS – (Continued)

Financial Statement Prior Year Findings (Continued)

PRIOR YEAR 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.

Current Status: See response to SA2012-3.

Federal Award Prior Year Findings and Questioned Costs

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

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

**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.

**Current Status:** See response to SA2012-6.

**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.

**Current Status:** Implemented.

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

Federal Award Prior Year Findings and Questioned Costs (Continued)

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.


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.

Current Status: See response to SA2012-8.
<table>
<thead>
<tr>
<th>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</th>
<th>Federal CFDA Number</th>
<th>Federal Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Department of Housing and Urban Development Direct Programs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Low Income Housing Program</td>
<td>14.850</td>
<td>$2,158,675</td>
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<tr>
<td>Demolition and Revitalization of Severely Distressed Public Housing (HOPE IV)</td>
<td>14.866</td>
<td>24,169</td>
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<tr>
<td>Section 8 Housing Choice Vouchers</td>
<td>14.871</td>
<td>19,264,900</td>
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<tr>
<td>Lead Based Paint Hazard Control in Privately Owned Housing</td>
<td>14.907</td>
<td>1,167,586</td>
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<tr>
<td>Subtotal Department of Housing and Urban Development Direct Programs</td>
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<td>22,615,330</td>
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<tr>
<td>Public Housing Capital Fund Cluster</td>
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<td></td>
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<tr>
<td>Department of Housing &amp; Urban Development Direct Programs</td>
<td></td>
<td></td>
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<tr>
<td>Public Housing Capital Fund</td>
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<td>1,159,826</td>
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<tr>
<td><strong>ARRA - Public Housing Capital Fund Stimulus (Formula) Recovery Act Funded</strong></td>
<td>14.885</td>
<td>83,801</td>
</tr>
<tr>
<td>Total Public Housing Capital Fund Cluster</td>
<td></td>
<td>1,243,627</td>
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<tr>
<td><strong>Total Expenditures of Federal Awards</strong></td>
<td></td>
<td>$23,858,957</td>
</tr>
</tbody>
</table>

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, 2012

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.
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, 2012, and have issued our report thereon dated March 19, 2013. The report included a special emphasis paragraph concerning the Authority's ability to continue as a going concern. 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 was not designed to 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency finding #SA2012-01 described in the accompanying Schedule of Findings and Questioned Costs to be a material weakness.

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 as #SA2012-02 through 04 to be significant deficiencies.
Compliance and Other Matters

As part of obtaining reasonable assurance about the whether 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. These are listed in Section II – Financial Statement Findings of the accompanying Schedule of Findings and Questioned Costs.

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.

March 19, 2013
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 the 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 Authority's major federal programs for the year ended June 30, 2012. 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.

As described in items SA2012-05 in the accompanying schedule of findings and questioned costs, the Authority did not comply with requirements regarding special test and provisions that are applicable to its Low Income Public Housing program. Compliance with such requirements is necessary, in our opinion, for the Authority to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, 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, 2012. The results of our auditing procedures also disclosed other 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 SA2012-06 through SA2012-10.
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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance 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 discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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 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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items SA2012-05 to be a material weakness.

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items SA2012-06 through SA2012-10 to be significant deficiencies.
Schedule of Expenditures of Federal Awards

We have audited the financial statements of the business-type activities and the discretely presented component unit of the Authority as of and for the year ended June 30, 2012, and have issued our report thereon dated March 19, 2013 which contained an unqualified opinion on those financial statements. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the Authority’s financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements 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.

March 19, 2013