

HOUSING AUTHORITY OF THE CITY OF RICHMOND

**SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2009**

HOUSING AUTHORITY OF THE CITY OF RICHMOND

**SINGLE AUDIT REPORT
For The Year Ended June 30, 2009**

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HOUSING AUTHORITY OF THE CITY OF RICHMOND

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2009**

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? Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes X 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:

<u>CFDA#(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>14.850</u>	<u>Low-Income Housing Program</u>
<u>14.866</u>	<u>Demolition and Revitalization of Severely Distressed Public Housing (HOPE VI)</u>
<u>14.871</u>	<u>Section 8 Housing Choice Vouchers</u>
<u>14.872,</u> <u>14.885</u>	<u>Public Housing Capital Fund Program, Public Housing Capital Fund Stimulus (Formula) Recovery Act Funded (Cluster)</u>

Dollar threshold used to distinguish between type A and type B programs: \$588,192

Auditee qualified as low-risk auditee? X Yes No

SECTION II – FINANCIAL STATEMENT FINDINGS

Our audit did not disclose material weaknesses or instances of noncompliance material to the basic financial statements. We have also issued a separate Memorandum on Internal Control dated December 17, 2009 which is an integral part of our audits and should be read in conjunction with this report.

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 09-01: 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, two 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 determine that required inspections have been completed and documented in the tenant files as required by the above regulations.

Corrective Action Plan:

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

The Authority agrees with this finding. The Authority will be more diligent in performing and documenting inspections with Housing Choice Vouchers participants.

Finding 09-02: 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 forty selections of Section 8 Housing Choice Vouchers tenant files, 2 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 files selected.

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.

Corrective Action Plan:

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

The Authority agrees with this finding. The Authority will be more diligent in performing re-examinations with Housing Choice Vouchers participants.

Finding 09-03: Income Examinations

Federal Agency: Department of Housing and Urban Development

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

Criteria: All tenant files should be maintained and updated at least annually, including third party verification forms, HQS inspections and tenant rates of rent owed to landlords.

Condition: Of the forty tenant files selected for tests of compliance with Section 8 compliance requirements, we noted 1 file had not been updated since November 2007. No documentation was included for HQS inspections & third party verification of income, as noted in findings 09-02 & 09-03 above. Additionally, the rent payments made to landlord could not be agreed to records in tenant file, to ensure payments are correct.

Effect: As was noted above for findings 2 & 3 above, the Authority is not in compliance with 24 CFR 982.516 and 24 CFR 5.212 & 5.230 respectively. Furthermore, the Authority could be paying the landlord an incorrect amount for rental payments, since no rate information was maintained in that tenant file.

Cause: Due to the increase of the workload on Authority personnel, there were not enough personnel allotted or available to ensure tenant files were maintained and updated with the most current information.

Recommendation: Either decrease the workload attributed to the personnel of the Authority so they have time to ensure tenant files are maintained and updated with the most current information; or hire more staff to share the increase of the workload to ensure tenant files are maintained and updated with the most current information for FY. Also, ensure staff is properly trained so they ensure work is completed and documented as required by the above regulations.

Corrective Action Plan:

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

The Authority agrees with this finding. The Authority will be more diligent in performing required procedures and documenting results.

Finding 09-04: FDS Data Schedule Submission and Compliance
Federal Agency: Department of Housing and Urban Development
Program Affected: All Programs

Criteria: In accordance with HUD's Uniform Financial Reporting Standards, a Housing Authority is required to submit its financial statements, prepared in accordance with GAAP, in the electronic format specified by HUD per 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 asset management model.

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 5 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 subsidy's based on the new project based reporting requirements without first setting up a system to budget and account for these funds.

Corrective Action Plan:

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

The Authority agrees with this finding. The Authority will be more diligent in the preparation of the financial data schedules (FDS) in the future. The fiscal year ending June 30, 2010 FDS was to be prepared using the fee-for-service based approach and separated by project. The conversion to this methodology has been challenging for the Authority.

Finding 09-05: Fee-For-Service Based Reporting

Federal Agency: Department of Housing and Urban Development

Program Affected: ALL

Criteria: Housing Authorities 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 charge 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.

Condition: The Authority has not converted to the Fee-For-Service approach as described in 24 CFR section 990.280 (d) by establishing the Fee-For-Service approach including the establishment of a central office cost center (COCC). Under this system the COCC will charge each project for services rendered such as accounting, maintenance, and management fees.

Effect: The Authority is not in compliance with HUD's fee-for-service approach as described in 24 CFR section 990.280 (d).

Cause: The Authority believed it was exempt from having to create a COCC and the fee-for-service approach.

Recommendation: The Authority should implement the fee-for-service approach and create a COCC.

Corrective Action Plan:

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

The Authority agrees with this finding. The Authority has begun the difficult process of converting to the fee-for-service based approach with a COCC.

Finding 09-06: Submission of HUD form 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 (14.885, 14.872), Hope VI (14.866)

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

Condition: The Authority did not submit HUD form 60002 for fiscal 2008/09 for its Capital Fund grants, Hope VI grant, or the Low-Income housing program grant.

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

Cause: Additional workloads associated with the implementation of several new HUD regulations have required staff time to be diverted away from performing other key compliance related procedures that Authority finance staff is supposed to be performing.

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

Corrective Action Plan:

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

The Authority agrees with this finding. The Authority will be more diligent in preparing and submitting HUD 60002.

Finding 09-07: Resident Council Funding Agreements
Federal Agency: Department of Housing and Urban Development
Program Affected: Low-Income Housing Program (CFDA #14.850)

Criteria: If an Authority is to recognize a resident council and begin funding Council activities then a written funding agreement must be put in place pursuant to 24 CFR section 964.150.

Condition: The Authority recognizes 3 resident councils which are duly elected. These councils are permitted to receive funding from the Authority at a rate of \$25 per unit. However, in order to receive this funding the Authority is to establish a written agreement. In fiscal 2008/09 the Authority did not establish a written agreement with the 3 resident councils and could not locate a past agreement..

Effect: The Authority is not in compliance with 24 CFR section 964.150.

Cause: The Authority believed it had a written agreement in place, but was unable to locate such an agreement.

Recommendation: The Authority should complete, authorize and use the drafted “Memorandum of Understanding between the respective Resident Councils and Richmond Housing” agreement in order to be compliant with HUD regulations regarding the funding of a resident council.

Corrective Action Plan:

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

The Authority agrees with this finding. The Authority will be more diligent in the creation and adoption of resident council funding agreements.

Finding 09-08: Equipment Records
Federal Agency: Department of Housing and Urban Development
Program Affected: Hope VI (CFDA #14.866)

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 of equipment acquired with HOPE VI Federal funds or documents to verify a physical inventory of such 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 (HOPE VI Federal grant).

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

Corrective Action Plan:

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

The Authority agrees with this finding. The Authority will be more diligent in maintaining the Authority's equipment records

Finding 09-09: Procurement Non-Compliance

Federal Agency: Department of Housing and Urban Development

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

Program Affected: 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*.

Corrective Action Plan:

Name of contact person: Tony Taplin, Finance Manager, (510) 621-1320

The Authority is reviewing the findings and has hired a consultant to assist in preparing an appropriate response

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

Financial Statement Prior Year Findings

2008-01: Journal Entry Process

Currently, three Finance employees prepare and post all journal entries to the Authority's G/L. The Accounting Manager reviews journal entries, but no one reviews his entries. We suggest that each journal entry be reviewed by another employee and this review should be documented on the face of each journal entry. This segregation of duties would limit the inherent risk of misstatement due to one employee being able to edit the G/L without anybody else knowing.

Current Status: Although we concur with this observation, the implementation of the Journal Entry Review process will not be implemented until fiscal year 2009-2010.

Federal Award Prior Year Findings and Questioned Costs

Finding 08-01: Utility Allowance

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

According to the regulations in 24 CFR section 982.517 and the Administration Plan, Chapter 16, part II-C, the Authority must review the Utility Allowance Schedule annually and must adjust it if there has been a rate change of 10% or more for a utility category or fuel type since the prior utility allowance schedule was revised. We reviewed the Authority's Utility Allowance Schedule and noted that it had not been revised since July 1, 2001. Utility rates have fluctuated dramatically since then and it is likely that adjustments should be made. This issue was noted in our prior year Finding 07-03.

We are aware that the Authority has completed a Utility Allowance Survey and Study, but has not adopted the new utility schedule. We suggest the Authority adopt the new utility schedule as soon as possible to comply with regulations.

Current Status: The Housing Authority adopted the new Utility Allowance Schedule in April 2009.

Finding 08-02: Reasonable Rent Certification

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

Per 24 CFR sections 982.4, 982.54(d)(15), 982.158(f)(7), and 982.507, the Authority must document that rents paid to owners are reasonable. Twenty-three of the forty selected samples did not have documentation proving reasonable rent. The Authority should ensure that all tenant files include documentation of reasonable rent.

Current Status: The Assisted Housing Manager reviews all files to ensure that rent reasonableness certifications are properly completed and maintained in tenant files.

Finding 08-03: Annual Reexamination

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

Per 24 CFR section 982.516, the Authority must reexamine family income and composition annually and adjust the tenant rent and housing assistance payment as necessary using third party verification of income. Of the forty files selected for testing, one did not have third party verification of income. The Authority should ensure that annual reexaminations are completely documented for all tenants.

Current Status: Tenant files are periodically reviewed by the Assisted Housing Manager to ensure that annual reexaminations are appropriately completed and documented.

Finding 08-04: Annual Housing Quality Standards Inspection

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

According to the regulations in 24 CFR sections 982.158(d) and 982.404(b), the Authority must inspect units at least annually to determine if they meet Housing Quality Standards (HQS) and if necessary, re-inspections must be performed. We selected forty tenant files for compliance testing and noted three did not have annual inspections completed in the fiscal year 2008. The Authority should ensure that annual inspections are conducted and documented for all units. This issue was noted in our prior year Finding 07-01.

Current Status: File maintenance protocols were implemented to ensure that Annual HQS inspections are performed and completed in a timely manner.

Finding 08-05: Physical Control of Tenant Files

Currently the Tenant Files are not stored in a secure location. These files contain the tenant's name, address social security number and bank statements. This sensitive information should be stored in a way to limit access and risk to the tenants.

Current Status: The Housing Authority has a designated an area within the administration building where all tenant files are keep in a secure and lock office for the Housing Choice Voucher program tenant files.

RICHMOND HOUSING AUTHORITY

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2009**

<u>Grantor Agency and Award Title</u>	<u>Federal Catalog Number</u>	<u>Program Expenditures</u>
Department of Housing & Urban Development		
Low-Income Housing Program	14.850	<u>\$1,677,412</u>
Demolition and Revitalization of Severely Distressed Public Housing (HOPE VI)	14.866	<u>796,777</u>
Section 8 Housing Choice Vouchers	14.871	<u>15,966,505</u>
Lead Based Paint Hazard Control in Privately Owned Housing	14.900	<u>155,150</u>
Public Housing Capital Fund Cluster:		
Public Housing Capital Fund Stimulus (Formula) Recovery Act Funded	14.885	423,269
Public Housing Capital Fund Program	14.872	<u>587,284</u>
Cluster Subtotal		<u>1,010,553</u>
Total Expenditures of Federal Awards		<u><u>\$19,606,397</u></u>

See Accompanying Notes to Schedule of Expenditures of Federal Awards

HOUSING AUTHORITY OF THE CITY OF RICHMOND

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Year Ended June 30, 2009

NOTE 1-REPORTING ENTITY

The Schedule of Expenditure of Federal Awards (the Schedule) includes expenditures of federal awards for the Housing Authority of The City of Richmond, 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, however all of the Authority's funding in fiscal 2008/09 was direct funding.

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**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 Authority as of and for the year ended June 30, 2009, and have issued our report thereon dated December 17, 2009. 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

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.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

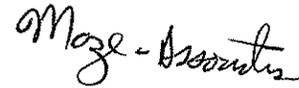
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Authority 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We have also issued a separate Memorandum on Internal Control dated December 17, 2009 which is an integral part of our audits and should be read in conjunction with this report.

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 cursive script that reads "Mage-Associates".

December 17, 2009

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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

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

Compliance

We have audited the compliance of the Authority with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. The Authority's major federal programs are identified in Section I - Summary of Auditor's Results included in 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 the 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, *Audits of States, Local Governments, and Non-Profit Organizations*. 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 on the Authority's compliance with those requirements.

In our opinion, the Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009, except as described in findings 09-04, 09-05 and 09-09. 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 Section III – Federal Award Findings and Questioned Costs included in the accompanying Schedule of Findings and Questioned Costs.

Internal Control over Compliance

The management of the Authority is responsible for establishing and maintaining effective internal controls 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 in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 Authority's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the Authority's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A *control deficiency* in the Authority's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Authority's internal control. We consider certain deficiencies to be significant deficiencies in internal control over compliance. These are listed as items 09-01 through 09-09 in Section III – Federal Award Findings and Questioned Costs included in the accompanying Schedule of Findings and Questioned Costs

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Authority's internal control. We consider the deficiencies 09-04, 09-05 and 09-09 described in the accompanying schedule of findings and questioned costs to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the Authority as of and for the year ended June 30, 2009, and have issued our report thereon dated December 17, 2009. Our audit was performed for the purpose of forming opinions on the financial statements. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the 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 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. Assante". The signature is written in a cursive style with a large initial "M".

March 26, 2010 (except for finding 09-09, which is as of July 26, 2010)