

RICHMOND HOUSING AUTHORITY

**SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2010**

 **MAZE &
ASSOCIATES**

ACCOUNTANCY CORPORATION

FOR THE YEAR ENDED JUNE 30, 2018
SINGLE AUDIT RETURN
RICHARD B. ROBERTS ATTORNEY

MAZE &
ASSOCIATES

RICHMOND HOUSING AUTHORITY
SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2010

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For The Year Ended June 30, 2010**

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.....	13
Schedule of Expenditures of Federal Awards.....	19
Notes to Schedule of Expenditures of Federal Awards.....	21
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>	23
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133	25

RICHMOND HOUSING AUTHORITY

SINGLE AUDIT REPORT
For The Year Ended June 30, 2010

TABLE OF CONTENTS

Page

1	Schedule of Findings and Questioned Costs
1	Section I - Summary of Auditor's Results
2	Section II - Financial Statement Findings
7	Section III - Federal Award Findings and Questioned Costs
13	Section IV - Status of Prior Year Findings and Questioned Costs
19	Schedule of Expenditures of Federal Awards
21	Notes to Schedule of Expenditures of Federal Awards
22	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
23	Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

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RICHMOND HOUSING AUTHORITY

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2010**

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:

<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>14.872, 14.885</u>	<u>ARRA - 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: \$718,640

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.

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.

Management Responses: The Housing Authority agrees with this finding, and as of February 2011, the Housing Authority has converted to the Fee for Service approach.

MATERIAL WEAKNESSES:

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 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 which is needed to complete these schedules. The Authority has not completed the Schedules for fiscal 2009-10 either.

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 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.

Management Responses: The Housing Authority agrees with this finding and in conjunction with finding 2010-1, has converted its accounting system to comply with HUD's Uniform Financial Reporting Standards 24 CFR Section 5.801.

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 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. On June 29, 2010, prior to the completion of the Single Audit Report, HUD issued a follow up report due to non-responsiveness by staff.

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*.

Management Responses: The Housing Authority agrees with this finding and as of February 2011, the Housing Authority completed a comprehensive HUD procurement training with key Housing Authority staff responsible for procuring goods and services. In addition to the HUD training, the Housing Authority has hired a contract administrator to coordinate and monitor contracts for all programs.

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.

Management Responses: The Housing Authority will exercise better diligence in the planning and execution for the Year End Closing Process.

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.

Management Response: Currently undeposited rent remittances are kept in a safe located in the administrative office.

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.

Management Responses: The Housing Authority will implement a procedure where as a responsible finance staff member will review and approved the end of the day report.

SIGNIFICANT DEFICIENCIES:

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.

Management Response: Due to insufficient staffing and division of labor protocols, this will be an issue until the Housing Authority addresses its staffing needs.

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 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), ARRA - 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.

Corrective Action Plan: The Housing Authority agrees with finding and has implemented procedures to ensure that HUD 60002 report is submitted in timely manner.

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

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.

Corrective Action Plan: The Housing Authority will be converting to new accounting software to implement Project Based Budgeting starting in fiscal year 2010-2011.

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

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.

Corrective Action Plan: The Housing Authority will revise payroll operating procedures to current practices.

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

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.

Corrective Action Plan: The Housing Authority is not sure if this is a necessary procedure and we're not in agreement with this finding.

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

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.

Corrective Action Plan: Currently the Housing Authority tracks all equipment purchase with federal funds in relationship to its capitalization policy.

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

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.

Corrective Action Plan: The Housing Authority's HQS inspections are conducted by a private professional service provider. The company is responsible for completing all HQS inspections. This was a new contract executed over the prior fiscal year. We'll review the 3 files that did not have documentation for passing HQS inspection to determine if this was an oversight in filing the documentation or missed inspections.

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

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.

Corrective Action Plan: This is not a program wide systemic problem, but rather a caseload specific issue. We'll review the performance of the caseworker responsible for the file with the missing annual re-examination, and work with them directly to improve not only their performance but the performance of all caseworkers with technical assistance.

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

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 non 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: The Authority is reviewing the findings and has hired a consultant to assist in preparing an appropriate response. In addition, the Housing Authority has completed a comprehensive HUD procurement training with key Housing Authority staff responsible for procuring goods and services.

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

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 endure that the administrative fees are correctly computed from post 2003 and pre 2004 for the Section 8 Housing Choice Vouchers program.

Corrective Action Plan: The Housing Authority is currently working with a consultant to calculate the administrative fees Post 2003 and Pre 2004 for the Housing Choice Voucher Program.

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

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

Financial Statement Prior Year Findings

There were no prior year Financial Statement Findings reported.

Federal Award Prior Year Findings and Questioned Costs

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.

Current Status: See Finding 10-06 above.

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.

Current Status: See Finding 10-07 above.

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 1 & 2 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.

Current Status: The Authority has ensured that income examinations are being performed when required and documentation is being maintained per our testing of tenant files.

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

Current Status: The Authority has hired a consultant to complete and submit the FDS report for fiscal year 2009-10.

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.

Current Status: The Authority has hired a consultant to implement the fee-for-service approach and create 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.

Current Status: See Finding 10-01 above.

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: The Authority has established written agreements with its resident councils and appears to be in compliance.

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.

Current Status: See Finding 10-05 above.

Finding 09-09: 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: See Finding 10-08 above.

RICHMOND HOUSING AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2010

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
Department of Housing and Urban Development Direct Programs		
Low Income Housing Program	14.850	\$2,283,955
Demolition and Revitalization of Severely Distressed Public Housing (HOPE IV)	14.866	673,268
Section 8 Housing Choice Voucher	14.871	18,611,637
Lead Based Paint Hazard Control in Privately Owned Housing	14.900	<u>654,375</u>
Subtotal Department of Housing and Urban Development Direct Programs		<u>22,223,235</u>
Public Housing Capital Fund Cluster		
Department of Housing & Urban Development Direct Programs		
Public Housing Capital Fund Stimulus (Formula) Recovery Act Funded	14.872	765,185
ARRA - Program Expenditures	14.872	<u>966,256</u>
Total Public Housing Capital Fund Cluster		<u>1,731,441</u>
		<u>\$23,954,676</u>
Total Expenditures of Federal Awards		

See Accompanying Notes to Schedule of Expenditures of Federal Awards

BIRMINGHAM HOUSING AUTHORITY
 SCHEMATIC OF EXPENDITURES OF FEDERAL AWARDS
 For the Fiscal Year Ended June 30, 2010

Federal Expenditures	Federal CDA Number	Federal Expenditures - Program or Class Title
21,383,022	14 830	Department of Housing and Urban Development: Direct Programs
4,222,022	14 830	Low Income Housing Program
18,211,022	14 831	Construction and Rehabilitation of Severely Distressed Public Housing (SDPH) (A)
4,222,022	14 830	Section 8 Housing Choice Voucher
		Local Based Public Housing Control in Private-Owned Housing
10,151,222		Federal Department of Housing and Urban Development: Other Programs
784,155	14 832	Public Housing Capital Fund Grants
300,000	14 833	Department of Housing & Urban Development: Other Programs
		Public Housing Capital Fund Grants (Annual Recovery Act/Revised
		AFSA - Program Revenues
1,151,411		Total Public Housing Capital Fund Grants
22,534,433		Total Expenditures of Federal Awards

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See Accompanying Notes to Schedules of Expenditures of Federal Awards

RICHMOND HOUSING AUTHORITY

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended June 30, 2010**

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.

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**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 as of and for the year ended June 30, 2010, and have issued our report thereon dated December 7, 2010. 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. However as discussed below, 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 2010-1 through 2010-4.

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 have identified certain deficiencies we consider to be significant deficiencies in internal control over financial reporting. These are listed as items 2010-5 through 2010-7.

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*. These are listed as findings 2010-1 to 2010-3 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.

Mage Associates

December 7, 2010

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**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
Housing Authority of the City of Richmond
Richmond, California

Compliance

We have audited the compliance of the Richmond Housing 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, 2010. 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.

As described in item 10-08 in the accompanying Schedule of Findings and Questioned Costs, the Authority did not comply with requirements regarding procurement procedures that are applicable to OMB Circular A - 87. Compliance with such requirements is necessary, in our opinion, for the Authority to comply with the requirements applicable to those programs.

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, 2010. 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 10-01, 10-03 and 10-07.

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 a certain deficiency in internal control over compliance that we consider to be a material weakness 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 item 10-08 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 10-02, 10-04 to 10-06 and 10-09.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the Authority as of and for the year ended June 30, 2010, and have issued our report thereon dated December 7, 2010. 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.

Mage Smith

August 5, 2011

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 local governing agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

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August 2011

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