

**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**

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

We have audited the financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of the Housing Authority of the City of Richmond of and for the year ended June 30, 2005, which collectively comprise the Housing Authority of the City of Richmond's basic financial statements, and have issued our report thereon dated March 6, 2006. We conducted our audit in accordance with auditing standards generally accepted 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 Housing Authority of the City of Richmond's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and other Matters

As part of obtaining reasonable assurance about whether Housing Authority of the City of Richmond'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 that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 05-1 to 05-10.

We also noted certain other matters that we reported to management of the Housing Authority of the City of Richmond in a separate letter dated March 6, 2006.

This report is intended solely for the information and use of the Board of Commissioners, management, the U.S. Department of Housing and Urban Development, and other 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.

*Palmieri Associates*  
Oakland, California  
March 6, 2006

**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**

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

Compliance

We have audited the compliance of Housing Authority of the City of Richmond with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. Housing Authority of the City of Richmond'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 Housing Authority of the City of Richmond's management. Our responsibility is to express an opinion on Housing Authority of the City of Richmond'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 Housing Authority of the City of Richmond'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 Housing Authority of the City of Richmond's compliance with those requirements.

In our opinion, Housing Authority of the City of Richmond 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, 2005. However, the results of our auditing procedures disclosed instances of non compliance 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 responses as items 05-1 to 05-10

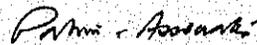
### Internal Control Over Compliance

The management of Housing Authority of the City of Richmond 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 Housing Authority of the City of Richmond's internal control over compliance with 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 and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Housing Authority of the City of Richmond's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 05-01 to 05-10.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

This report is intended solely for the information of the Board of Commissioners, management, the U.S. Department of Housing and Urban Development, and other 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.

  
Oakland, California  
March 6, 2006

**HOUSING AUTHORITY OF THE CITY OF RICHMOND  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2005**

**SECTION 1 - SUMMARY OF AUDITOR'S RESULTS**

*Financial Statements*

Type of auditor's report issued:	<i>Unqualified</i>
Internal control over financial reporting:	
• Material weaknesses identified?	No
• Reportable conditions identified that are not considered to be material weaknesses?	No
Noncompliance material to financial statements noted?	No

*Federal Awards*

Internal control over major programs:	
• Material weaknesses identified?	No
• Reportable conditions identified that are not considered to be material weaknesses?	Yes
Type of auditor's report issued on compliance for major programs:	<i>Unqualified</i>
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	Yes

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
14.850	Low Rent Public Housing
14.871	Housing Choice Vouchers

Dollar threshold used to distinguish between type A and type B programs:	\$981,224
Auditee qualified as low-risk auditee?	Yes

**HOUSING AUTHORITY OF THE CITY OF RICHMOND  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2005**

**SECTION II - FINANCIAL STATEMENT FINDINGS**

No matters were reported

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

**14.871 HOUSING CHOICE VOUCHERS**

**Eligibility:**

**Finding 05-1**

***Criteria or specific requirement:***

The program requires that, as a condition of admission or continued occupancy, the tenant and other family members provide necessary information, documentation, and releases for the Housing Authority to verify income eligibility.

***Condition:***

During our test of the Housing Choice Vouchers Program, we noted that required personal documentation was not properly filed for 3 tenant files out of the 40 that were reviewed.

***Questioned Costs:***

We are unable to determine the questioned cost.

***Effect:***

The lack of personal documentation may affect the determination of tenant eligibility and the lack of a standardized file format may have an impact on continued case management. In addition, this may have an impact on the review and quality control process.

***Cause:***

Case workers seemed to have overlooked details of the documentation provided by the tenants. Proper review of tenant files may not have been adequate. The quality control process does not appear to be working effectively.

***Recommendation:***

We recommend that the Authority enhance and strengthen its quality control procedures to ensure that required documentation is accurate and properly filed and that all tenant files are maintained in a standard format.

***Views of responsible officials and planned corrective actions:***

We concur with this finding. Quality Control is being enhanced to cover these issues. This effort will commence immediately and will be completed by the end of FY 2006/2007. Mr. William Bounthon will be the responsible person.

**Finding 05-2**

***Criteria or specific requirement***

The program requires that the Authority determine income eligibility and calculate the tenant rent payments using third party verification.

***Condition:***

During our test of the Housing Choice Vouchers Program, we noted that income was not calculated properly for 6 tenant files out of the 40 that were reviewed.

***Questioned Costs:***

We are unable to determine the questioned cost.

***Effect:***

Improper calculation of income affects the calculation of tenant rent. The tenant rent is used in the calculation of the Housing Assistance Payment (HAP) made to the landlord of the unit, which affects how much HAP expense is incurred by the Authority. The Authority uses the total HAP expense in requesting monies from HUD for administering the program.

***Cause:***

Case workers seem to have used partial information provided by tenants and third party verification. Proper review of the tenant files may not have been adequate.

***Recommendation:***

We recommend that the Authority enhance and strengthen quality control procedures to ensure that all program compliance requirements are met and the Authority staff understands the program requirements.

***Views of responsible officials and planned corrective actions:***

We agree with this finding and effective immediately we will enhance our quality control efforts to cover these areas. This effort will commence immediately, and will be completed by the end of FY 2006/2007. Mr. William Bounthon will be the responsible person.

**Finding 05-3**

***Criteria or specific requirement:***

The Authority is required to keep updated tenant information in tenant files as annual reexaminations are conducted, and keep tenant files in a safe, fixed location for efficient and effective review purposes.

***Condition:***

During our test of the Housing Choice Vouchers Program, we could not locate 1 tenant file of the 40 reviewed.

***Questioned Costs:***

We are unable to determine the questioned cost.

***Effect:***

Inability to locate relevant information or files affects the efficiency and effectiveness of review procedures.

***Cause:***

Staff may not be diligent and attentive in maintaining and safeguarding tenant records.

***Recommendation:***

We recommend that the Authority improve its annual reexamination process and ensure that all current tenant information is in the tenant files. Tenant files should be safeguarded and returned to the same location after use.

***Views of responsible officials and planned corrective actions:***

We do not agree with this finding. Several factors could have contributed to the file being temporarily unavailable. The fact that one file out of 40 could not be located does not substantiate that staff may not be diligent and attentive in maintaining and safeguarding records. In fact this test indicates that in over 97% of those files tested staff is attentive in maintaining and safeguarding files. We will ascertain the reason why this one file could not be located.

**Special Tests and Provisions:**

**Finding 05-4**

***Criteria or specific requirement:***

The Authority must maintain an up-to-date utility allowance schedule. The Authority must review utility rate data for each utility category each year and must adjust its utility allowance schedule if there has been a rate change of 10 percent or more for a utility category or fuel type since the last time the utility allowance schedule was updated.

***Condition:***

During our test of the Housing Choice Vouchers Program, we noted that a utility allowance schedule was not in the tenant file or utility allowances were not calculated properly for 4 tenant files out of the 40 files reviewed.

***Questioned Costs:***

We are unable to determine the questioned cost.

***Effect:***

Lack of compliance with the filing of utility allowance schedules detailing each allowance type that is paid by the tenant and landlord may lead to inaccurate allowances for tenants. Improper calculation of utility allowance affects tenant rent payment.

***Cause:***

Case workers did not follow Authority administrative plans in regards to the documentation of utility allowance.

***Recommendation:***

We recommend that the Authority enhance and strengthen quality control procedures to ensure that all program compliance requirements are met.

***Views of responsible officials and planned corrective actions:***

We agree with this finding and are in the process of conducting an energy audit to include updating our utility allowances and enhancing our filing protocols. This effort will be concluded by fiscal year end. Mr. William Bounthon is the responsible person.

**Finding 05-5**

***Criteria or specific requirement:***

The Authority must inspect the unit leased to a family annually to determine if the unit meets Housing Quality Standards (HQS) and the Authority must conduct quality control reinspections.

***Condition:***

During our test of the Housing Choice Vouchers Program, we noted that either an annual inspection form was not filed or quality control reinspection was not conducted for 2 tenant files out of the 40 files reviewed.

***Questioned Costs:***

We are unable to determine the questioned cost.

***Effect:***

Lack of compliance with the annual inspection requirements leads to inability to determine whether or not the unit meets Housing Quality Standards, which in turn will affect tenants' living quality.

***Cause:***

Inspection specialists did not follow Authority administrative plans in regards to annual inspection requirements.

***Recommendation:***

We recommend that the Authority enhance and strengthen quality control procedures to ensure that all program compliance requirements are met.

***Views of responsible officials and planned corrective actions:***

We do not agree with this finding. Several factors could have prevented the 2 out of 40 inspections from not being in the file. The fact that 2 out of 40 files did not contain the annual inspection form or a quality control reinspection was not conducted does not substantiate that program compliance is not being met. In fact this test indicates that in 95% of the files tested program compliance has been met. We will ascertain the reasons as to why 2 out of 40 files did not contain an annual inspection form or the verification that a quality control inspection was conducted.

## 14.850 LOW RENT PUBLIC HOUSING

### Eligibility:

#### Finding 05-6

##### ***Criteria or specific requirement:***

The program requires that, as a condition of admission or continued occupancy, the tenant and other family members provide necessary information, documentation, and releases for the Authority to verify income eligibility.

##### ***Condition:***

During our test of the Low Rent Public Housing Program, we noted that required personal documentation was not properly filed for 4 tenant files out of the 40 that were reviewed.

##### ***Questioned Costs:***

We are unable to determine the questioned cost.

##### ***Effect:***

The lack of personal documentation may affect the determination of tenant eligibility and the lack of a standardized file format may have an impact on continued case management. In addition, this may have an impact on the review and quality control process.

##### ***Cause:***

Case workers seemed to have overlooked details of the documentation provided by tenants. Proper review of tenant files may not have been adequate. The quality control process does not appear to be working effectively.

##### ***Recommendation:***

We recommend that the Authority enhance and strengthen its quality control procedures to ensure that required documentation is accurate and properly filed.

##### ***Views of responsible officials and planned corrective actions:***

We agree with this finding and will standardize case file set-up and establish a more secure file maintenance protocol. This follow-up action will commence at the beginning of FY 2006/2007 and will be concluded by fiscal year end. Mr. Donnie Bell will be the responsible person.

#### Finding 05-7

##### ***Criteria or specific requirement:***

The program requires that the Authority obtain and document in the family file third party verification of reported family annual income.

##### ***Condition:***

During our test of the Low Rent Public Housing Program, we noted that third party verification of family annual income was not sufficient for 3 tenant files out of the 40 that were reviewed.

##### ***Questioned Costs:***

We are unable to determine the questioned cost.

***Effect:***

Insufficiency of supporting documentation for income affects the accuracy of income calculation, which in turn affects the calculation of tenant rent.

***Cause:***

Case workers do not seem to have followed the Authority's policies and procedures properly. Proper review of tenant files may not have been adequate.

***Recommendation:***

We recommend that the Authority enhance and strengthen quality control procedures to ensure that all program compliance requirements are met.

***Views of responsible officials and planned corrective actions:***

We agree with this finding and will strengthen quality control procedures to ensure program compliance. This effort will begin immediately and will be concluded by the end of FY 2006/2007. Mr. Donnie Bell will be the responsible person.

**Special Tests and Provisions:**

***Finding 05-8***

***Criteria or specific requirement:***

The program requires that the Authority carry out an annual UPCS inspection on a tenant's unit.

***Condition:***

During our test of the Low Rent Housing Program, we noted that an annual UPCS inspection was not carried out for 3 tenant files out of the 40 that were reviewed.

***Questioned Costs:***

We are unable to determine the questioned cost.

***Effect:***

Lack of inspection of dwelling units using the Uniform Physical Condition Standards (UPCS) may affect the Federal Investments in their properties and the requirement of providing safe and decent housing.

***Cause:***

There seems to be a backlog in the Maintenance Department, which is responsible for carrying out the UPCS inspection.

***Recommendation:***

We recommend that the Authority enhance and strengthen inspection procedures to ensure that all program compliance requirements are met.

***Views of responsible officials and planned corrective actions:***

We agree with this finding and will strengthen inspection procedures. This will begin immediately and will be ongoing throughout the rest of this fiscal year and through the next. Mr. Ramon Tan-Torres will be the responsible person.

**Finding 05-9**

***Criteria or specific requirement:***

The program requires that the Authority carry out periodic redetermination of eligibility.

***Condition:***

During our test of the Low Rent Housing Program, we noted that recertification was not carried out for 1 tenant file out of the 40 that were reviewed.

***Questioned Costs:***

We are unable to determine the questioned cost.

***Effect:***

Lack of redetermination of eligibility may affect the tenant rent payment and how much the Authority will receive from HUD for the program.

***Cause:***

Case workers seemed to be too busy to have each tenant recertified once a year.

***Recommendation:***

We recommend that the Authority enhance and strengthen quality control procedures to ensure that all program compliance requirements are met.

***Views of responsible officials and planned corrective actions:***

Several factors could have prevented or delayed the 1 file from being completed. We do not agree with this finding. The fact that the recertification was not completed in 1 file out of 40 does not substantiate that case workers are too busy to have each tenant recertified. In fact in over 97% of the files tested, they were not too busy to complete the annual recertification. We will ascertain the reason as to why this one file was not recertified.

**Finding 05-10**

***Criteria or specific requirement:***

The program requires that the Authority screen an applicant's background as a condition of admission of the tenant to the program.

***Condition:***

During our test of the Low Rent Housing Program, we noted that required background check was not carried out for 3 tenant files out of the 40 that were reviewed.

***Questioned Costs:***

We are unable to determine the questioned cost.

***Effect:***

The lack of a background check may affect the determination of tenant eligibility. In addition, this may have an impact on the review and quality control process.

***Cause:***

Case workers seemed to have overlooked the necessity of a background check. Proper screening of tenants may not be adequate.

***Recommendation:***

We recommend that the Authority enhance and strengthen its quality control procedures to ensure that tenants are screened before admission.

***Views of responsible officials and planned corrective actions:***

We do not agree with this finding. Background checks are conducted on all tenants before admission, as indicated in 92% of the files tested. We will verify that staff is adequately documenting the background checks in each file. However, we do not agree that this test substantiates the finding that case workers have overlooked the necessity of the background checks, or that proper screening of tenants may not be adequate as it has proven to be in 92% of the files tested. We will ascertain in these 3 instances why the background checks could not be verified.

**HOUSING AUTHORITY OF THE CITY OF RICHMOND  
STATUS OF PRIOR YEAR FINDINGS  
AND RECOMMENDATIONS  
FOR THE YEAR ENDED JUNE 30, 2005**

**Findings:**

**Current Status:**

**14.871 SECTION 8 HOUSING CHOICE VOUCHER**

**Finding 04-1**

During our test of the Housing Choice Voucher Program, we noted that required personnel documentation was not properly filed for 12 tenant files out of the 40 that were reviewed. We also noted that tenant files are not organized in a standardized format.

Partially Implemented  
See Finding 05-1

**Finding 04-2**

During our test of the Section 8 Housing Choice Vouchers Program, we noted that third party verifications of family annual income was not sufficient, and that the value of assets were not properly stated on Form HUD-50058 for 5 tenant files out of the 40 that were reviewed.

Implemented

**Finding 04-3**

During our test of the Housing Choice Vouchers Program, we noted that third party verification of full-time student status were not sufficient for 2 tenant files out of the 40 that were reviewed.

Implemented

**Finding 04-4**

During our test of the Housing Choice Vouchers Program, we noted that income was not calculated properly for 6 tenant files out of the 40 that were reviewed.

Not Implemented  
See Finding 05-2

**Finding 04-5**

During our test of the Housing Choice Vouchers Program, we noted that annual reexamination recertification was not performed within the required time period for 4 tenant files out of the 40 that were reviewed.

Implemented

**Finding 04-6**

During our test of the Housing Choice Vouchers Program, we could not locate 1 tenant file of the 40 reviewed.

Not Implemented  
See finding 05-3

**Finding 04-7**

During our test of the Housing Choice Vouchers Program, we noted that rent reasonableness certification forms were not properly completed for 20 tenant files out of the 40 that were reviewed.

Implemented

**Finding 04-8**

During our test of the Housing Choice Vouchers Program, we noted that either Request for Tenancy Approval Forms were not in the tenant file or utility allowances were not calculated properly for 6 tenant files out of the 40 files reviewed.

Not Implemented  
See Finding 05-4

**Finding 04-9**

During our test of the Housing Choice Vouchers Program, we noted that either annual inspections or quality control reinspections were not conducted for 2 tenant files out of the 40 files reviewed.

See Finding 05-5

**Finding 04-10**

During our test of the Housing Choice Vouchers Program, we noted that HAP amount per HAP register does not match HAP amount for line 12u of Form HUD-50058 for 1 tenant file out of the 40 files reviewed and that HAP amount is incorrect or can not be determined for 1 tenant file out of the 40 files reviewed.

Implemented

**14.850 LOW RENT PUBLIC HOUSING**

**Finding 04-11**

During our test of the Low Rent Public Housing Program, we noted that required personal documentation was not properly filed for 9 tenant files out of the 20 that were reviewed. We also noted that tenant files were not organized in a standardized format.

See Finding 05-6

**Finding 04-12**

During our test of the Low Rent Public Housing Program, we noted that third party verification of family annual income was not sufficient for 2 tenant files out of the 20 that were reviewed, and that the value of assets was not properly stated on Form HUD-50058 for 3 tenant files out of the 20 reviewed.

Partially Implemented  
See Finding 05-7

**Finding 04-13**

During our test of the Low Rent Public Housing Program, we noted that third party verification of childcare expense deducted from the annual income as not sufficient for 1 tenant file out of the 20 that were reviewed.

Implemented

**Finding 04-14**

During our test of the Low Rent Public Housing Program, we noted that income was not calculated properly for 4 tenant files out of the 20 that were reviewed.

Implemented

**14.872 PUBLIC HOUSING CAPITAL FUND  
Davis-Bacon Act**

**Finding 04-15**

During our test of the Public Housing Capital Fund Program, we were not provided necessary construction contracts in order to test the above stated compliance requirement.

Implemented