
HOUSING AUTHORITY OF THE CITY OF RICHMOND

SINGLE AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2014

Patel &
Associates, LLP
Certified Public Accountants

**HOUSING AUTHORITY OF THE CITY OF RICHMOND
SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2014**

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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**

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

We have audited, in accordance with the 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, the financial statements of the business-type activities and the discretely presented component unit of Housing Authority of the City of Richmond as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Housing Authority of the City of Richmond's basic financial statements, and have issued our report thereon dated December 23, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Housing Authority of the City of Richmond's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Housing Authority of the City of Richmond's internal control. Accordingly, we do not express an opinion on the effectiveness of Housing Authority of the City of Richmond's internal control.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of Housing Authority of the City of Richmond's financial statements will not be prevented, or detected and corrected on a timely basis. *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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs Findings 2014-001 and 2014-002 that we consider to be significant deficiencies.

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 or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2014-003 to 2014-005.

Housing Authority of the City of Richmond's Response to Findings

Housing Authority of the City of Richmond's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Housing Authority of the City of Richmond's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Housing Authority of the City of Richmond's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Palmieri & Associates, LLP
Oakland, California
December 23, 2014

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER
COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133**

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

Report on Compliance for Each Major Federal Program

We have audited Housing Authority of the City of Richmond's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Housing Authority of the City of Richmond's major federal programs for the year ended June 30, 2014. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Housing Authority of the City of Richmond's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of Housing Authority of the City of Richmond's compliance.

Opinion on Each Major Federal Program

In our opinion, Housing Authority of the City of Richmond, complied, in all material respects, with the types of 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, 2014.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, 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 2014-003 and 2014-004. Our opinion on each major federal program is not modified with respect to these matters.

Housing Authority of the City of Richmond's response to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Housing Authority of the City of Richmond's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of Housing Authority of the City of Richmond is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Housing Authority of the City of Richmond's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 Housing Authority of the City of Richmond's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance as described in the accompanying schedule of findings and questioned costs as items 2014-003 and 2014-004 that we consider to be significant deficiencies.

Housing Authority of the City of Richmond's response to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Housing Authority of the City of Richmond's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB circular A-133

We have audited the financial statements of Housing Authority of the City of Richmond as of and for the year ended June 30, 2014, and have issued our report thereon dated December 23, 2014, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Patricia A. [Signature]
Oakland, California
December 23, 2014

**HOUSING AUTHORITY OF THE CITY OF RICHMOND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2014**

Federal Grantor/ Pass-Through Grantor Program or Cluster Title	Federal CFDA Number	Program Expenditures
<u>Department of Housing and Urban Development</u>		
Direct Programs:		
Low Income Housing Program	14.850	\$ 2,107,814
Public Housing Capital Fund	14.872	618,670
Section 8 Housing Choice Vouchers	14.871	18,717,609
Lead Based Paint Hazard Control in Privately Owned Housing	14.907	<u>1,127,978</u>
Total Department of Housing and Urban Development		<u>22,572,071</u>
Total Expenditures of Federal Awards		<u>\$ 22,572,071</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, 2014

Note 1: Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the Housing Authority of the City of Richmond under programs of the federal government for the year ended June 30, 2014. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Housing Authority of the City of Richmond, it is not intended to and does not present the financial position, changes in net assets or cash flows of Housing Authority of the City of Richmond.

Note 2: Summary of Significant Accounting Policies

Summary of significant 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.

**HOUSING AUTHORITY OF THE CITY OF RICHMOND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014**

SECTION 1 - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	<i>Unmodified</i>
Internal control over financial reporting:	
• Material weaknesses identified?	No
• Significant deficiencies identified?	Yes
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
• Material weaknesses identified?	No
• Significant deficiencies identified?	Yes
Type of auditor's report issued on compliance for major programs:	<i>Unmodified</i>
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	Yes

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
14.850	Low-Income Housing Program
14.871	Section 8 Housing Choice Vouchers

Dollar threshold used to distinguish between type A and type B programs:	\$677,162
Auditee qualified as low-risk auditee?	No

**HOUSING AUTHORITY OF THE CITY OF RICHMOND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014**

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding 2014-001: Financial Status

Criteria:

This is a repeat of a prior year comment. The Authority's operating expenses exceed its federal funding.

Condition:

Although the Authority was able to finance and pay back past debts owed to the City of Richmond and OIG sanction from the proceeds of selling Westridge at Hilltop Apartments, the financial conditions for fiscal year 2013-2014 suggest that the Authority is still facing the challenge of meeting its future debt obligations. Conditions that indicate concern on insufficient cash balance include:

1. At June 30, 2014, current liabilities exceeded current assets by \$570,421, or by 45%.
2. For the year ended June 30, 2014, operating expenses exceeded operating revenues by \$5.2 million, or by 24%.

Effect:

The Authority's financial condition will make it difficult to fulfill its bill obligations in a timely manner.

Cause:

The Authority's operating expenses exceed its federal funding.

Recommendation:

We recommend the Authority improve its operation efficiency to regain financial health.

Views of Responsible Officials and Planned Corrective Actions:

The Authority concurs with the Auditor's recommendation.

Corrective Action Plan: In order to improve its operation efficiency to regain financial health the Authority began converting its Public Housing to section 8 developments. This action will decrease operating expenses associated with the two properties because due to the conversion all capital needs will be met through comprehensive rehabilitation projects plan funded with the tax credit equity. Increased revenue will be created because PH operating subsidy will change to Section 8 housing assistant payment funds and properties will be managed by private management companies at a much lower operating cost. After the completion of the 1st phase of conversion then the goal is to convert all the remaining public housing properties. Anticipated completion date of the first phase is 12/31/2015.

**HOUSING AUTHORITY OF THE CITY OF RICHMOND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014**

Finding 2014-002: Journal Entry Review Process

Criteria:

Segregation of duties over preparing and approving of journal entries requires that all journal entries are reviewed or approved by someone other than the preparer prior to being posted to general ledger.

Condition:

In 18 out of 25 manual journal entries selected for control testing over the journal entry process, we noted that there was no evidence that the journal entries had been reviewed and approved by someone other than the preparer prior to being posted to general ledger.

Effect:

Unauthorized posting of transactions could potentially result in errors or fraud in financial reporting or misappropriation of assets without being detected in a timely manner.

Cause:

Review of journal entries was overlooked.

Recommendation:

We recommend the Authority establish a procedure to segregate the duties of preparing and reviewing journal entries among different individuals.

Views of Responsible Officials and Planned Corrective Actions:

The Authority concurs with the Auditor's recommendation

The Journal Entry Review Process was implemented during the Fiscal Year 2013. During the last quarter of Fiscal Year 2014, the City of Richmond Chief Accountant who approves journal entries for the Finance Manager of the Housing Authority obtained employment with another organization and a replacement wasn't appointed until July 2014.

Corrective Action Plan: The City of Richmond Finance Department has appointed a new Chief Accountant that will ensure that all journal entries will be approved before posting into accounting system.

**HOUSING AUTHORITY OF THE CITY OF RICHMOND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014**

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding SA2014-003: 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:

This is a repeat of prior year comment. 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 every two years and reconciled to the equipment records.

Condition:

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 have a procedure to maintain equipment records by funding source for the Low Income Housing Program.

Recommendation:

The Authority should perform a physical inventory and reconciliation at least once every two years for equipment acquired with federal awards from Low Income Housing Program.

Views of Responsible Officials and Planned Corrective Actions:

The Authority concurs with the Auditor's recommendation

Corrective Action Plan: The Authority has hired a consulting firm to provide a comprehensive fixed asset management inventory services. The services will include a physical asset inventory and verification, barcode tagging of non-tagged assets etc. Anticipated completion date 06/30/2015.

**HOUSING AUTHORITY OF THE CITY OF RICHMOND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014**

Finding SA2014-004: Rent Reasonableness

Federal Agency: Department of Housing and Urban Development

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

Criteria:

The Authority must determine that the rent to owner is reasonable at the time of initial leasing. Also, the Authority must determine reasonable rent during the term of the contract: (a) before any increase in the rent to owner, and (b) at the HAP contract anniversary if there is a five percent decrease in the published Fair Market Rent in effect 60 days before the HAP contract anniversary. The Authority must maintain records to document the basis for the determination that rent to owner is a reasonable rent (initially and during the term of the HAP contract) (24 CFR sections 982.4, 982.54(d)(15), 982.158(f)(7), and 982.507).

Condition:

The Authority utilizes a Rent Reasonableness Certification Form with supporting documents to determine reasonable rent. During our testing of tenant files, we came across following instances of missing forms:

In 9 out of 25 unit files selected for our testing, we noted that the Rent Reasonableness Certification Form was missing with no records to document the basis for the contracted rent.

Effect:

Failures to accurately complete the Rent Reasonableness Certification Form in accordance with HUD requirements will result in the failure to determine whether the contract rent the Authority entered with the owner is reasonable compared with other unassisted units under similar conditions.

Cause:

1. The Authority failed to fully implement the rent reasonableness policy.
2. The Authority failed to maintain accurate and complete tenant file records.

Questioned Costs:

We are unable to determine the questioned cost.

Recommendation:

The Authority should perform rent reasonableness comparison and complete Rent Reasonableness Certification Form with supporting documents in accordance with criteria established by HUD. The Authority should also maintain records, reports, documents and information for each tenant account as required by HUD.

**HOUSING AUTHORITY OF THE CITY OF RICHMOND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014**

Views of Responsible Officials and Planned Corrective Actions:

The Authority concurs with the Auditor's recommendation.

Corrective Action Plan: The Department of Housing and Urban development has conducted a Section 8 SEMAP confirmatory review of the HCV Section 8 program. The rent reasonableness process that was found to be remiss, it has been included in the corrective action plan resulting from the confirmatory review. Corrective measure will be taken with verification of completion provided to HUD by 06/30/2015.

GENERAL:

Finding 2014-005: **Section 8 Management Assessment Program (SEMAP)**
Federal Agency: **Department of Housing and Urban Development (DHUD)**

Finding:

By letter dated October 27, 2014 Department of Housing and Urban Development notified The Authority about the scoring information for the Section 8 Management Assessment Program (SEMAP) for fiscal year ending June 30, 2014. SEMAP enables HUD to better manage the Housing Choice Voucher (HCV) Program by identifying capabilities and deficiencies related to the administration of a Housing Authority's HCV program. As a result, the Department will be able to provide more effective program assistance to PHAs. The Housing Authority's overall designation is Troubled.

Recommendation:

It is highly recommended that The Authority comply with all the DHUD requirements and avail itself to get more effective program assistance from DHUD.

Views of Responsible Officials and Planned Corrective Actions:

The Authority concurs with the Auditor's recommendation.

Corrective Action Plan: The Authority will comply with all the DHUD requirements and avail itself to get more effective program assistance from DHUD. Mr. William Bunthon, Assistant Housing Manager is assigned to follow-up and ensure the Authority comply with all DHUD requirements by June 30, 2015.

**HOUSING AUTHORITY OF THE CITY OF RICHMOND
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014**

FINDINGS

STATUS

SECTION II - FINANCIAL STATEMENT FINDINGS

Prior year audit disclosed significant deficiencies and instances of noncompliance significant to the basic financial statements as listed below.

Finding 2013-001: Financial Status

Condition:

Although during fiscal year 2012-13, the Authority underwent a series of debt reconstruction, the operations had deficit on account of restructuring at June 30, 2013, current assets exceeded current liabilities by \$2.17 million, but for the year ended June 30, 2013, operating expenses still exceeded operating revenues by \$3.29 million, although the extent of operating loss reduced compared with \$5.79 million in fiscal year 2011-12.

Partially implemented.
See current year finding
FY2014-001.

Finding 2013-002: Review of the Bank Reconciliations

Condition:

There was no indication on the face of bank reconciliations that they have been reviewed and approved by an individual other than the preparer.

Implemented.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding SA2013-003: Physical Inventory of Low Income Public Housing Equipment

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

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

Condition:

The Authority has been unable to provide current records or documents to verify a physical inventory has been completed for equipment.

Not implemented. See
current year finding
SA2014-003.

**HOUSING AUTHORITY OF THE CITY OF RICHMOND
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014**

Finding SA2013-004: Housing Quality Standard Inspections

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

Program Affected: Housing Choice Vouchers (CFDA # 14.871)

Condition:

During our testing of tenant files, we came across instances of late Housing Quality Standards (HQS) inspection as described below:

In 2 out of 25 units selected for our testing, we noted that the Authority did not conduct annual HQS inspection until four and seven months, respectively, after the required inspection dates. Implemented.