
HOUSING AUTHORITY OF THE CITY OF RICHMOND
SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2016

**HOUSING AUTHORITY OF THE CITY OF RICHMOND
SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2016**

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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, 2016, 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 January 05, 2017.

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 as Finding 2016-001 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 item SA2016-002.

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 result 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.

Patel & Associates, LLP

Oakland, California
March 02, 2017

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER
COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE**

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 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, 2016. 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 Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance 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, 2016.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item SA2016-002. 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 the Uniform Guidance, 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 preceding paragraph 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 weakness. However, we identified certain deficiencies in internal control over compliance as described in the accompanying schedule of findings and questioned costs as item SA2016-002 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of Housing Authority of the City of Richmond as of and for the year ended June 30, 2016, and have issued our report thereon dated January 05, 2017, 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 the Uniform Guidance 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.

Patel & Associates, LLP

Oakland, California

March 02, 2017

**HOUSING AUTHORITY OF THE CITY OF RICHMOND
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2016**

| <u>Federal Grantor/ Pass-Through Grantor Program or Cluster Title</u> | <u>Federal CFDA Number</u> | <u>Program Expenditures</u> |
|--|---|--|
| <u>Department of Housing and Urban Development</u> | | |
| Direct Programs: | | |
| Low Income Housing Program | 14.850 | \$ 2,468,303 |
| Public Housing Capital Fund | 14.872 | 1,354,233 |
| Section 8 Housing Choice Vouchers | 14.871 | 18,977,589 |
| Lead Based Paint Hazard Control in Privately Owned Housing | 14.900 | <u>505,436</u> |
| Total Department of Housing and Urban Development | | <u>23,305,561</u> |
| Total Expenditures of Federal Awards | | <u>\$ 23,305,561</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, 2016

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, 2016. The information in this schedule is presented in accordance with the requirements Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). 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.

Note 4: Indirect Cost

Expenditures of Federal Awards reported on the Schedule do not include indirect costs allocated to the federal programs. The Authority neither had an indirect cost rate nor used the de minimis 10% of Modified Total Direct Costs (MTDC).

**HOUSING AUTHORITY OF THE CITY OF RICHMOND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016**

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 200.516 of the Uniform Guidance? | Yes |
| Identification of major programs: | |

| <u>CFDA Number</u> | <u>Name of Federal Program</u> |
|--------------------|--|
| 14.871 | Section 8 Housing Choice Vouchers Program |
| 14.900 | Lead Based Paint Hazard Control in Privately Owned Housing |

| | |
|--|-----------|
| Dollar threshold used to distinguish between type A and type B programs: | \$750,000 |
| 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, 2016**

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding 2016-001: Financial Status

Criteria:

This is a repeat of a prior year finding. The Authority's operating expenses exceeded its federal funding for the year ended June 30, 2016 by \$2,582,468. Current financial conditions still indicate financial and cash flow difficulties to meet the Authority's obligations and fulfill its operation needs.

Condition:

The Authority's audited financial statements for the fiscal year ended June 30, 2016 indicates a financial and cash flow difficulties to meet its financial obligations and fulfill its operation needs on a timely basis. In addition, the Authority still owes the City of Richmond (related party) a debt of \$3,364,942 as of June 30, 2016, for which there has been no settlement made during the fiscal year 2016.

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 the available operating funding.

Recommendation:

We recommend that the Authority review its program and other administrative costs and align it with the available resources of funds. Further the Authority needs to improve its operation efficiency to regain financial health.

Views of Responsible Officials and Planned Corrective Actions:

We concur with this finding, and the Authority will review its program and other administrative costs and align it with the available resources of funds and continue to pursue other avenues to improve its operation efficiency to regain financial health.

Name of Contact Persons: Tim Jones, Executive Director and Anthony Taplin, Finance Manager.
Anticipated Date of Completion, June 30, 2017.

**HOUSING AUTHORITY OF THE CITY OF RICHMOND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016**

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding SA2016-001: Program Specific Requirements

Federal Agency: Department of Housing and Urban Development

Program Affected: Lead Based Paint Hazard Control in Privately Owned Housing (CFDA # 14.900)

Criteria:

The Grant Agreement of the Program issued by Department of Housing and Urban Development (HUD) dictates certain program requirements and activities. According to which, the Authority needs to maintain appropriate documentation for such activities including, but not limited to, beneficiary eligibility verification and income certifications, blood lead testing, complete lead-based paint inspection and lead hazard risk assessment, federal procurement requirements through a competitive process, signed contracts, etc.

Condition:

We performed tests to determine if the Authority was in compliance with program compliance requirements. We have inspected 4 files of projects being funded through this program and found a significant number of documents are missing. We were unable to inspect any other documentary evidences that should be maintained by the Authority to satisfy the compliance with the program requirements.

Effect:

Failures to maintain appropriate and adequate documentation of the procedures and activities performed by the Authority to satisfy the compliance requirements in accordance with the Uniform Guidance, HUD guidelines, and the grant agreement will result in spending the federal funds to the ineligible beneficiaries, ineligible costs as well as disallowed activities.

Cause:

Lack or ineffective the internal control activities over compliance and weakness in the internal control environment.

Questioned Costs:

We are unable to determine the questioned cost.

Recommendation:

The Authority should revise the internal control activities over the compliance and evaluate the overall internal control environment to ensure a reasonable assurance over the compliance with the requirements of the Uniform Guidance, HUD and the grant agreements.

**HOUSING AUTHORITY OF THE CITY OF RICHMOND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016**

Views of Responsible Officials and Planned Corrective Actions:

We concur with the finding and the Authority will revise its internal control procedures to ensure compliance and the Authority will also continue to evaluate its overall internal control environment to ensure ongoing compliance with the requirements of all HUD grant agreements.

Name of Contact Persons: Tim Jones, Executive Director and Anthony Taplin, Finance Manager.
Anticipated Date of Completion, June 30, 2017.

**HOUSING AUTHORITY OF THE CITY OF RICHMOND
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016**

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 2015-001: Financial Status

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.

Not implemented
See current year Finding
2016-001

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDINGS

STATUS

Finding SA2015-002: Rent Reasonableness

Federal Agency: Department of Housing and Urban Development

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

Condition:

The Authority utilizes a Rent Reasonableness Certification Form with supporting documents to determine reasonable rent. During our testing of tenant files, 1 file out of 25 tenants' files selected for testing the rent amount reasonableness was missed and the Authority failed to provide documentation records for that program's beneficiary.

Implemented

Finding SA2015-003: Housing Quality Standards Inspections

Federal Agency: Department of Housing and Urban Development

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

Condition:

The Authority utilizes inspection forms/ reports to ascertain if the unit was inspected and to document that HQS inspections were performed at every annual re-examination to comply with HUD compliance requirements. During our testing of units leased/ tenant files, 1 file out of 25 tenants' files selected for testing, the annual inspection reports were either missing or not updated.

Implemented

**HOUSING AUTHORITY OF THE CITY OF RICHMOND
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016**

Finding SA2015-004: Eligibility for Individual Beneficiary
Federal Agency: Department of Housing and Urban Development

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

Condition:

The Authority utilizes Annual Certification (Form 50058) to ascertain if the tenant's income is annually re-examined and certified in order to determine income eligibility and calculate the tenant's rent payment as required to comply with HUD compliance requirements. During our testing of units leased/ tenant files, 2 files out of 25 tenants' files selected for testing did not include documentation on the annual income certifications to indicate that it was done on a timely basis.

Implemented

Finding 2015-005: Section 8 Management Assessment Program (SEMAP)
Federal Agency: Department of Housing and Urban Development (HUD)

Finding:

As stated in the letter dated October 29, 2015 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, 2015. The letter stated that the Authority self-certified to an overall score of 96% which makes the Authority a High Performer. However, the Authority's current SEMAP status is pending until SEMAP Confirmatory Review is completed by HUD.

Resolved