

SINGLE AUDIT REPORTS
SAN DIEGO HOUSING COMMISSION
JUNE 30, 2012

San Diego Housing Commission

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INDEPENDENT AUDITORS' 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

To the Board of Commissioners
San Diego Housing Commission

We have audited the financial statements of the San Diego Housing Commission (SDHC), a component unit of the City of San Diego, California, and its discretely presented component units as of and for the year ended June 30, 2012, and have issued our report thereon dated November 30, 2012. Our report includes a reference to other auditors. 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. Other auditors audited the financial statements of the discretely presented component units as described in our report on SDHC's financial statements and their audit was not performed in accordance with Government Auditing Standards.

Internal Control Over Financial Reporting

Management of San Diego Housing Commission is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered San Diego Housing Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the SDHC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of SDHC's internal control over financial reporting.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as item 2012-1 that we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether San Diego Housing Commission'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 and requirements was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

San Diego Housing Commission's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit San Diego Housing Commission's response and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Audit Committee, the Board of Commissioners and management of SDHC, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Cohn Reznick LLP".

Sacramento, California
November 30, 2012

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
PROGRAM, ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133 AND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

To the Board of Commissioners
San Diego Housing Commission

Compliance

We have audited the compliance of San Diego Housing Commission (SDHC), a component unit of the City of San Diego, California, 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 its major federal programs for the year ended June 30, 2012. San Diego Housing Commission's major federal programs are identified in the summary of auditors' 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 San Diego Housing Commission's management. Our responsibility is to express an opinion on San Diego Housing Commission'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 San Diego Housing Commission'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 San Diego Housing Commission's compliance with those requirements.

In our opinion, San Diego Housing Commission 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, 2012.

Internal Control Over Compliance

Management of San Diego Housing Commission 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 San Diego Housing Commission'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 San Diego Housing Commission'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.

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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the San Diego Housing Commission (SDHC), a component unit of the City of San Diego, California, and its discretely presented component units as of and for the year ended June 30, 2012, and have issued our report thereon dated November 30, 2012. Our audit was performed for the purpose of forming an opinion on the financial statements of the San Diego Housing Commission 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 information is fairly stated, in all material respects, in relation to the financial statements as a whole.

This report is intended solely for the information and use of the Audit Committee, the Board of Commissioners, and management of SDHC, 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.

CohnReznick LLP

Sacramento, California
November 30, 2012

San Diego Housing Commission

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2012

Federal Grantor / Passthrough Grantor Program Title:	Federal CFDA Number	Agency or Pass-Through Number	Federal Expenditures Amount
<i>Pass-Through Programs</i>			
U.S. Department of Housing and Urban Development			
<u>CDBG Cluster</u>			
CDBG (City)-Passed through the City of San Diego	14.218	B-04-MC-06-0542	\$ 2,412,778
CDBG (County)-Passed through the County of San Diego	14.218	B-04-UC-06-0501	52,000
Neighborhood Stabilization Program	14.218	B-08-MN-06-0521	<u>15,977</u>
Subtotal CDBG Cluster	14.218		<u>2,480,755</u>
<u>Emergency Shelter Grant</u>	14.231		<u>647,515</u>
<u>Homelessness Prevention and Rapid Re-Housing Program - (Recovery Act Funded)</u>	14.257 ¹	S-09-MY-06-0542	<u>1,345,645</u>
Corporation for National and Community Service			
<u>Social Innovation Fund-Passed through Local Initiatives Support Corp (LISC)</u>	94.019		<u>88,920</u>
U.S. Department of Health and Human Services	93.602		<u>90,000</u>
Subtotal - Pass Through Programs			<u>4,652,835</u>
<i>Direct Programs</i>			
U.S. Department of Housing and Urban Development			
<u>Shelter Plus Care</u>			
Shelter Plus Care: CA0545C9D011003	14.238	CA0545C9D011003	256,571
Shelter Plus Care: CA16C940081	14.238	CA16C940081	16,968
Shelter Plus Care: CA0541C9D011003	14.238	CA0541C9D011003	78,081
Shelter Plus Care: CA0803C9D011002	14.238	CA0803C9D011002	292,735
Shelter Plus Care: CA16C701001	14.238	CA16C701001	157,898
Shelter Plus Care: CA0533C9DO10800	14.238	CA0533C9DO10800	65,190
Shelter Plus Care: CA0534C9DO11003	14.238	CA0534C9DO11003	911,650
Shelter Plus Care: CA0863C9D010900	14.238	CA0863C9D010900	32,510
Shelter Plus Care: CA0928C9D011001	14.238	CA0928C9D011001	127,582
Shelter Plus Care: CA0927C9D011001	14.238	CA0927C9D011001	<u>104,088</u>
Subtotal - Shelter Plus Care	14.238		<u>2,043,273</u>
<u>HOME Program - 10</u>	14.239¹	M-07-MC-06-0533	<u>3,929,856</u>

(continued)

San Diego Housing Commission

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

Year ended June 30, 2012

Federal Grantor / Passthrough Grantor Program Title:	Federal CFDA Number	Agency or Pass-Through Number	Federal Expenditures Amount
<u>Section 8 Project-Based Cluster</u>			
Section 8 Moderate Rehabilitation			
Project 1 -MR1	14.856	CA063MR0001	103,272
Project 2 -MR2	14.856	CA063MR0002	45,597
Project 7 -MR7	14.856	CA063MR0007	336,018
Subtotal - Section 8 Moderate Rehabilitation	14.856		484,887
Subtotal - Section 8 Project-Based Cluster			484,887
<u>Moving to Work</u>			
Housing Assistance Payments Program:			
For Low Income Families - Voucher	14.871	CA063VO	157,923,540
VASH program - CA063VA0001	14.871	CA063VA0001	1,434,596
HCV FSS Coord - FFY10 - CA063FSF006	14.871	CA063FSF006	13,250
HCV FSS Coord - FFY11 - CA063FSF007	14.871	CA063FSF007	204,399
Subtotal - Housing Assistance Payments			159,575,785
Capital Fund			
Capital Fund Program: CA16-R063-501-09	14.872	CA16-R063-501-09	735,358
Capital Fund Program: CA16-P063-501-10	14.872	CA16-P063-501-10	302
Capital Fund Program: CA16-P063-502-07	14.872	CA16-P063-502-07	133,869
Capital Fund Program: CA16-P063-501-11		CA16-P063-501-11	2,602
Subtotal - Capital Fund			872,131
Operating Fund			
AMP 7 CA063-00000711D	14.850A	CA063-00000711D	12,715
AMP 8 CA063-00000811D	14.850A	CA063-00000811D	26,369
Subtotal - Operating Fund			39,084
Subtotal - Moving to Work	14.881¹		160,487,000
<u>ROSS</u>			
Resident Opportunity and Supportive Services			
Neighborhood Networks-FFY07	14.870	CA063RNN022A007	17,218
<u>LEAD</u>			
Lead Reduction CALHD018008	14.900	CALHD018008	1,152,607
Lead Paint CALHB038108	14.900	CALHB038108	1,031,419
Lead Paint CALHB046410	14.900	CALHB046410	335,757
Subtotal - LEAD	14.900		2,519,783
<u>Healthy Homes</u>			
Healthy Homes CALHH021810	14.913	CALHH021810	186,467

(continued)

San Diego Housing Commission

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

Year ended June 30, 2012

Federal Grantor / Passthrough Grantor Program Title:	Federal CFDA Number	Agency or Pass-Through Number	Federal Expenditures Amount
<u>Housing Voucher Cluster</u>			
Family Unification Program (FUP)	14.880	CA063FU0001	879,979
Subtotal - Housing Voucher Cluster			879,979
<u>Federal Housing Administration - Insured loans under Section 223(f)</u>			
FHA Insured Loan - Central SDHC FHA LLC	1	FHA # 12911054	15,344,489
FHA Insured Loan - Northern SDHC FHA LLC	1	FHA # 12911053	17,063,448
FHA Insured Loan - Southern SDHC FHA LLC	1	FHA # 12911055	24,392,749
Subtotal - FHA Insured Loans			56,800,686
TOTAL			\$ 232,001,984

1 - audited as major programs

See notes to Schedule of Expenditures of Federal Awards

San Diego Housing Commission

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2012

NOTE 1 - REPORTING ENTITY

San Diego Housing Commission (SDHC) is a government agency formed by the City of San Diego (the City) under Ordinance No. 2515 on December 5, 1978 in accordance with the Housing Authority Law of the State of California. SDHC is an integral part (component unit) of the reporting entity of the City. SDHC primarily serves low income families by providing housing assistance payments, rental housing, loans and grants to individuals and not-for-profit organizations and other services.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The expenditures included in the Schedule of Expenditures of Federal Awards (the Schedule) were reported under the accrual basis of accounting.

Schedule of Expenditures of Federal Awards

The Schedule summarizes the expenditures of SDHC under the programs of the federal government for the year ended June 30, 2012. Award amounts may represent multi-year awards while the expenditures represent current year expenditures only.

The Schedule presents only the expenditures incurred by SDHC that are reimbursable under federal programs of federal agencies providing financial assistance. For the purpose of the Schedule, financial assistance includes both federal financial assistance received directly from a federal agency, as well as federal funds received indirectly by SDHC from a non-federal agency or other organization. Only the portion of program expenditures reimbursable with such federal funds is reported in the Schedule. Program expenditures in excess of the maximum federal reimbursement authorized or the portion of the program expenditures that were funded with state, local or other non-federal funds are excluded from the Schedule.

In addition to the federally reimbursable grant programs, SDHC, through three of its wholly owned limited liability companies (LLCs), has also received loans that are insured by the Federal Housing Administration under Section 223(f). The outstanding balance of these loans as of June 30, 2012 is reflected on the Schedule.

The Schedule was prepared from only the accounts of the grant programs and, therefore does not represent the financial position or results of operations of SDHC.

San Diego Housing Commission

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2012

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of the San Diego Housing Commission and its discretely presented component units.
2. No material weaknesses were identified related to the audit of the financial statements. We reported a significant deficiency in the Independent Auditors' 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.
3. No instances of noncompliance material to the financial statements of San Diego Housing Commission were disclosed during the audit.
4. No significant deficiencies or material weaknesses related to the audit of the major federal award programs were disclosed in the Independent Auditors' 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.
5. The auditors' report on compliance for the major federal award programs for San Diego Housing Commission expresses an unqualified opinion.
6. There are no audit findings relative to the major federal award programs for San Diego Housing Commission.

San Diego Housing Commission

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

June 30, 2012

7. The programs tested as major programs include:

Major Programs	Federal CFDA Number	Federal Expenditures Amount
Moving to work	14.881	\$ 160,487,000
Homelessness Prevention and Rapid Re-Housing Program (Recovery Act Funded)	14.257	1,345,645
HOME	14.239	3,929,856
FHA Insured Loans		56,800,686
Total Major Program Expenditures		\$ 222,563,187
Total Federal Award Expenditures		\$ 232,001,984
Percentage of total federal award expenditures		96%

8. The threshold for distinguishing Type A and B programs was \$3,000,000.

9. San Diego Housing Commission qualified as a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

2012 - 1 **Financial Reporting**

Criteria - Financial statements are required to be produced from time to time and shared with various readers. These readers include the Board of commissioners, the U.S. Department of Housing and Urban Development and the public. The financial statements are required to contain all necessary information to provide the readers with a complete and accurate picture of the financial condition of SDHC, including its component units.

Condition - Our review of SDHC's financial reporting revealed that SDHC's component unit, Housing Development Partners of San Diego (HDP), has not been included in the preliminary financial statements.

Questioned Costs - None

Cause - Adequate procedures have not been implemented to ensure that all component units are considered for inclusion in the financial statements as required by generally accepted accounting principles.

San Diego Housing Commission

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

June 30, 2012

Effect - Although SDHC has been involved in the accounting for HDP which has been audited in prior years, and SDHC has previously disclosed HDP in its financial statements as a component unit, SDHC did not consider compliance with reporting requirements to include the financial statements of HDP in its overall financial reporting. Therefore, a significant deficiency in controls over financial reporting exists.

Recommendation - We recommend that SDHC develop, and fully implement, controls to ensure the accurate reporting of component units in order to comply with reporting requirements under GASB and provide accurate and complete financial statements to the readers.

Views of Responsible Officials: In order to increase transparency of reporting and oversight of funds, it was SDHC Financial Services staff who decided during Fiscal Year (FY) 2012 to split out HDP as a discretely presented component unit of the Housing Commission for the first time, instead of HDP being presented as a related party footnote. In addition to certain guidance in FASB Statement #61, which is effective 6/30/2013, HUD is encouraging the discrete presentation of component units.

In FY 2012, the HDP Board decided to refocus HDP's mission and activity, and HDP for the first time moved their operations out of the Housing Commission's Smart Corner building into their own facility. To better monitor the anticipated future increase in HDP activity resulting from its refocused mission, SDHC Financial Services staff created a new fund in the SDHC accounting system for all of HDP's costs that were paid for by the Commission and subsequently reimbursed by HDP. The creation of the new fund prompted the auditors to further inquire into HDP's operations.

During the year of HDP's inception in 1990, the Housing Commission and its auditors at the time, had not reported the full financial statements of HDP as part of the Housing Commission's consolidated financial statement in the audit report. SDHC staff continued this practice from 1990 until FY 2012. The auditors have determined during this year's (FY 2012) audit that HDP's financial statements should have been incorporated since HDP's inception in 1990.

The assets of HDP only represent an insignificant portion of SDHC's total assets and therefore HDP is not significant to the Housing Commission as a whole. Due to the immateriality of HDP's assets, financial leadership in the SDHC Financial Services Department was not aware that the numbers were not consolidated. However, significant steps have been taken to prevent re-occurrence of a similar incident in the future.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS
AUDIT

NONE

San Diego Housing Commission

CORRECTIVE ACTION PLAN

June 30, 2012

Finding 2012 -1: Financial Reporting:

Date of Implementation: June 30, 2013

Responsible Officer: Nicole DeBerg, Vice President & Chief Financial Officer

Contact Information: Telephone: 619-578-7711. Email: nicoled@sdhc.org

Action Plan:

Immediate inquiries by SDHC Financial Services staff determined that there are no other unconsolidated related party entities in existence that should be consolidated. A full detailed audit of all of SDHC's funds was performed and to increase transparency and oversight. Single-source funds were further broken down into "business objectives" for monitoring purposes. HDP will continue to be accounted for as a separate fund in the Housing Commission's new ERP system and we will continue to report them as a discrete component unit to be conservative. SDHC will produce audited HDP financial statements for FY 2013.