



Good Neighbors

San Diego Housing Commission

REPORT

DATE ISSUED: June 29, 2006 REPORT NO: HCR 06-49
ATTENTION: Chair and Members of the Housing Commission ITEM: 107
For the agenda of July 7, 2006
SUBJECT: Contract Amendment to the Independent Audit Contract

REQUESTED ACTION: Ratification by the Board of the Housing Commission to amend the independent auditor contract with the Reznick Group, P.C. to provide for additional audit work related to the Commission's fiscal year 2003 and 2004 audits.

STAFF RECOMMENDATION: That the Housing Commission amend the independent auditor contract with the Reznick Group P. C. to provide for an additional financial audit of the San Diego Housing Commission's fiscal year 2003 and 2004 financial records. The amendment will increase the current contract by an additional \$90,000 for fiscal year 2003 and an additional \$85,000 for fiscal year 2004 with approval to amend the FY2007 budget accordingly.

SUMMARY: The San Diego Housing Commission entered into an agreement with the Reznick Group P.C. to provide for the annual independent audit of the Commission's records for fiscal year 2005 with optional extensions through fiscal year 2009. Prior to the Reznick Group P.C., the Commission utilized the firm of Caporicci & Larson to perform the fiscal year 2003 and 2004 audit work as an add on to the Caporicci & Larson contract with the City of San Diego to perform the City's audits. The Commission's financial statements are incorporated into the City's financial reports as a discretely presented component unit.

The City is currently working toward issuance of its financial reports for fiscal year 2003. The City's audit team of KPMG and Macias Gini & Company, LLP, have indicated that they will not accept the audited work of Caporicci & Larson and recently requested that the Housing Commission re-audit the financial statements of fiscal years 2003 and 2004 utilizing our current auditors, the Reznick Group P.C. City staff has orally indicated that they will reimburse the Commission for the cost of this additional work.

These re-audits are required for the City to be able to issue their fiscal year 2003 and 2004 audit reports solely because of the diminished confidence in the original auditing firm. No significant adjustments are anticipated. However, the re-audit could not have been anticipated and comes at the same time as the fiscal year 2006 year end close and preparation for the current annual audit. Re-audits will be given priority and, as a result, fiscal year 2006 close and audit may be delayed.

FISCAL CONSIDERATIONS: Approval of this action will result in an additional audit expenditure of \$175,000, bringing the total auditor contract for FY07 to \$243,000. Funding for this contract amendment is anticipated to be provided by the City of San Diego. Approval of this action would authorize use of Housing Commission Reserves if City revenue is not made available.



PREVIOUS ACTION: Commission Board Members approved the original independent auditor contract with the Reznick Group on June 3, 2005 (Report No. HCR05-050).

ENVIRONMENTAL REVIEW: This action is categorically exempt from the provisions of CEQA pursuant to State CEQA Article 19 Guidelines Section 15301 (existing facilities). It is also categorically excluded from the provisions of NEPA under the provisions of 24 Code of Federal Regulations 58.35(b).

Respectfully submitted,

Approved by,

**Signature on File
With Original Document**

Edward P. Mauk
Director of Finance

Elizabeth C. Morris
President & Chief Executive Officer

Attachments: "Engagement Letter for Fiscal Year 2003"
"Engagement Letter for Fiscal Year 2004"



Reznick Group, P.C.
400 Capitol Mall
Suite 2000
Sacramento, CA 95814-4424

Tel: (916) 442-9100
Fax: (916) 442-9103
www.reznickgroup.com

June 28, 2006

Mr. Edward P. Mauk
San Diego Housing Commission
1625 Newton Avenue
San Diego, CA 92113

Attention: Mr. Mauk

This letter will explain our understanding of the services we are to provide for the San Diego Housing Commission for the year ended June 30, 2003. We ask that you either confirm or amend that understanding.

We will audit the statement of net assets of the San Diego Housing Commission as of June 30, 2003, and the related statements of activities and changes in net assets, and cash flows for the year then ended. We understand that the financial statements will be prepared in accordance U.S. generally accepted accounting principles. Also, the document we submit to you may include certain supplemental information that will be subjected to the auditing procedures applied in our audit of the basic financial statements.

Audit Objectives

The objective of our audit is the expression of an opinion about whether the financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles and to, report on the fairness of the supplemental information, if any referred to in the second paragraph when considered in relation to the basic financial statements taken as a whole. The objective also includes reporting on the San Diego Housing Commission's internal control related to the financial statements and compliance with laws, regulations, and the provisions of contracts or grant agreements, noncompliance with which could have a material effect on the financial statements in accordance with Government Auditing Standards.

The reports on internal control will include a statement that the report is intended for the information of the audit committee, board of directors, management, others within the organization, federal awarding agencies and, if applicable, pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Our audit will be conducted in accordance with U.S. generally accepted auditing standards; the standards for financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and will include tests of accounting records, and other

procedures we consider necessary to enable us to express an opinion and to render the required reports. If our opinion on the financial statements is other than unqualified, we will discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed an opinion, we may decline to express an opinion or to issue a report as a result of this engagement.

Management Responsibilities

Management is responsible for establishing and maintaining internal control and for compliance with the provisions of laws, regulations, contracts, agreements, and grants. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of the controls. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorizations and recorded properly to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles.

Management is responsible for making all financial records and related information available to us, including any significant vendor relationships in which the vendor has the responsibility for program compliance. We understand that you will provide us with such information required for our audit and that you are responsible for the accuracy and completeness of that information. We will advise you about appropriate accounting principles and their application and will advise you in the preparation of your financial statements, but the responsibility for the financial statements remains with you. As part of our engagement, we may propose standard, adjusting, or correcting journal entries to your financial statements. You are responsible for reviewing the entries and understanding the nature of any proposed entries and the impact they have on the financial statements. Further, you are responsible for designating a qualified management-level individual to be responsible and accountable for overseeing these services. Your responsibilities include the establishment and maintenance of adequate records and effective internal controls over financial reporting and compliance, the selection and application of accounting principles, and the safeguarding of assets. Management is also responsible for adjusting the financial statements to correct material misstatements and for confirming to us in the management representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

You are responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud or illegal acts affecting the San Diego Housing Commission involving (a) management, (b) employees who have significant roles in internal control, and (c) others where the fraud or illegal acts could have a material effect on the financial statements. You are also responsible for informing us of your knowledge of any allegations of fraud, suspected fraud, or illegal acts affecting the San Diego Housing Commission received in communications from employees, former employees, regulators, or

others. In addition, you are responsible for identifying and ensuring that the San Diego Housing Commission complies with applicable laws and regulations.

Audit Procedures - General

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. We will plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether from errors, fraudulent financial reporting, misappropriation of assets, or violations of laws or governmental regulations that are attributable to the organization or to acts by management or employees acting on behalf of the organization. Because an audit is designed to provide reasonable, but not absolute, assurance and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements or noncompliance may exist and not be detected by us. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements. However, we will inform you of any material errors and any fraudulent reporting or misappropriation of assets that come to our attention. We will also inform you of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential. Our responsibility as auditors is limited to the period covered by our audit and does not extend to any later periods for which we are not engaged as auditors.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, and may include direct confirmation of cash, receivables, investments, loan balances and certain other assets and liabilities by correspondence with selected funding sources, creditors and financial institutions. We may request written representation from your attorneys as part of the engagement, and they may bill you for responding to this inquiry. At the conclusion of our audit, we will require certain written representations from you about the financial statements and related matters.

Audit Procedures - Internal Control

In planning and performing our audit, we will consider the internal control sufficient to plan the audit in order to determine the nature, timing and extent of our auditing procedures for the purpose of expressing our opinion on the San Diego Housing Commission's financial statements.

We will obtain an understanding of the design of the relevant controls and whether they have been placed in operation, and we will assess control risk. Tests of controls may be performed to test the effectiveness of certain controls that we consider relevant to preventing and detecting errors and fraud that are material to the financial statements and to preventing and detecting misstatements resulting from illegal acts and other noncompliance matters that have a direct and material effect on the financial statements. Tests of controls relative to the financial statements are required only if control risk is assessed below the maximum level. Our tests, if performed, will be less in scope than would be necessary to render an opinion on internal control and,

accordingly, no opinion will be expressed in our report on internal control issued pursuant to Government Auditing Standards.

An audit is not designed to provide assurance on internal control or to identify reportable conditions. However, we will inform the governing body or audit committee of any matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the entity's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

Audit Procedures - Compliance

Our audit will be conducted in accordance with the standards referred to in the section titled Audit Objectives. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of the San Diego Housing Commission's compliance with applicable laws and regulations and the provisions of contracts and agreements, including grant agreements. However, the objective of those procedures will not be to provide an opinion on overall compliance, and we will not express such an opinion in our report on compliance issued pursuant to Government Auditing Standards.

As part of this engagement we will not perform audit procedures and we will not issue any reports or complete any documents that may be required under the Single Audit and OMB Circular A-133.

Audit Administration, Fees and Other

The audit documentation for this engagement is the property of Reznick Group and constitutes confidential information. However, pursuant to authority given by law or regulation, we may be requested to make certain audit documentation available to a cognizant or grantor agency or its designee, a federal agency providing direct or indirect funding, or the U.S. General Accounting Office for purposes of a quality review of the audit, to resolve audit findings, or to carry out oversight responsibilities. We will notify you of any such request. If requested, access to such audit documentation will be provided under the supervision of Reznick Group personnel. Furthermore, upon request, we may provide photocopies of selected audit documentation to the aforementioned parties. These parties may intend, or decide, to distribute the photocopies or information contained therein to others, including other governmental agencies.

The audit documentation for this engagement will be retained for a minimum of three years after the date the auditors' report is issued or for any additional period requested by a cognizant agency, oversight agency for audit, or pass-through entity.

In the normal course of business, we utilize the services of third-parties and individual contractors which are not employees of our Firm. Those services are performed at various levels and in various aspects of the Firm's engagements including bookkeeping, tax return preparation, consulting, audit and other attest services and clerical and data entry functions. It is possible that during the course of our engagement with you we may utilize such third-party and individual contractor sources. Additionally our engagement will, of necessity, require us to handle confidential information and we expect our third-party service providers and individual contractors to maintain the confidentiality of such information. To be reasonably assured that unauthorized release of confidential client information does not occur, we require those individuals and third-party service providers to enter into a written agreement to maintain the confidentiality of such information. Your acceptance of this arrangement acknowledges and accepts our handling of your confidential client information including access by third-party and individual service providers.

Our fees for these services will be based upon the estimated time needed to complete the work using our standard hourly rates. We estimate our fee to be \$80,000. You will also be billed for travel, hotel and other out of pocket costs such as report production, word processing, postage, etc. Additional expenses will not exceed \$10,000. The fee estimate is based on anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered during the audit. If significant additional time is necessary, we will discuss it with you and arrive at a new fee estimate before we incur the additional costs.

Progress bills will be submitted based on the following schedule: 50% of the total fee will be due within 3 weeks from the start of field work (July 31, 2006); 30% of the total fee within 2 weeks subsequent from the first progress billing (August 15, 2006) and the remaining 20% upon the issuance of the financial statements.

Bills are due when rendered.

Government Auditing Standards require that we provide you with a copy of our most recent external peer review report and any letter of comment, and any subsequent peer review reports and letters of comment received during the period of the contract. Our 2002 peer review report and letter of comment accompanies this letter.

This engagement includes only those services specifically described in this letter. Appearances before judicial proceedings, government organizations such as the Internal Revenue Service, or other regulatory bodies arising from this engagement will be billed to you separately. Additional services which you may request will be subject to arrangements made at the time requested.

This letter constitutes the complete and exclusive statement of agreement between Reznick Group and the San Diego Housing Commission, superseding all proposals oral or written and all other communication, with respect to the terms of the engagement between the parties.



Mr. Edward P. Mauk
San Diego Housing Commission
June 28, 2006
Page 6

If this letter defines the arrangements as you understand them, please sign and date the enclosed copy and return it to us. Thank you for this opportunity to be of assistance. We appreciate your business.

Very truly yours,

REZNICK GROUP

A handwritten signature in cursive script, appearing to read "Stephen Shumrak".

Stephen I. Shumrak, CPA
Principal

SS/ab/jc

Enclosure

Confirmed on behalf of the addressee:

_____, 20____



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Very truly yours,

REZNICK GROUP

A handwritten signature in black ink, appearing to read "Stephen I. Shumrak".

Stephen I. Shumrak, CPA
Principal

SS/ab/jc

Enclosure

Confirmed on behalf of the addressee:

_____, 20____