



REPORT

DATE: For the Agenda of December 13, 2002 **Item 102**

REPORT NO: HCR02-109

SUBJECT: Fiscal Year 2002 Audit Reports

SUMMARY

Issue: Should the Housing Commission accept the Fiscal Year 2002 Audit Reports, specified in the list of Attachments on page 5 of this report, as prepared by the accounting firm of Calderon, Jaham & Osborn?

Recommendation: That the Housing Commission accept the Fiscal year 2002 Audit Reports prepared by Calderon, Jaham & Osborn.

Fiscal Impact: The cost for performing the various audits for fiscal year 2002 has not yet been finalized. However, the cost for completing the audits for fiscal year 2001 was \$40,279 and a similar amount was budgeted in the current year budget.

Previous Related Action(s): On March 31, 1998, the City of San Diego awarded a five-year contract to Calderon, Jaham & Osborn that included within its scope of services the performance of the financial and single audits of the Housing Commission and various project audits through Fiscal Year 2002. On November 18, 2002, the City Council awarded the firm of Calderon, Jaham & Osborn an additional five year contract for audit services through Fiscal Year 2007.

BACKGROUND

The financial statements of the San Diego Housing Commission have historically been prepared on the basis of accounting practices prescribed by the U.S. Department of Housing and Urban Development (HUD). These practices have differed from generally accepted accounting principles ("GAAP") as prescribed by the Governmental Accounting Standards Board in a number of areas, including fixed assets, long term debt, and prior period adjustments.



On January 11, 2000, HUD published a final rule that established annual financial reporting standards for HUD's Public Housing, Section 8 housing, other assisted housing, and multifamily insured housing programs. The rule requires Public Housing Agencies to submit this information electronically to HUD (rather than by hard copy as had been the case under longstanding regulatory and contractual requirements) in accordance with a standardized format to be established by the federal agency.

The rule also required that the annual financial information submitted to HUD be prepared in accordance with generally accepted accounting principles, because GAAP accounting is more widely accepted than the method previously required by HUD, and it allows for financial consistency among various entities.

The accompanying audited financial statements have been prepared in accordance with GAAP and represent the results of operations of the Housing Commission for the fiscal year ending June 30, 2002.

DISCUSSION

Financial Audit

Financial audits of all Housing Commission funds are performed on an annual basis as required by the Housing Authorities Law (Section 34327.6 of the California Government Code) which states that "all funds of Housing Authorities not subject to audit by a federal agency shall be audited at least once every year at the expense of the Housing Authority by a certified public accountant."

The purpose of a financial audit is to determine whether the financial statements are fairly stated. The term "fairly stated" means that the reader can have reasonable, but not absolute, assurance that the financial statements do not contain a material weakness (i.e., a gross over/understatement of amounts). Absolute assurance can only be obtained by the audit firm reviewing every transaction rather than the industry practice of statistical sampling.

A financial audit by an independent audit firm can have four possible conclusions. These are:

1. Unqualified opinion - the financial statements are fairly stated as a whole.
2. Qualified opinion - the financial statements are fairly stated as a whole, however, an uncertainty exists (i.e., a lawsuit).
3. Adverse opinion - the financial statements are not fairly stated.

4. Disclaimer opinion - scope limitation by management prevents an opinion from being expressed.

Calderon, Jaham & Osborn issued an **unqualified opinion** on the Housing Commission's fiscal year 2002 financial statements (see Attachment 1).

Single Audit

Congress passed the Single Audit Act in October 1984. This act required that local governments receiving federal financial assistance of \$100,000 or greater provide for a single audit of grant funds for fiscal years beginning after December 31, 1984. Effective July 1, 1996, this limit was increased to \$300,000. The single audit is a more comprehensive audit than the financial audit and it includes internal control and compliance testing of certain programs as defined by the Office of Management and Budget.

The purpose of the Single Audit Act was to establish uniform requirements for audits of federal assistance, to promote efficient and effective use of audit resources and to assure that federal agencies rely upon the audit work done.

The results of a single audit are reported in two independent auditor's reports:

1. Report on Compliance and on Internal Control over Financial Reporting based on an Audit of Component Unit Financial Statements Performed in Accordance with *Government Auditing Standards*.
2. Report on Compliance with Requirements Applicable to Each Major Program, Internal Control over Compliance and on the Schedule of Expenditures of Federal Awards in Accordance with *OMB Circular A-133*.

These audit reports may refer to material and/or immaterial audit findings identifying non-compliance or weaknesses in internal controls. The findings may be included in the "Current Year Findings and Questioned Costs" section of the single audit report or in a separate report to management.

Results of the 2002 Single Audit (see Attachment 2) performed by Calderon, Jaham & Osborn are summarized as follows:

1. Tests of compliance and consideration of the internal control over financial reporting disclosed:
 - A. **No instances of noncompliance** that are required to be reported under *Government Auditing Standards*, and
 - B. **No matters** involving the internal control over financial reporting and its operation are considered to be **material weaknesses**.

2. Tests of the Housing Commission's compliance with laws, regulations, contracts and grants applicable to each of its major federal programs and consideration of the internal control over compliance in accordance with *OMB Circular A-133* disclosed:
 - A. Housing Commission **complied**, in all material respects, with the requirements applicable to each of its major federal programs,
 - B. **No** matters involving the internal control over compliance and its operation are considered to be **material weaknesses**, and
 - C. The Schedule of Expenditures of Federal Awards is **fairly stated**.

Project Specific Audits

Certain funds of the Housing Commission are required to be audited at a more detailed level. The State of California requires a financial audit of the State-financed operating programs on a yearly basis. Calderon, Jaham & Osborn expressed an unqualified opinion on the financial statements for the two State of California projects (see Attachments 3 and 4).

Report to Management

The audit also included a Report to Management. The Report to Management is designed to provide a forum for the Auditors to provide comments and recommendations that are not worthy of a formal finding within the Audit Report. The correction of such items serves to enhance operations.

The Report to Management is included as Attachment 5. The report identifies **no current year comments or recommendations**.

CONCLUSION

The audit reports are in compliance with applicable laws and the scope of work contained in the Calderon, Jaham & Osborn contract. For informational purposes, copies of this report and all attachments will be distributed to the members of the Housing Authority.

Staff wishes to extend their sincere appreciation to Calderon, Jaham & Osborn for the professional manner in which this audit was performed.

Submitted by,

Approved by,

**Signature on File
with Original Document**

Edward P. Mauk, CIA
Manager of Financial Services

Elizabeth C. Morris
Chief Executive Officer

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Attachments:

1. FY02 Report on Audited Component Unit Financial Statements and Other Information
2. FY02 Single Audit Reports
3. FY02 Independent Auditors' Report on the Otay Villas Housing Development
4. FY02 Independent Auditors' Report on the Scattered Sites Housing Development
5. FY02 Report to Management

* Distribution of the attachments is limited due to their length. Copies are available for review at the San Diego Housing Commission, 1625 Newton Avenue, and at the Office of the City Clerk, 2nd Floor, 202 C Street.