



REPORT

DATE: For the Agenda of December 14, 2001 **Item 102**

REPORT NO: HCR01-139

SUBJECT: Fiscal Year 2001 Audit Reports

SUMMARY

Issue: Should the Housing Commission accept the Fiscal Year 2001 Audit Reports, specified in the list of Attachments on page 5 of this report, prepared by the accounting firm of Calderon, Jaham & Osborn?

Recommendation: It is so recommended.

Fiscal Impact: The cost for performing the various audits for fiscal year 2001 has not yet been finalized. However, the cost for performing the various audits for fiscal year 2000 was \$35,062.00.

Previous Related Action(s): On March 31, 1998, the City of San Diego awarded a five-year contract to Calderon, Jaham & Osborn that included in its scope of services performance of the financial and single audits of the Housing Commission and various project audits. The agreement was filed with the Office of the City Clerk, San Diego, California (Document Number RR-289909).

BACKGROUND

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



On June 30, 1998, HUD published a proposed rule that would establish annual financial reporting standards for HUD's public housing, Section 8 housing, other assisted housing, and multifamily insured housing programs. The rule proposed to require 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 proposed that the annual financial information submitted to HUD be prepared in accordance with generally accepted accounting principles ("GAAP"). Reporting in GAAP was determined important because GAAP accounting is more widely accepted than the method previously required by HUD and allows for financial consistency among various entities.

HUD's proposed rule was followed by Final Rule 24CFR Part 5, 200, 236, 266, 880, 886 and 982, dated September 1, 1998, which set forth the Uniform Financial Reporting Standards for HUD Housing Programs. *The Final Rule made GAAP basis financial statements a requirement for housing authorities with fiscal years ending September 30, 1999 and thereafter.*

The accompanying audited financial statements have been prepared in accordance with GAAP. They represent the results of operations of the SDHC for the fiscal year ending June 30, 2001.

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 taken as a whole 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 from the audit firm by a review of every transaction.

A financial audit by an independent audit firm can have four possible conclusions. They 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 - due to a scope limitation by management, it prevents an opinion from being expressed.

Calderon, Jaham & Osborn issued an **unqualified opinion** on the Housing Commission's fiscal year 2001 financial statements (see Attachment 1).

Single Audit

Congress passed the Single Audit Act in October 1984. This act requires 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. 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 noting 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 2001 Single Audit 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 that we consider 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 that we consider to be **material weaknesses**, and
 - C. The Schedule of Expenditures of Federal Awards is **fairly stated**.

In addition, Calderon, Jaham & Osborn provided the attached Report to Management (see Attachment 6). The Report identifies **no current year comments and recommendations**.

Project Specific Audits

Certain funds of the Housing Commission are required to be audited at a more detailed level. These include:

- A. State of California Projects: 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).
- B. University Canyon Project: HUD regulations require an independent financial audit on Section 8 new construction projects. Calderon, Jaham & Osborn expressed an **unqualified opinion** on the financial statements for the University Canyon project (see Attachment 5).

CONCLUSION

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 its attachments will be distributed to the members of the Housing Authority.

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

Submitted by,

**Signature on File
With Original Document**

Approved by,

Edward P. Mauk, CIA
Manager of Financial Services

Elizabeth C. Morris
Chief Executive Officer

DG:f:\word\Judyh\Audit\FY01\board_rpt.doc

Attachments:

1. FY01 Report on Audited Component Unit Financial Statements and Other Information
2. FY01 Single Audit Reports
3. FY01 Independent Auditors' Report on the Otay Villas Housing Development
4. FY01 Independent Auditors' Report on the Scattered Sites Housing Development
5. FY01 University Canyon North Report on Audited Financial Statements and Additional Information
6. FY01 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.