

REPORT

DATE ISSUED: February 22, 2008 REPORT NO: HCR 08-20
ATTENTION: Chair and Members of the Housing Commission
For the Agenda of March 14, 2008
SUBJECT: 2007 Annual Audit Reports

REQUESTED ACTION:

Housing Commission acceptance of the Fiscal Year 2007 Audit Reports, specified in the list of Attachments on page 3 of this report, as prepared by The Reznick Group, Certified Public Accountants.

STAFF RECOMMENDATION:

Staff recommends that the Housing Commission accept the Fiscal Year 2007 Audit Reports prepared by The Reznick Group, an independent audit firm and distribute the report to the Housing Authority and interested parties.

BACKGROUND:

In June 2005, following a formal RFP process, the Housing Commission awarded a contract to The Reznick Group to conduct various financial audits of the Housing Commission for fiscal year 2005, with options for annual renewals through Fiscal Year 2009.

The accompanying audited financial statements have been prepared in accordance with Generally Accepted Accounting Principles ("GAAP"), as required by the U.S. Department of Housing and Urban Development ("HUD") and represent the results of operations of the Housing Commission for the fiscal year ending June 30, 2007. Although Reznick did not propose any audit adjustments, there were minor changes to the accounting presentation, as compared to the prior year. These changes only affect the Notes to the Financial Statements, and are due to the application of recent pronouncements of the Governmental Accounting Standards Board ("GASB") which sets standards for governmental financial reporting.

The Reznick Group has issued an **unqualified opinion** on the Housing Commission's fiscal year 2007 financial statements, contained in the Annual Financial Report (see Attachment 1), and have attested that the financial statements are fairly stated as a whole. 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 overstatement or understatement of amounts). Absolute assurance can only be obtained by the audit firm reviewing every transaction rather than the industry practice of statistical sampling.

In addition, the Federal government requires that local governments receiving federal financial assistance of \$500,000 or more provide for a "single audit" of grant funds. 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 ("OMB").

Results of the 2007 Single Audit (see Attachment 2) performed by The Reznick Group are summarized as follows:

1. Tests of compliance and internal control over financial reporting disclosed **no instances of noncompliance** that are required to be reported under *Government Auditing Standards*, and **no material weaknesses** in matters involving the internal control over financial reporting and its operation. There were no findings related to FY07 operations, and a prior year finding relative to information systems security and controls was cleared. (see Auditees Comments on Audit Resolution Matters on page 13).

2. Tests of the Housing Commission's compliance with laws, regulations, contracts and grants applicable to each of its major federal programs disclosed that the Housing Commission **complied**, in all material respects, with the requirements applicable to each of its major federal programs, and disclosed **no material weaknesses** in matters involving the internal control over compliance and its operation.
3. The Schedule of Expenditures of Federal Awards is **fairly stated**.

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. The Reznick Group expressed an **unqualified opinion** on the financial statements for the two State of California projects (see Attachments 4 and 5).

The audit also included a letter to Management titled "Internal Control Related Matters" (see Attachment 3). The letter is designed to provide a forum for the Auditors to provide comments and recommendations that do not rise to the level of a formal finding within the Audit Report and is intended to identify areas of opportunity for strengthening internal controls and improving operating efficiency. It notes four areas of concern: timely posting of bank adjustments, oversight of the payroll function, cumulative small vendor contracts, and information systems security. The Housing Commission response to these matters is included within the report.

Conclusion

The audit reports are in compliance with applicable laws and the scope of work contained in the contract between the Housing Commission and The Reznick Group. 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 The Reznick Group for the professional manner in which this audit was performed.

FISCAL CONSIDERATIONS:

The cost for performing the various audits for Fiscal Year 2007 is \$58,493. The audit costs were accrued at June 30, and are reflected within the attached financial statements

KEY STAKEHOLDERS & PROJECTED IMPACTS:

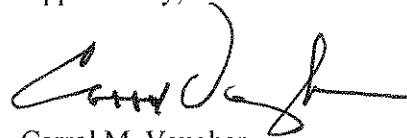
An annual audit report is required by the OMB, HUD, and the U.S. Census Bureau. In addition, the City of San Diego, various agencies of the State of California, banking institutions, and other grantors require some or all of these reports on an annual basis.

Respectfully submitted,



John Pfeiffer
Director of Finance

Approved by,



Carrol M. Vaughan
Interim President & Chief Executive Officer

Attachments:

1. FY07 Annual Financial Report
2. FY07 Single Audit Reports
3. FY07 Report on Internal Controls Related Matters
4. FY07 Independent Auditors' Report on the Otay Villas Housing Development
5. FY07 Independent Auditors' Report on the Scattered Sites Housing Development

Distribution of these attachments may be limited. Copies available for review during business hours at the Housing Commission offices at 1122 Broadway, Main Lobby.