

REPORT

DATE ISSUED: February 09, 2009

REPORT NO: HCR09-007

ATTENTION: Chair and Members of the Housing Commission
For the Agenda of February 20, 2009

SUBJECT: 2008 Annual Finance Audit Reports

REQUESTED ACTION:

Housing Commission acceptance of the Fiscal Year 2008 Audit Reports, specified in the list of Attachments on page three of this report, as prepared by The Reznick Group, Certified Public Accountants.

STAFF RECOMMENDATION:

That the Housing Commission accept the Fiscal Year 2008 Audit Reports prepared by The Reznick Group, an independent audit firm and forward the Audit Report to the City's Audit Committee for review and acceptance prior to distributing the reports to the Housing Authority and interested parties.

BACKGROUND:

In June 2005, following a formal Request For Proposal (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 represents the results of operations of the Housing Commission for the fiscal year ending June 30, 2008. 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 2008 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).

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 2008 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 FY08 operations.

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 three areas of concern: Cumulative small vendor contracts, oversight on updating authorized signers for all banking relationships 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 2008 is \$74,000. The audit costs were accrued at June 30, 2008 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,

Approved by,



John Pfeiffer
Director of Finance
Chief Financial Officer



Carrol Vaughan
Executive Vice President &
Chief Operating Officer

Attachments:

1. FY08 Annual Financial Report
2. FY08 Single Audit Reports
3. FY08 Report on Internal Controls Related Matters
4. FY08 Independent Auditors' Report on the Otay Villas Housing Development
5. FY08 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.

Financial Services Management Comments

Procurement

Observation

1. Significant cumulative payments were made to vendors that were not selected through competitive bidding process in accordance with procurement policy and procedures of the Commission.

Management Response

The Commission staff is working with Reznick Group audit staff to identify the types of procurement that would follow competitive bidding process. Asset Management worked with Business Services to comply with the Commission's Policy & Procedures by bidding similar scope of work that exceeds the yearly limits set under the Procurement Policy, such as tenant move-out painting services. Financial Services is currently working with Business Services in establishing a RFO, Request for Offer, process to meet their temporary professional accounting staffing needs.

Bank Records

Observation

1. Authorized signors for the US Bank Investment account had not been updated to remove the prior Executive Director and the Director of Finance from the account

Recommendation

A procedure should be established to update the authorized signors for all banking and investments relationships at the time a change in personnel occurs

Management Response

We agree with Reznick Group's recommendation. Currently, US Bank Investments account referred by the Auditors is only a transfer account, no checks can be drawn on these accounts. The Investment account funds can only be transferred to/from the SDHC Revolving account and cannot be transferred to any other banks accounts. As of October 2008 the Finance Department updated all the banks signature cards and created a "Bank Matrix" schedule including authorized signors and access rights for all bank accounts The "Bank Matrix" will be updated when a change in personnel occurs by the Finance Department.

Information Technology (IT) Management Comments

Access Controls

Observation

1. The IT officer has the responsibility for IT security and database management.
2. Generic user accounts are used on the domain and firewall

Risk

1. The IT officer can create users and make changes that are not tied to their user account.
2. Generic user accounts do not create an audit trail of who made changes on the network or firewall.

Recommendation

Management should review changes made to the database and if possible restrict the IT officers access to either IT security or database management. Management should also remove generic accounts from the network so that each user is accountable for their actions.

Management Response

1. The IT Officer has supervisory responsibility for IT Security and database management. Separate IT staff create user accounts and maintain security based on pre-established processes with documented backup. We are currently looking at Active Directory and SQL Database auditing tools for future implementation.
2. Individual domain and firewall user accounts have been created and implemented.

Change Management

Observation

1. There is not a formalized change management policy or procedures.

Risk

1. By not have a formal process to guide change management actions there is not a way to easily verify that changes are authorized, tested, approved or properly implemented.

Recommendation

Create a policy and procedures for change management that includes the follow steps for each type of change. Authorization, Testing, Approval and Proper Implementation

Management Response

We currently have change management and upgrade process sheets that we will incorporate into a more formalized change management policy.

Third Party Service Providers

Observation

Third party service providers, such as Iron Mountain, SDHC's offsite media storage facility, are not evaluated to determine if controls are in place for the protection of SDHC data.

Risk

Without evaluation of the controls in place at vendors, there is no way to provide assurance that SDHC data is secure.

Recommendation

Management should consider reviewing the controls in place at third party service providers, including Iron Mountain, to verify that their data is appropriately secured and controlled. This can be accomplished by requesting and reviewing a SAS 70 report from third party service providers.

Management Response

We will annually request and review SAS 70 reports from appropriate third party vendors.