

**HOUSING AUTHORITY OF THE
COUNTY OF SANTA CLARA**

Single Audit Reports

For the Year Ended June 30, 2017



Certified
Public
Accountants

HOUSING AUTHORITY OF THE COUNTY OF SANTA CLARA
(A Component Unit of the County of Santa Clara)
Table of Contents
June 30, 2017

	<u>Page</u>
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1
Independent Auditor’s Report on Compliance For Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance	3
Schedule of Expenditures of Federal Awards	7
Notes to the Schedule of Expenditures of Federal Awards.....	8
Schedule of Findings and Questioned Costs.....	9
Corrective Action Plan.....	11
Summary Schedule of Prior Audit Findings	12



**Independent Auditor's Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance With *Government Auditing Standards***

Members of the Board of Commissioners of the
Housing Authority of the County of Santa Clara, California
San Jose, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate discretely presented component units of the Housing Authority of the County of Santa Clara, California (Authority) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 11, 2017. Our report includes a reference to other auditors who audited certain of the financial statements of the Authority's blended component units and discretely presented component units, as described in our report on the Authority's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the blended component units, except for Housing Development Corporation, AE Associates, Ltd., San Pedro Garden Associates, Ltd., and S.P.G. Housing Inc., and the financial statements of the discretely presented component units, except for Bendorf Drive, LP, Clarendon Street LP, Fairground Luxury Family Apartments, LP, HACSC/Choices Family Associates, and Opportunity Center Associates, LP, were not audited in accordance with *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Macias Gini & O'Connell LLP

Walnut Creek, California
December 11, 2017



**Independent Auditor's Report on Compliance For Each Major Federal Program;
Report on Internal Control Over Compliance; and Report on
Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

Members of the Board of Commissioners of the
Housing Authority of the County of Santa Clara, California
San Jose, California

Report on Compliance For Each Major Federal Program

We have audited the Housing Authority of the County of Santa Clara, California's (Authority) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended June 30, 2017. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

Opinion on Each Major Federal Program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2017-001. Our opinion on each major federal program is not modified with respect to these matters.

The Authority's response to the noncompliance finding identified in our audit is described in the accompanying corrective action plan. The Authority's response was not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on the Schedule of Expenditures of Federal Awards

Required by the Uniform Guidance

We have audited the financial statements of the business-type activities and the aggregate discretely presented component units of the Authority, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements. We issued our report thereon dated December 11, 2017, which contained unmodified opinions on those financial statements. Our report also includes a reference to other auditors. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements.

The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Macias Gini & O'Connell LLP

Walnut Creek, California
February 6, 2018

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HOUSING AUTHORITY OF THE COUNTY OF SANTA CLARA

(A Component Unit of the County of Santa Clara)

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2017

<u>Grantor/Pass-Through Grantor/Program Title</u>	<u>Grantor Identifying Number(s)</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
U.S. Department of Housing and Urban Development			
<i>Direct:</i>			
Continuum of Care	n/a	14.267	\$ 3,396,731
Section 8 Project-Based Cluster			
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	n/a	14.856	1,239,140
Housing Voucher Cluster			
Section 8 Housing Choice Vouchers	n/a	14.871	15,508,457
Mainstream Vouchers	n/a	14.879	<u>804,602</u>
Subtotal Housing Voucher Cluster			16,313,059
Family Self Sufficiency	n/a	14.896	329,908
Moving To Work Demonstration Program	n/a	14.881	<u>295,000,441</u>
Total expenditures of federal awards			<u>\$ 316,279,279</u>

See accompanying notes to the schedule of expenditures of federal awards.

**HOUSING AUTHORITY OF THE
COUNTY OF SANTA CLARA, CALIFORNIA**
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017

NOTE 1 – GENERAL

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the Housing Authority of the County of Santa Clara, California (the Authority). The Authority's reporting entity is defined in Note 1 of the Authority's basic financial statements. Federal awards received directly from federal agencies, as well as federal awards passed through from other governmental agencies, are included on the Schedule. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Because the Schedule presents only a selected portion of the operations of the Authority, it is not intended to and does not present the financial position, changes in net position or cash flows of the Authority.

NOTE 2 – BASIS OF ACCOUNTING

Amounts reported on the Schedule represent expenditures incurred for the Authority's federal programs, and are reported on the accrual basis of accounting and include capitalized expenditures. Such expenditures are recognized following the cost principles contained in 2 CFR 200, Subpart E (Cost Principles), wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Authority did not elect to use the 10% de minimis cost rate as covered in 2 CFR 200.414 Indirect (F&A) costs.

NOTE 3 - RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Amounts reported in the Schedule agree to or can be reconciled with the amounts reported in the related federal financial reports.

NOTE 4 - RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

The Schedule agrees to or can be reconciled with the amounts reported in the Authority's basic financial statements.

**HOUSING AUTHORITY OF THE
COUNTY OF SANTA CLARA, CALIFORNIA**
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2017

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued:	Unmodified
Internal control over financial reporting:	
♦ Material weakness(es) identified?	No
♦ Significant deficiency(cies) identified?	None reported
Noncompliance material to the financial statements noted?	No

Federal Awards

Internal control over major programs:	
♦ Material weakness(es) identified?	No
♦ Significant deficiency(cies) identified?	None reported
Type of auditor’s report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	Yes
Identification of major programs?	14.881 - Moving To Work Demonstration Program 14.267 – Continuum of Care
Dollar threshold used to distinguish between type A and type B programs:	\$3,000,000
Auditee qualified as a low-risk auditee?	Yes

Section II - Financial Statement Findings

None reported.

**HOUSING AUTHORITY OF THE
COUNTY OF SANTA CLARA, CALIFORNIA**
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2017

Section III - Federal Award Findings and Questioned Costs

Finding Reference	2017-001
Federal Agency	U.S. Department of Housing and Urban Development
Federal Program Title	Continuum of Care
Federal Catalog Number	14.267
Category of Finding	Matching
Classification of Finding	Control Deficiency in Internal Control over Compliance Incident of Noncompliance

Criteria

Per 24 CFR Section 578.73(a), the recipient or subrecipient must match all grant funds, except for leasing funds, with no less than 25 percent of funds or in-kind contributions from other sources. For Continuum of Care (COC) geographic areas in which there is more than one grant agreement, the 25 percent match must be provided on a grant-by-grant basis. Recipients that are Unified Funding Agencies (UFAs) or are the sole recipient for their Continuum, may provide match on a Continuum-wide basis. Cash match must be used for the costs of activities that are eligible under subpart D of this part, except that High-Performing Communities (HPCs) may use such match for the costs of activities that are eligible under § 578.71.

Condition

The Authority partnered with the County of Santa Clara (County) to fulfill the 25% match requirement. The County is responsible to provide supportive service to the program participant. During the year of 2017, the Authority requested \$196,574 from HUD for one of the COC grant agreements awarded. Thus, the Authority is subject to match \$49,144, which is the 25% of the total amount requested.

Per review of the County's records received by the Authority, only \$42,029 worth of supporting services were provided.

Cause

The participants did not have much need from the program once they were housed with the rental assistance provided. When they declined the services, it created difficulties for the County to provided services based upon the agreement with the Authority to meet the 25% matching requirement.

Effect

The Authority was not in compliance with the program requirement.

Questioned Costs

\$7,115 which is the difference of the required matching amount and the actual amount matched.

Recommendation

We recommend the Authority to require the County provide service reports more frequently with the County, and provide specific guidelines on what is considered as supportive services. Also, it is recommended that the Authority be more communicative to the grantor about the situation.

Santa Clara County Housing Authority
Corrective Action Plan
For Fiscal Year Ended June 30, 2017

The following finding is reported in the Agency's Schedule of Findings and Questioned Cost for the Year Ended June 30, 2017.

Comment # 2017-01(Control Deficiency in Internal Control over Compliance Incident of Noncompliance) – Matching (Continuum of Care 14.267)

The Authority's Correction Action for the finding is as follow:

Santa Clara County Housing Authority transferred the Continuum of Care grants PSH (CA1274L9T001602) effective July 1, 2017 and CoC #5320 (CA0746L9T1608) effective Oct 31, 2017 to the Santa Clara County – Office of Supportive Housing.

If you have further question, please contact Katherine Harasz, Executive Director, at 408-993-2903.

Santa Clara County Housing Authority
Summary Schedule of Prior Year Finding
For Fiscal Year Ended June 30, 2017

Summary Schedule of Prior Audit Findings

Reference Number	2015-004 – Eligibility Section 8 Moderate Rehabilitation – CFDA #14.856
Audit Finding	During our audit of the eligibility requirements of the Section 8 Moderate Rehabilitation Program (MOD), we randomly selected 13 tenants from a population of 75 cases for testing. In two tenant cases, the HAP to Owner per MOD HAP register did not agree to the HAP per Owner listed at form HUD-50058 due to tenant rent payments being incorrectly computed due to missed imputed income from both savings and checking accounts. In one tenant case, the HAP to Owner per MOD HAP register did not tie to the HAP per Owner listed at form HUD-50058 due to missed imputed income from assets.
Recommendation	The Authority was recommended to establish a procedure to review the system data with the case files at each initial examination and re-examination date to ensure the system was properly established and the correct tenant information is used to compute the housing assistance payments
Status	Implemented. The Authority implemented the Nan McKay Quality Control Tool on July 1, 2017