

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

Single Audit Reports

For the Year Ended June 30, 2015



Certified
Public
Accountants

HOUSING AUTHORITY OF THE COUNTY OF SANTA CLARA
(A Component Unit of the County of Santa Clara)
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June 30, 2015

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**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 Standard*, 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, 2015, and the related notes to the financial statements, which collectively comprise the Authority’s basic financial statements, and have issued our report thereon dated January 13, 2016. Our report includes a reference to other auditors who audited the certain of the financial statements of the Authority’s blended component units and its 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 following blended component units: Poco Way HDC, Inc., Rotary Plaza/HACSC HDC, Inc., Villa Garcia, Inc. and Villa San Pedro HDC, Inc.; and the following discrete component units: Bascom HACSC Associates, Blossom River Associates, Bracher Associates, L.P., Branham Lane LLC, Fairgrounds Senior Housing, L.P., HACSC/Choices Senior, Helzer Associates, Huff Avenue Associates, Julian Street Partners, L.P., Klamath Associates, Pinmore Associates, Rincon Gardens Associates, L.P., Thunderbird Associates, and Willow HACSC Associates, 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 over financial reporting 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

financial reporting that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of finding and questioned costs as items 2015-001 and 2015-002 that we consider to be significant deficiencies.

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*.

Management's Response to Findings

The Authority's response to the findings identified in our audit are described in the accompanying corrective action plan. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.



Walnut Creek, California
January 13, 2016



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 OMB Circular A-133

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 Circular A-133 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, 2015. 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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor’s Responsibility

Our responsibility is to express an opinion on compliance for 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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, 2015.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2015-003 and 2015-004. Our opinion on each major federal program is not modified with respect to these matters.

The Authority's response to the noncompliance findings 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 OMB Circular A-133, 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2015-003 that we consider to be a significant deficiency.

The Authority's response to the internal control over compliance findings identified in our audit are 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.

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

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, 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements.

We issued our report thereon dated January 13, 2016, 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 OMB Circular A-133 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 3, 2016

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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, 2015

| Grantor/Pass-Through Grantor/Program Title | Grantor Identifying Number | Federal CFDA Number | Expenditures |
|--|----------------------------------|---------------------------|-----------------------|
| U.S. Department of Housing and Urban Development: | | | |
| <i>Direct:</i> | | | |
| Continuum of Care | n/a | 14.267 | \$ 3,025,571 |
| Section 8 Project Based Cluster: | | | |
| Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation | n/a | 14.856 | 1,112,373 |
| Housing Voucher Cluster | | | |
| Section 8 Housing Choice Vouchers | n/a | 14.871 | 6,417,203 |
| Mainstream Vouchers | n/a | 14.879 | 597,251 |
| Family Unification Program (FUP) | n/a | 14.880 | 1,427,190 |
| Subtotal Housing Voucher Cluster | | | <u>8,441,644</u> |
| Family Self Sufficiency | n/a | 14.896 | 201,125 |
| Moving To Work Demonstration Program | n/a | 14.881 | 214,762,263 |
| Total Direct awards | | | <u>227,542,976</u> |
| <i>Pass-through from City of Sunnyvale, CA</i> | | | |
| Home Investment Partnerships Program | 1011-828750 | 14.239 | 32,000 |
| <i>Pass-through from County of Santa Clara, CA</i> | | | |
| Continuum of Care | Not Available | 14.267 | 9,848 |
| Total indirect awards | | | <u>41,848</u> |
| Total expenditures of federal awards | | | <u>\$ 227,584,824</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, 2015

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 the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. 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 OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

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.

NOTE 5 – PROGRAM TOTAL

The following table summarizes program funded by various sources whose totals is not shown on the Schedule.

| CFDA No./ Program Title/ Federal Grantor or Pass-Through Grantor | Pass-Through Identifying Number | Federal Expenditures |
|---|------------------------------------|-------------------------|
| CFDA No. 14.267 - Continuum of Care | | |
| U.S. Department of Housing and Urban Development | N/A | \$ 3,025,571 |
| County of Santa Clara, California | Not Available | 9,848 |
| | Program Total | <u>\$ 3,035,419</u> |

**HOUSING AUTHORITY OF THE
COUNTY OF SANTA CLARA, CALIFORNIA**
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2015

Section I – Summary of Auditor’s Results

Financial Statements

| | |
|---|----------------------------------|
| Type of auditor’s report issued: | We issued an unmodified opinion. |
| Internal control over financial reporting: | |
| ◆ Material weakness(es) identified? | No |
| ◆ Significant deficiency(cies) identified? | Yes |
| Noncompliance material to the financial statements noted? | No |

Federal Awards

| | |
|--|---|
| Internal control over major programs: | |
| ◆ Material weakness(es) identified? | No |
| ◆ Significant deficiency(cies) identified? | Yes |
| 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 section 510(a) of OMB Circular A-133? | Yes |
| Identification of major programs? | 14.881 - Section 8 Moving To Work Demonstration Program 14.856 - Section 8 Moderate Rehabilitation |
| Dollar threshold used to distinguish between type A and type B programs: | \$3,000,000 |
| Auditee qualified as a low-risk auditee? | No |

**HOUSING AUTHORITY OF THE
COUNTY OF SANTA CLARA, CALIFORNIA**
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2015

Section II - Financial Statement Findings

Comment #2015-001 Significant Deficiency

Internal Controls Over Financial Reporting and Reliability of Financial Statements

In order to fulfill its stewardship responsibilities, the Authority should establish and maintain effective internal controls over financial reporting. These controls should be designed to ensure complete, accurate, reliable financial reporting and compliance with applicable laws and regulations.

As part of our audit, we evaluate and assess internal controls over financial reporting. If controls do not exist, are poorly designed or not operating effectively, we must evaluate the control deficiency. Additionally, we are required to report the deficiency to management, including whether the control deficiency is a significant deficiency or material weakness.

During our review of the Authority's financial statements, we noted the following financial reporting errors:

- *Reconciliation of Beginning Net Position* – While calculating the restatement of beginning net position, the Authority did not properly consider the intra-company transactions between the component units. Certain transactions, including a gain from the purchase of fixed assets from a discretely presented component unit and the dissolution of discretely component units, should have been reported as part of current operations; however, these transactions were included as part of the restatement. This resulted in the omission of a discrete component unit and other reporting adjustments to record eliminations.
- *Inter-program Transactions* – Upon receipt the first draft of the financial statements, the Authority took approximately 3 weeks to review and analyze its inter-program balances and activities. The draft financial statement disclosures required additional extensive work to reconcile balances and eliminations reported on the financial statements.
- *Proper Disclosures* - The Authority has various note disclosures to discuss significant transactions related to its component units. While the notes capture the significant activities of each individual component unit, the initial disclosures (drafted by the Authority) omitted a discussion about the change in reporting entity and its impact to the Authority's financial statements at the entity-wide level.

We recommend the Authority evaluate its internal controls over financial reporting and implement a detailed set of procedures to timely coordinate, draft, review and communicate with all stakeholders who participate in the preparation of the annual financial statements. Additionally, we suggest training for staff in order to keep up to date on the latest developments in GAAP reporting. We also recommend the Authority update its account groupings to better capture related party and intra-entity transactions for financial statement reporting purposes.

**HOUSING AUTHORITY OF THE
COUNTY OF SANTA CLARA, CALIFORNIA**
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2015

Section II - Financial Statement Findings (Continued)

Comment #2015-002 Significant Deficiency

Accounting for Component Unit Activities Pursuant to GASB Statement No. 48

During the year ended June 30, 2015, the Authority reported 12 blended component units and 23 discretely presented component units in its financial statements. The Authority has numerous transactions between the Authority and the component units as well as within the component units themselves. When the Authority reports the acquisition of assets, during the consolidation process, GASB provides the following guidance under Statement No. 48, paragraph 15:

When accounting for the transfer of capital and financial assets ... within the same financial reporting entity, the transferee should recognize the assets ... received at the carrying value of the transferor...The difference between the amount paid and the carrying value of the receivables transferred should be reported as a gain or loss by the transferor and as a revenue or expenditure/expense by the transferee in their separately-issued statements, but reclassified as transfers or subsidies, as appropriate, in the financial statements of the reporting entity.

During the year ended June 30, 2015, the Authority disposed of 2 properties – Eklund Gardens I and II and its related buildings and improvements with a book value of \$2,310,620 in exchange for notes receivables from Halford LLC and Poinciana LLC in the amount of \$4,550,000 and recognized a gain on the disposition of the properties in the amount of \$2,239,380. Pursuant to GASB Statement No. 48, the gain from this transaction should be classified as interfund activity (i.e. operating transfers) in the Authority’s financial statements, as they become part of the same reporting entity.

Furthermore, pursuant to GASB Statement No. 34, interfund activity can be reported as such only in a set of financial statements that includes both parties involved in the activity. This purchase involves 2 different set of financial statements - primary government and discretely presented component units. Hence, the interfund activity should be reported as nonoperating activities.

Management has the responsibility to ensure its financial statements are presented fairly. Accordingly, management should continually evaluate the application of proper accounting standards when preparing the annual financial statements. With the increasing complexity of government financial reporting, it is essential that the Authority’s accounting personnel strengthen their proficiency with accounting standards and reporting requirements.

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

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2015

Section III - Federal Award Findings and Questioned Costs

Reference Number: 2015-003
Federal Agency: U.S. Department of Housing and Urban Development
Federal Program Title: Section 8 Moving to Work Demonstration Program
Federal Catalog Number: 14.881
Federal Grant Number: Not Applicable
Category of Finding: Eligibility; Special Tests and Provisions
Classification of Finding: Significant Deficiency in Internal Control over Compliance
Incident of Noncompliance

Criteria

Pursuant to 24 CFR §982.405, the Public Housing Agency (PHA) must inspect the unit leased to family prior to the initial term of the lease, at least annually during assisted occupancy, and at other times as needed, to determine if the unit meets the Housing Quality Standards.

Starting FY2009, the Authority conducts biennial inspections of assisted units occupied by Moving to Work's families. Section 220 of the 2014 Appropriation Act allows PHA to inspect assisted dwelling units biennially instead of annually. These changes have been authorized by Department of Housing and Urban Development (HUD) through revisions of Title 24 Code of Federal Regulations (CFR) Part 5, 943 and 982. Such change is also reported in the Authority's annual MTW Report and Plan submitted to HUD.

Condition and Context

During our audit of the eligibility requirements of the MTW's Section 8 HCV program, we selected 40 tenants representing a population of 15,501 for testing.

Of the total 40 tenant cases tested, the housing quality inspections for two units were not performed when they were due. The last inspection performed for the tested units were in March 2012 and October 2011. The next inspections were due by March 2014 and October 2013 respectively. Based on our testing, the actual inspection of 1 unit was performed subsequent to the fiscal year-end on October 16, 2015. No inspection was performed on the other unit, as the tenant moved out in July 2014.

Cause:

This condition is caused by a continuous deficiency in the process that the Authority has had in the past. Since the finding from last year, the Authority has implemented several tools to help catching up the outstanding inspections and improve the process. The estimated timeline to complete these corrections is March 2016.

Effect:

The Authority is not in compliance with this requirement.

Questioned Costs:

Actual questioned costs is \$17,154 which represented the actual housing assistance payments made to the tenants noted with exceptions during the fiscal year 2015.

Recommendation:

We recommend that the Authority establish a procedure to review the system data with the case files at each initial examination and re-examination date to ensure that HQS inspections are performed on time.

**HOUSING AUTHORITY OF THE
COUNTY OF SANTA CLARA, CALIFORNIA**
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2015

Section III - Federal Award Findings and Questioned Costs (Continued)

Reference Number: 2015-004
Federal Agency: U.S. Department of Housing and Urban Development
Federal Program Title: Section 8 Moderate Rehabilitation
Federal Catalog Number: 14.856
Federal Grant Number: Not Applicable
Category of Finding: Eligibility; Eligibility for Individuals
Classification of Finding: Control Deficiency in Internal Control over Compliance
Incident of Noncompliance

Criteria

Pursuant to 24 CFR 5.613, "The total tenant payment is the amount calculated under section 3(a)(1) of the 1937 Act (42 U.S.C. 1437a(a)(1))." Per 42 U.S.C. 1437a(a)(1), "Dwelling units assisted under this chapter shall be rented only to families who are low-income families at the time of their initial occupancy of such units. Reviews of family income shall be made at least annually. Except as provided in paragraph (2) and subject to the requirement under paragraph (3), a family shall pay as rent for a dwelling unit assisted under this chapter the highest of the following amounts, rounded to the nearest dollar: (A) 30 per centum of the family's monthly adjusted income; (B) 10 per centum of the family's monthly income; or (C) if the family is receiving payments for welfare assistance from a public agency and a part of such payments, adjusted in accordance with the family's actual housing costs, is specifically designated by such agency to meet the family's housing costs, the portion of such payments which is so designated."

Condition and Context

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. The following were noted:

- In two tenant cases, the HAP to Owner per MOD HAP register did not tie 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.

The Authority was unaware of the issue prior our selection of the tenant files. While the Authority provided the documentation for our testing, they reviewed the information, noted and corrected the errors. These errors were corrected on August 4, 2015 and August 5, 2015, with an effective date of October 1, 2015. Further, the Authority sent 30-day notices to the affected tenants informing them of the errors and corrections.

Cause of Condition:

The errors occurred due to oversight during the annual re-examination process.

Effect:

The Authority did not comply with the eligibility requirements related to the re-examination.

**HOUSING AUTHORITY OF THE
COUNTY OF SANTA CLARA, CALIFORNIA**
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2015

Section III - Federal Award Findings and Questioned Costs (Continued)

Questioned Costs:

Known questioned costs totaled \$34. The questioned costs are computed by taking difference of the HAP to owner monthly payment made from the date of the applicable re-examination with the proper HAP to owner payment to the Authority's fiscal year-end.

Recommendation:

We recommend that the Authority 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.

**HOUSING AUTHORITY OF THE
COUNTY OF SANTA CLARA, CALIFORNIA**
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2015

Summary of Prior Year's Federal Award Findings

| | |
|------------------------------|---|
| Reference Number: | Finding 2014-001 – Eligibility and Special Tests and Provisions Lower Income Housing Assistance – Program Section 8 Moderate Rehabilitation – 14.856 |
| Audit Finding: | Of the 25 participants selected for testing, it was noted that 7 instances for which the units have not been inspected for Housing Quality Standard (HQS) during the past two fiscal years. |
| Recommendation: | The Authority was recommended to have a policy in place to ensure HQS inspections were performed at least annually. |
| Status of Corrective Action: | See finding 2015-003 |

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**HOUSING AUTHORITY OF THE
COUNTY OF SANTA CLARA, CALIFORNIA**
Corrective Action Plan
For the Year Ended June 30, 2015

The following findings were reported in the Authority's Schedule of Findings and Questioned Costs for the Year Ended June 30, 2015. The Authority's corrective action plan for these findings is as follows:

Finding #2015-001: Significant Deficiency on Internal Controls Over Financial Reporting and Reliability of Financial Statements

While the Authority acknowledges the internal control issues reported over financial reporting we believe the level of internal control deficiency should only be a control deficiency. However, due to the increasing complexity of government financial reporting we understand the need to improve our year end procedures and provide adequate training to staff on the latest developments in GAAP reporting. The Finance Department will revise its year end procedures to include a timely review of intra- company transactions between its component units and their impact to the Authority's consolidated financial statements. This review will ensure financial statements are prepared in compliance with proper GAAP and Government Accounting Standards Board (GASB) standards. The process will also include early consultation with our auditors on complex intra company transactions. In addition, the Authority will review the adequacy of resources allocated and staff training required for the preparation of the financial statements.

Chandrika Karur, Controller, is the responsible officer. Her contact information is 408-993-2909 or Chandrika.karur@hacsc.org.

Finding #2015-002: Significant Deficiency on Accounting of Component Unit Activities Pursuant to GASB Statement No. 48

The gain of \$2,239,380 from the disposition of the Eklund Gardens I and II and its related buildings and improvements were recorded correctly in the financial statements of each respective component units. However, after carefully reviewing GASB Statements No. 34 and 48 we concur that this transaction should have been reported as a non-operating activity instead of a gain in the Authority's combined financial statements. The Finance department will strengthen its financial statement review procedures and consult with auditors to ensure that proper accounting standards are applied when preparing the consolidated annual financial statements for the Authority

Chandrika Karur, Controller, is the responsible officer. Her contact information is 408-993-2909 or Chandrika.karur@hacsc.org.

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

Corrective Action Plan (Continued)
For the Year Ended June 30, 2015

Finding #2015-003 - Significant deficiency in internal control over compliance and incident of noncompliance over HQS inspection requirement of Section 8 Moving to Work Demonstration Program (CFDA 14.881)

This issue was brought to our attention during the Single Audit review completed in 2014 for the Moderate Rehabilitation Program and corrective actions were initiated August 2015. In response to the finding in 2014, the Housing Authority completed an audit review on annual and biennial inspections for all programs. The Compliance Team worked with the IT department to develop audit reports to monitor open inspections and past due inspections including inspection result errors. Based on these reports, the Housing Authority contracted for additional services with a third party vendor to schedule all past due inspections by February 2016. The Compliance Team also working on correcting the data errors in Elite to ensure that the upcoming inspections were generated and scheduled in a timely manner. The estimated timeline to complete these corrections is March 2016.

In order to prevent future errors, the following actions were taken:

1. Assigned the scheduling and notification of inspection deficiencies to one staff member within the Compliance Team instead of 35 staff members in the Occupancy Team.
2. Reduced access to staff on the ability to change data in the inspection Elite module to two staff members within the Compliance Team.
3. Re-trained staff on the policy for rescheduled inspections and scheduling inspections for units with future vacancy dates.
4. Assigned HQS enforcement and follow up to five staff members instead of 35 staff.
5. Developed the Compliance Team in April 2014 for monthly oversight on program compliance.
6. Assigned Monthly reports and oversight to one Compliance Coordinator for past due inspections.

Tui Varela, Program Compliance Manager, is the responsible officer. Her contact information is 408-993-3052 or tui.varela@hacsc.org.

Finding #2015-004 - Control deficiency in internal control over compliance and incident of noncompliance over eligibility requirement of Section 8 Moderate Rehabilitation (14.856)

The Housing Authority develops policies for Moving to Work and Non Moving to Work programs. The Moving to Work program allows income from assets included based on a specific threshold. The Housing Authority did not apply this policy consistently. In response to this, staff was re-trained on the policy and the Program Compliance Unit created a compliance report to monitor changes to tenant's rent calculation. In addition, the Compliance team is in the process of auditing the entire Moderate Rehabilitation and other Special Programs to ensure income from assets are calculated correctly. This audit is projected to be completed by the end of February 2016.

In order to prevent future errors, the Housing Authority purchased the Nan McKay Quality Assurance Software and developed audit performance standards for the federal programs. The Housing Authority recently launched a pilot program for the Nan McKay QA software. The outcome from the pilot program will assist in identifying potential program errors and future program training for staff.

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