

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

Single Audit Reports

For the Year Ended June 30, 2016



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HOUSING AUTHORITY OF THE COUNTY OF SANTA CLARA
(A Component Unit of the County of Santa Clara)
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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, 2016, 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 21, 2016. Our report includes a reference to other auditors who audited 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 blended component units, except for 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 21, 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 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, 2016. 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, 2016.

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, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements. We issued our report thereon dated December 21, 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 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 14, 2017

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, 2016

Grantor/Pass-Through Grantor/Program Title	Grantor Identifying Number(s)	Federal CFDA Number	Expenditures
U.S. Department of Housing and Urban Development			
<i>Direct:</i>			
Continuum of Care	n/a	14.267	\$ 3,183,642
Section 8 Project-Based Cluster			
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	n/a	14.856	1,182,997
Housing Voucher Cluster			
Section 8 Housing Choice Vouchers	n/a	14.871	9,055,501
Mainstream Vouchers	n/a	14.879	686,529
Subtotal Housing Voucher Cluster			<u>9,742,030</u>
Family Self Sufficiency	n/a	14.896	344,814
Moving To Work Demonstration Program	n/a	14.881	<u>226,653,338</u>
Total Direct Awards			241,106,821
<i>Indirect:</i>			
Pass-through from County of Santa Clara, California			
Continuum of Care	Not Available	14.267	<u>2,611</u>
Total expenditures of federal awards			<u>\$ 241,109,432</u>

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

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**HOUSING AUTHORITY OF THE
COUNTY OF SANTA CLARA, CALIFORNIA**
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

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.

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	\$ 3,183,642
County of Santa Clara, California	Not Available	<u>2,611</u>
	Program Total	<u><u>\$ 3,186,253</u></u>

**HOUSING AUTHORITY OF THE
COUNTY OF SANTA CLARA, CALIFORNIA**
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2016

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)?	No
Identification of major programs?	14.881 - Moving To Work Demonstration Program 14.871 and 14.879 – Housing Voucher Cluster
Dollar threshold used to distinguish between type A and type B programs:	\$3,000,000
Auditee qualified as a low-risk auditee?	No

Section II - Financial Statement Findings

None reported.

Section III - Federal Award Findings and Questioned Costs

None reported.

**HOUSING AUTHORITY OF THE
COUNTY OF SANTA CLARA, CALIFORNIA**
Summary Schedule of Prior Year Audit Findings
For the Year Ended June 30, 2016

Summary of Prior Year's Financial Statements Findings

Reference Number: **Finding 2015-001 –Internal Control over Financial Reporting and Reliability of Financial Statements**

Audit Finding: During our evaluation of the Authority's internal control over financial reporting, we noted that the Authority did not properly factor in the inter-company transactions between the component units, and the Authority also took approximately 3 weeks to review and analyze the inter-program balance and activities. The discussion about change in reporting entity and its impact at the entity-wide level was omitted in the original draft of financial statements prepared by the Authority.

Recommendation: The Authority was recommended to evaluate its internal control 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 financial statements. Furthermore, cross-training among the Authority's staff level and update in the charts of accounts were also recommended.

Status of Corrective Action: Corrective action plan was implemented. During the preparation and review of schedules of inter-program transactions with the Authority's component units, the Controller gained experience over the past year and ensured that the schedules were timely prepared in accordance with the standards.

Reference Number: **Finding 2015-002 – Accounting for Component Unit Activities Pursuant to GASB Statement No. 48**

Audit Finding: The Authority disposed 2 properties to its discretely component units in exchange for note receivables and recognized gain on the disposition of the properties. Pursuant to GASB Statement No. 48, the gain from this transaction should be reclassified as interfund activity (i.e. operating transfer) in the Authority's financial statements, as the discretely presented component units became part of the same reporting entity.

Recommendation: The Authority was recommended to continually evaluate the application of proper accounting standards during the preparation of financial statements. It was also recommended that the Authority's staff to strengthen their proficiency with the accounting and reporting standards.

Status of Corrective Action: Corrective action plan was implemented. During the preparation and review of schedules of interfund transactions with the Authority's component units, the Controller gained experience during the past year and ensured the schedules were timely prepared in accordance with the applicable standards.

**HOUSING AUTHORITY OF THE
COUNTY OF SANTA CLARA, CALIFORNIA**
Summary Schedule of Prior Year Audit Findings
For the Year Ended June 30, 2016

Summary of Prior Year's Federal Award Findings

Reference Number:	Finding 2015-003 – Eligibility and Special Tests and Provisions Section 8 Moving to Work Demonstration Program – 14.881
Audit Finding:	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.
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 that HQS inspections are performed on time.
Status of Corrective Action:	Corrective action plan has been implemented.
Reference Number:	Finding 2015-004 – Eligibility Section 8 Moderate Rehabilitation – 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 of Corrective Action:	In progress. The Authority purchased the Nan McKay Quality Assurance Software. As of the date of this single audit report, the Authority is at the second pilot testing, and anticipated to implement it in the operation around March 2017. The Authority's compliance team also reviewed the quality control reports from Elite.