

**INGLEWOOD HOUSING AUTHORITY**

Basic Financial Statements and Supplementary Information

For the Fiscal Year Ended September 30, 2010

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**INGLEWOOD HOUSING AUTHORITY**  
**FINANCIAL AND COMPLIANCE REPORT**

Fiscal Year Ended September 30, 2010

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**Mayer Hoffman McCann P.C.**

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The Honorable Mayor and  
Members of the City Council  
Inglewood Housing Authority, California

**INDEPENDENT AUDITORS' REPORT**

We have audited the accompanying financial statements of the governmental activities and major fund of the Inglewood Housing Authority (Authority), a component unit of the City of Inglewood, California (City), as of and for the fiscal year ended September 30, 2010, which collectively comprise the Authority's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the Authority as of September 30, 2010, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Authority will continue as a going concern. As discussed in note 8, the Authority has suffered recurring losses from operations and has a net asset deficiency that raises substantial doubt about the Authority's ability to continue as a going concern. Management's plans in regards to these matters are also described in note 8. The financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might result should the Authority be unable to continue as a going concern.

The Authority has not presented *management's discussion and analysis* which according to accounting principles generally accepted in the United States of America is necessary to supplement, although not required to be part of, the basic financial statements.

The Honorable Mayor and  
Members of the City Council

The information identified in the accompanying table of contents as *required supplementary information* is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 17, 2011 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Mayer Hoffman McCann P.C.*

Irvine, California  
May 17, 2011

# INGLEWOOD HOUSING AUTHORITY

## Statement of Net Assets

September 30, 2010

Assets:	
Prepaid rents	\$ 974,808
Total assets	<u>974,808</u>
Liabilities:	
Accounts payable	33,993
Refundable deposits	76,968
Due to other governments	80,296
Due to City of Inglewood (note 3)	5,049,068
Long-term liabilities (note 4):	
Due within one year	46,471
Due in more than one year	<u>418,235</u>
Total liabilities	<u>5,705,031</u>
Net assets (deficit):	
Unrestricted (deficit)	<u>(4,730,223)</u>
Total net assets (deficit)	<u>\$ (4,730,223)</u>

See accompanying notes to the basic financial statements.

**INGLEWOOD HOUSING AUTHORITY**

**Statement of Activities**

Fiscal Year Ended September 30, 2010

		Program Revenues		
	Expenses	Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants
				Net Governmental Activities
Governmental activities:				
Community development	\$ 10,584,000	-	8,787,893	-
Total governmental activities	<u>\$ 10,584,000</u>	<u>-</u>	<u>8,787,893</u>	<u>-</u>
General revenues:				
Other general revenues				425,815
Total general revenues				<u>425,815</u>
Change in net assets				(1,370,292)
Net assets (deficit) at beginning of year				<u>(3,359,931)</u>
Net assets (deficit) at end of year				<u>\$ (4,730,223)</u>

See accompanying notes to the basic financial statements.

**INGLEWOOD HOUSING AUTHORITY**

**Governmental Funds**

**Balance Sheet**

September 30, 2010

Assets:	
Prepaid rents	\$ <u>974,808</u>
Total assets	\$ <u>974,808</u>
Liabilities and Fund Balance (deficit)	
Liabilities:	
Accounts payable and accrued liabilities	\$ 33,993
Refundable deposits	76,968
Due to other governments	80,296
Due to City of Inglewood (note 3)	<u>5,049,068</u>
Total liabilities	<u>5,240,325</u>
Fund balance (deficit), unreserved	<u>(4,265,517)</u>
Total liabilities and fund balance (deficit)	<u>\$ 974,808</u>

See accompanying notes to the basic financial statements.

**INGLEWOOD HOUSING AUTHORITY**

**Governmental Funds**

**Reconciliation of the Balance Sheet of Governmental Funds  
to the Statement of Net Assets**

September 30, 2010

Fund balances (deficits) of governmental funds	\$ (4,265,517)
Amounts reported for governmental activities in the statement of net assets are different because:	
Long term debt that has not been included in the governmental fund activity.	
Compensated absences	<u>(464,706)</u>
Net assets (deficits) of governmental activities	<u>\$ (4,730,223)</u>

See accompanying notes to the basic financial statements.

**INGLEWOOD HOUSING AUTHORITY**

**Statement of Revenues, Expenditures and Changes in Fund Balances**

**Governmental Funds**

Fiscal Year Ended September 30, 2010

Revenues:		
Intergovernmental	\$	8,345,693
Other		<u>425,815</u>
Total revenues		<u>8,771,508</u>
Expenditures:		
Personnel services		1,306,125
Housing assistance payments		8,471,098
Maintenance and operation		<u>718,125</u>
Total expenditures		<u>10,495,348</u>
Excess (deficiency) of revenues over (under) expenditures		<u>(1,723,840)</u>
Other financing sources (uses):		
Transfers from City		<u>442,200</u>
Total other financing sources (uses)		<u>442,200</u>
Change in fund balance		(1,281,640)
Fund balance (deficit) at beginning of year		<u>(2,983,877)</u>
Fund balance (deficit) at end of year	\$	<u>(4,265,517)</u>

See accompanying notes to the basic financial statements.

**INGLEWOOD HOUSING AUTHORITY**  
**Governmental Funds**

**Reconciliation of the Statement of Revenues, Expenditures,  
and Changes in Fund Balances of Governmental Funds  
to the Statement of Activities**

Fiscal Year Ended September 30, 2010

Net changes in fund balances of governmental funds	\$ (1,281,640)
Amounts reported for governmental activities in the statement of activities is different because:	
To record as an expense the change in compensated absences in the statement of activities.	<u>(88,652)</u>
Change in net assets of governmental activities	<u>\$ (1,370,292)</u>

See accompanying notes to the basic financial statements.

# INGLEWOOD HOUSING AUTHORITY

## Notes to the Basic Financial Statements

Fiscal year ended September 30, 2010

### (1) Nature and Operations of the Authority

The Inglewood Housing Authority (Authority) is a separate governmental entity created in 1976 to foster the growth and development of affordable housing for low-income residents of the City of Inglewood (City). The Authority has the responsibility of managing federally subsidized rent programs within the City, including:

- The Housing Choice Voucher Program through which the Authority administers over 1,846 tenant-based vouchers.
- The Section 8 New Construction Program, which provides 500 units of subsidized housing for senior citizens and disabled persons:

The members of the City Council of the City also act as members of the Board of Directors of the Authority. Similarly, the officers of the City serve as officers of the Authority. Facilities, equipment and administrative, financial and legal services are provided to the Authority by the City, for which the City is reimbursed. The primary sources of revenue for the Authority are intergovernmental revenues.

Under Governmental Accounting Standards Board (GASB) Statement No. 14, the Authority is a component unit of the City and its financial activities have been blended with the financial activities of the City for purposes of financial reporting.

### (2) Summary of Significant Accounting Policies

#### (a) Basis of Presentation

##### Government - wide Financial Statements

The statement of net assets and statement of activities display information about the Authority's activities. These statements include the financial activities of the Authority. These statements present the Authority's *governmental activities*, which normally are supported by intergovernmental revenues.

The statement of activities presents a comparison between program expenses and program revenues for each function of the Authority's governmental activities. Program expenses include such direct expenses that are specifically associated with a program or function and therefore, are clearly identifiable to a particular function. Program revenues include 1) charges paid by the recipients of goods or services offered by the programs and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented instead as general revenues.

# INGLEWOOD HOUSING AUTHORITY

## Notes to the Basic Financial Statements

(Continued)

### (2) Summary of Significant Accounting Policies, (Continued)

#### (a) Basis of Presentation, (Continued)

When an expense is incurred for a purpose for which both restricted and unrestricted net assets are available, management has discretion as to which resources apply. It is the Authority's policy to use restricted resources before unrestricted resources.

#### Fund Financial Statements

The fund financial statements provide information about the Authority's funds. The emphasis of fund financial statements is on the major governmental funds. The financial activities of the Authority are accounted for in a single special revenue fund.

#### (b) Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the Authority gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, special assessments, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from grants, entitlements and donations are recognized in the fiscal year in which all eligible requirements have been satisfied.

Governmental fund type financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues and other governmental fund type financial resources are recognized when they become susceptible to accrual — that is, when they become both measurable and available.

Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Property taxes are considered available and are accrued when received within sixty days after fiscal year-end.

Revenue received from expenditure driven (cost-reimbursement) grants, contracts and other nonexchange transactions, as defined by GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, are considered available and accrued if expected to be received within twelve months after fiscal year-end.

# INGLEWOOD HOUSING AUTHORITY

## Notes to the Basic Financial Statements

(Continued)

### (2) Summary of Significant Accounting Policies, (Continued)

#### (c) Cash and investments

The Authority's cash from operations is deposited in the City Treasury. The City pools its funds with other government agencies in the City and invests them as prescribed by the California Government Code. The Authority's deposits in the City pool may be accessed at any time. The Authority is allocated interest income on monies deposited with the City based on its average monthly proportional share of the pooled cash and investments. All pooled investments are carried at fair market value.

#### (d) Net Assets/Fund Balances

The government-wide financial statements utilize a net assets presentation. Net assets are categorized as invested capital assets (net of related debt), restricted and unrestricted.

- Invested In Capital Assets, Net of Related Debt - This category groups all capital assets into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.
- Restricted Net Assets - This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Assets - this category represents net assets of the Authority, not restricted for any project or other purpose.

#### (e) Reservations/Designations

In fund financial statements, reservations of fund balance represent amounts that are not appropriable or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

#### (f) Budgetary Information

The Governing Board approves each year's budget submitted by the Executive Director prior to the beginning of the new fiscal year. Supplemental appropriations, where required during the period are also approved by the Governing Board. Intradepartmental budget changes are approved by the Executive Director. In most cases, expenditures may not exceed appropriations at the fund level. At fiscal year-end all operating budget appropriations lapse. There were no significant changes to the budget during the fiscal year.

INGLEWOOD HOUSING AUTHORITY

Notes to the Basic Financial Statements

(Continued)

(2) Summary of Significant Accounting Policies, (Continued)

Formal budgetary information is employed as a management control device during the year for the Special Revenue Funds. The budgets for all Governmental Funds are adopted on a basis consistent with generally accepted accounting principles.

(g) Estimate

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(h) Prior Year Data

Selected information regarding the prior year has been included in the accompanying financial statements. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the government's prior year financial statements, from which this selected financial data was derived.

(3) Due to City of Inglewood

As of September 30, 2010 the Authority had a balance of \$5,049,068 due to the City of Inglewood. This balance is a result of short-term borrowings to cover deficit cash balances in the Authority.

(4) Long-Term Liabilities

Long-term liability activity for the year ended September 30, 2010 was as follows:

	Balance at October 1, <u>2009</u>	<u>Additions</u>	<u>Deletions</u>	Balance at September 30, <u>2010</u>	Amounts due within <u>one year</u>
Compensated absences	<u>\$ 376,054</u>	<u>219,836</u>	<u>(131,184)</u>	<u>464,706</u>	<u>46,471</u>

(5) Self-Insurance Program

In conjunction with the City, the Authority is self-insured for the first \$1,000,000 of general liability claims and for the first \$250,000 of workers compensation claims. Information pertaining to the amounts accrued for claims payable may be found in the City's Basic Financial Statements.

# INGLEWOOD HOUSING AUTHORITY

## Notes to the Basic Financial Statements

(Continued)

### (6) Retirement Plan

The Authority, as part of the City, contributes to the California Public Employees Retirement System (PERS). PERS is an agent multiple-employer defined benefit plan that acts as a common investment and administrative agent for municipalities in California. The Authority pays its share of pension costs to the City and Employer Paid Member Contribution, which amounted to \$115,225 and \$65,156, respectively, for the fiscal year ended September 30, 2010. Contribution amounts are based upon rates established by PERS for the City's general employees who have performed services for the Authority. No separate pension benefit obligation is calculated for the Authority; and accordingly, no obligation is presented herein. Further information regarding the City's participation in PERS may be found in the City's Basic Financial Statements.

### (7) Relationship with the City of Inglewood

The Authority does not have any employees and does not own or use facilities separated from the City. Facilities, equipment and administrative, financial and legal services are provided to the Authority by the City, for which the City is reimbursed.

### (8) Operating Losses, Accumulated Deficit and Managements' Plans

The Authority incurred an excess of expenses over revenues of \$1,281,640 for the year ended September 30, 2010 after transfers from the City of Inglewood of \$442,200. The Authority has an accumulated deficit of \$4,265,517 at September 30, 2010. The Authority has been unable to bring expenses in line with its funding from the U.S. Department of Housing and Urban Development and other funding sources. Due to financial pressures and economic downturn the City of Inglewood's general fund has had substantial decline in its general fund balance and has been substantially responsible for interfund loans to the Housing Authority. The City's general fund may not be able to subsidize all of the Authority's losses which cause substantial doubt about the Authority's ability to continue as a going concern.

#### Management's Plans to Improve Operations

Managements' plans to eliminate the deficit and correct the excess of expenses over revenues are as follows:

On September 28, 2010, the Mayor and City Council adopted the FY2010-2011 consolidated Annual Operating Budget with a message that provided a Framework for recovery to identify core services and to formulate a workforce reduction plan. New or enhanced revenues would be vigorously explored, as would private-public partnerships, to look for increased revenues to avoid drawing on General Fund reserves. The framework for recovery included deeper cuts to maintenance and operations expense and contract services, notably the closure of one of the City's four fire stations. The plan also

# INGLEWOOD HOUSING AUTHORITY

## Notes to the Basic Financial Statements

(Continued)

### (8) Operating Losses, Accumulated Deficit and Managements' Plans, (Continued)

included the elimination of special district and Redevelopment General Fund subsidies, updating the City's cost allocation plan, auditing existing revenue streams, and ensuring that developer fees and other fees for services captured actual costs borne by the General Fund.

On May 3, 2011, the Mayor and Council members took action and approved a budget amendment to reduce expenditures and increase revenue in the future related to the General Fund as follows:

A Workforce Reduction Plan (WRP) was approved on October 12, 2010 that included the elimination of vacant positions, layoffs, and an offer of an early retirement incentive. To date, 67 fulltime and 10 fulltime-equivalent positions have been eliminated. This includes a total of 51 fulltime positions in the General Fund. This represents a savings of \$5M total for the City and \$4.1M for the General Fund in the current year and \$4.5M for FY2011-2012.

The City successfully negotiated and implemented two-year labor agreements containing savings resulting largely from non-paid furloughs, with an estimated \$2.2M in savings for the current year, and \$3.2M in FY 2011-2012 when the furloughs are in place for the full twelve months. This amount includes a 10% voluntary donation given back to the City from the Mayor, Council Members, City Clerk and City Treasurer as well.

Costs charged to the General Fund for personnel providing services to the Redevelopment Agency, were transferred to the Agency via a cooperative agreement approved by Council and the Agency (12/10/2010). These costs will now be paid for with tax increment as is provided for under law, total \$900K for the current year and are expected to save \$1.2M in FY2011-2012.

In addition to Personnel savings, the City's deficit reduction strategy also included the closure of a fire station in North Inglewood for a 36 month period that will produce \$1.8M in savings this fiscal year, followed by \$2.5M in savings during each of the next two years.

City staff called upon vendors who do business in Inglewood to collectively reduce their contracts by 10% where possible. To date, many vendors have complied with this request.

Three months into the current fiscal year, the City Manager met with Departments to discuss current operations and additional ways of cutting expenditures. A thorough review of spending history yielded additional savings in overtime of \$374K and maintenance and operations of over \$1.2M.

Council provided direction to eliminate General Fund subsidies of the City's four assessment districts. These subsidies are expected to result in partial savings of \$700K in the current fiscal year and \$1.1M in FY2011-2012.

# INGLEWOOD HOUSING AUTHORITY

## Notes to the Basic Financial Statements

(Continued)

### (8) Operating Losses, Accumulated Deficit and Managements' Plans, (Continued)

Another component of the Deficit Reduction Plan includes maximizing existing revenues and exploring new revenue opportunities. On November 16, 2010, the Mayor and Council approved an ordinance requiring the registration, inspection and maintenance of vacant property in distress. This new ordinance is expected to add \$100K in the current year and \$400K in subsequent years.

An employee benefits audit designed to ensure proper premiums are being paid for eligible employees and covered benefits is underway. This recovery-based commission fee model is expected to provide modest to moderate annual operating savings. Likewise, Council approved a comprehensive fee study to enable the City of calculate and recover the actual costs for providing user-specific services to residents, businesses, developers, and others using City services. Council also approved staff's request to raise parking meter rates and parking violation fines that are expected to increase revenues by \$500K this fiscal year and upwards of \$760K annually thereafter. City Council also approved Ordinance No. 10-06 that establishes Super Graphic Wall Sign standards, which is expected to increase General Fund revenues annually by \$1M.

Overall, the Council-approved Deficit Reduction Plan which sought to erase an anticipated \$17.6M General Fund operating deficit will successfully save \$13.8M in recurring expenditures this year. When supplemented by \$2M in one-time revenues, the \$15.8M projected operating deficit should effectively be erased. Recurring General Fund operating savings during FY2011-2012 should total \$16.5M, and new and enhanced General Fund revenues enacted this year are expected to climb to \$1.17M. These expenditure savings coupled with revenue increases could bring us into structural balance in FY2011-2012 if expenses outside our control such as benefit costs and State actions have little adverse impact.

In conclusion, the City has made notable progress in addressing the City's financial condition. A Deficit Reduction Plan approved by the Mayor and Council has largely been successful in curbing expenditures and enhancing revenues. The FY2010-2011 mid-year budget amendment reflects measures taken to reduce the workforce, trim labor agreement costs, cut operating expenses, and boost revenues. The result is a projected FY2010-2011 General Fund budget that is balanced with the aid of a modest one-time revenue source, and a FY2011-2012 General Fund budget that may well be structurally balanced. However, notwithstanding this notable progress, the City must continue to achieve personnel-related savings, pursue long-term wage and benefit reforms, find new and diverse sources of revenue, vigorously explore public-private partnerships, and put in place, plans to finance deferred costs and unfunded liabilities.

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REQUIRED SUPPLEMENTARY INFORMATION

**INGLEWOOD HOUSING AUTHORITY**

**Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual**

Fiscal Year Ended September 30, 2010

	<u>Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)	Prior Year Actual
Revenues:				
Intergovernmental	\$ 6,782,100	8,345,693	1,563,593	6,144,243
Other	<u>1,454,352</u>	<u>425,815</u>	<u>(1,028,537)</u>	<u>520,865</u>
Total revenues	<u>8,236,452</u>	<u>8,771,508</u>	<u>535,056</u>	<u>6,665,108</u>
Expenditures:				
Current:				
Personnel services	1,227,930	1,306,125	(78,195)	1,168,095
Housing assistance payments	6,782,100	8,471,098	(1,688,998)	7,300,082
Maintenance and operation	<u>189,552</u>	<u>718,125</u>	<u>(528,573)</u>	<u>431,798</u>
Total expenditures	<u>8,199,582</u>	<u>10,495,348</u>	<u>(2,295,766)</u>	<u>8,899,975</u>
Excess (deficiency) of revenues over (under) expenditures	<u>36,870</u>	<u>(1,723,840)</u>	<u>(1,760,710)</u>	<u>(2,234,867)</u>
Other financing sources (uses):				
Transfers from City	<u>442,200</u>	<u>442,200</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>442,200</u>	<u>442,200</u>	<u>-</u>	<u>-</u>
Change in fund balance	479,070	(1,281,640)	(1,760,710)	(2,234,867)
Fund balance (deficit) at beginning of year	<u>(2,983,877)</u>	<u>(2,983,877)</u>	<u>-</u>	<u>(749,010)</u>
Fund balance (deficit) at end of year	<u>\$ (2,504,807)</u>	<u>(4,265,517)</u>	<u>(1,760,710)</u>	<u>(2,983,877)</u>



**Mayer Hoffman McCann P.C.**

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**REPORT ON COMPLIANCE AND OTHER MATTERS AND ON INTERNAL  
CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

The Honorable Mayor and  
Members of the City Council  
Inglewood Housing Authority, California

We have audited the financial statements of the governmental activities and the governmental fund of the Inglewood Housing Authority (the Authority), a component unit of the City of Inglewood, California (City), as of and for the year ended September 30, 2010 and have issued our report thereon dated May 17, 2011. We conducted our audit 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of 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*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

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 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. We consider items that have been described in the accompanying Schedule of Findings and Recommendations to be material weaknesses in internal control.

The Honorable Mayor and  
Members of the City Council  
Page Two

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weakness. However, we consider items 2010-01 through 2010-13 that have been described in the accompanying Schedule of Findings and Recommendations to be material weaknesses.

We noted other certain matters we reported to the management of the City of Inglewood in a separate letter dated May 17, 2011

This report is intended solely for the information and use of the Mayor, City Council and management of the Authority and is not intended to be and should not be used by anyone other than these specified parties.

*Mayer Hoffman McCann P.C.*

Irvine, California  
May 17, 2011

# INGLEWOOD HOUSING AUTHORITY

## Schedule of Findings and Recommendations

(Continued)

### (2010-01) Need for Enhanced Controls over Citywide Cash and Investment Reconciliation

We noted that the monthly bank reconciliations of the City's cash and investment accounts have not been completed in a timely manner. The September 30, 2010 bank reconciliation was completed by the City in March 2011. During the audit significant adjustments were detected by City staff that were required in order to properly reconcile the City's cash balances.

In addition to the reconciliation issues noted above, we also identified a liability account used by the City to track stale and outdated checks. These amounts should be included as outstanding checks in the monthly reconciliation until the point that the City has gone through the proper escheating procedures rather than as a liability of the General fund. Furthermore, the City should take the necessary steps to clean up these stale and outdated checks and review these items on a more regular basis.

Accurate and timely completion of monthly bank reconciliations are important internal controls that help the City identify any potential fraudulent activity and accurately state the financial position of the City's funds.

#### Recommendation

We recommend that monthly bank reconciliations be completed in a timely manner to ensure that all activity has been properly reconciled to the accounting records. Furthermore, the City should take the necessary steps to process and monitor uncleared items on a regular basis.

### (2010-02) Adjustments Detected Through the Audit Process

An important element of control over financial reporting is for management to identify adjustments necessary for financial statements to be fairly stated. Whenever possible, adjustments should be reflected in the accounting records prior to the start of the audit. When this is not possible, management should identify and communicate to the auditors the potential areas of adjustment that may need to be addressed during the audit process. This is an important element of internal control to reduce the risk of material misstatement.

There were, however, material adjustments that were identified during the audit for the year ended September 30, 2010. These material adjustments detected by the audit process included the following: an adjustment to record expenditures in fiscal year 2010 that were paid in October 2011, an adjustment to record land held for sale that was purchased in 2010, an adjustment to remove overhead and internal service fund charges from restricted funds that could not be supported by a methodology, an adjustment to record two new long term receivables, adjustments to reconcile cash and investments, an adjustment to record retentions payable and an adjustment to allocate interest income.

# INGLEWOOD HOUSING AUTHORITY

## Schedule of Findings and Recommendations

(Continued)

### (2010-02) Adjustments Detected through the Audit Process, (continued)

#### Recommendation

Auditing Standards indicate that material adjustments identified through the audit process are an indication of weaknesses in an entity's internal control structure. Efforts should be made to enhance the City's year end closing procedures to include areas that resulted in audit adjustments in 2010.

### (2010-03) Need to Develop Written Policies and Procedures for Information Technology

General controls are the policies and procedures that apply to all or a large segment of an entity's information systems and help ensure their proper operation. Examples of primary objectives for general controls are to safeguard data, protect business process application programs, and ensure continued computer operations in case of unexpected interruptions. The effectiveness of general controls is a significant factor in determining the effectiveness of business process application controls. Without effective general controls, business process application controls can generally be rendered ineffective by circumvention or modification. For example, automated edits designed to preclude users from entering unreasonably large dollar amounts in a payment processing system can be an effective application control. However, this control cannot be relied on if the general controls permit unauthorized program modifications that might allow some payments to be exempted from the edits or unauthorized changes to be made to data files after the edit is performed. The entity should be aware of these risks and should develop appropriate policies and procedures to respond to any IT system issues that might occur.

During our review of IT general controls we noted the City does not have formal policies and procedures for most general control areas. Examples of policies and procedures the City should formalize include:

1. Information Security
2. Change and Problem Management
3. System and Network Monitoring
4. Data Backup and Recovery
5. Records Management and Data Retention
6. Disaster Recovery and Business Continuity Planning

We understand the City is currently documenting policies for Disaster Recovery Preparedness and Records Management / Data Retention.

#### Recommendation

We recommend the City develop written policies and procedures for information technology general controls.

## INGLEWOOD HOUSING AUTHORITY

### Schedule of Findings and Recommendations

(Continued)

#### (2010-04) Need for Improved Controls over Taxes and Grant Receivable Accruals

During our audit we found unrecorded receivables totaling \$4.5 million. These unrecorded receivables were comprised of gas taxes receivable and receivables relating to HUD, FAA and Department of Transportation grant programs. Adjustments were made to properly record the City's outstanding grant receivables and accrue 4<sup>th</sup> quarter gas tax revenue as of September 30, 2010.

The City receives grant funding from various agencies on a cost reimbursement basis. Under the terms of the grant funding agreements, the City incurs costs in advances and then requests reimbursement from granting agencies. Delays in communications and reconciliations between Finance and other City departments have caused grant eligible reimbursements to go unreported for extended periods of time.

#### Recommendation

We recommend that reimbursements be submitted to granting agencies on at least a quarterly basis in order to maximize the investment income of the City, reduce the cash flow impacts of delayed reimbursements, and to ensure that such reimbursements are fully collectible and prepared properly.

We also recommend that the City develop controls to properly track outstanding receivables and to follow-up with stale receivables in a timely manner. Known uncollectible receivables should also be completely written off from the City's general ledger.

#### (2010-05) Need for Update of Cost Allocation Plan

The City uses both a direct and indirect cost allocation plan to allocate overhead expenditures to different departments. In the past the City has updated this plan each year during the budget process to ensure that the overhead charges reflect current activity. During the 2010 fiscal year, the City was unable to provide a current allocation plan or methodology to support the indirect charges being charged to different City funds. Adjustments were recorded to eliminate these charges to restricted funds where proper support was not obtained.

The Information Technology & Communications fund is currently being used to account for internal services provided by the City's and external services the City performs for electronic ticket processing for other local Agencies. These are two distinct operations and should be recorded for separately in the City's general ledger.

#### Recommendation

We recommend that the City update its cost allocation plan on an annual basis to ensure that expenses being charged to different departments are an accurate reflection of current activity.

# INGLEWOOD HOUSING AUTHORITY

## Schedule of Findings and Recommendations

(Continued)

### (2010-06) Need for Formal Documentation and Approval of Long-term Interfund Borrowing

As cash requirements (overdrafts) of the City are met through interfund borrowing from unrestricted funds, those interfund borrowings (if not expected to be paid within one year) should be formally approved by management and City Council as long-term interfund advances. The General Fund advanced cash to the Housing Fund in the amount of \$5,049,068 as of September 30, 2010.

#### Recommendation

We recommend that the City formally approve and document interfund long-term advances between the borrowing funds and funds from which the advance was made, and the City implement and document monitoring controls to ensure that interfund borrowing does not affect restricted funds.

### (2010-07) Need for Improved Controls over Journal Entries

During our testwork performed over journal entries we found that there were several reoccurring entries being posted to the Eden system each month, in which the Finance staff was unable to provide adequate documentation to support the amounts being posted.

We also found several journal entries that were created as a result of correcting an error that had been previously posted to the City's general ledger.

#### Recommendation

We recommend that adjustments posted to the general ledger be reviewed by a knowledgeable individual. We also recommend that the City review all reoccurring adjustments that are currently being posted and determine the necessity of each reoccurring adjustments. Furthermore, we recommend that documentation be retained to support all reoccurring adjustments.

### (2010-08) Need for Increased Controls over Budgetary Measures

During our audit we found that there were several individual accounts where the City had recorded a revenue/expenditure where there had been no budgeted amounts. It was also noted that there were accounts with a budgeted amount recorded but no actual revenue/expenditures. In addition, the City does not currently budget for all of its annual debt service payments, which resulted in \$14 million of unbudgeted expenditures in fiscal year 2010.

#### Recommendation

We recommend that the City's budget be prepared on the same detailed level as revenue and expenditures are accounted for in the general ledger, to ensure that the City can perform accurate reviews of budget to actual amounts incurred.

## INGLEWOOD HOUSING AUTHORITY

### Schedule of Findings and Recommendations

(Continued)

#### (2010-09) Need for City to Adhere to Internal Policies when Accruing Vacation Liabilities

During testwork performed over the City's accrual of employee compensated absences, we obtained a copy of each of the MOU's that the City was operating under during fiscal year ended September 30, 2010. Upon further review of these documents it was noted that in one portion the MOU stated that an employee was only able to accrue a maximum of one-hundred and sixty (160) hours of vacation time, whereas another section of the same MOU states that an employee can trade in eight hundred (800) hours of accrued vacation time for post employment benefits.

##### Recommendation

We recommend the City account for these liabilities within the City's existing policy or amend the policy to agree with historical practice.

#### (2010-10) Need for Improvement in Employee Personnel File Records

During our review of employee personnel files we noted that certain files have not been maintained and did not agree with current pay rates. Based on discussion with City personnel we found that Personnel Action Forms (PAF) are not currently being prepared for step-up pay increases that are approved within the MOU's.

In order to determine that current pay rates are accurate, we performed tests to recalculate the step-up rates for sampled employees and found that the current pay rates of tested employees were consistent with the MOU's. However, PAFs to support these step-up increases were not being maintained in the personnel files.

##### Recommendation

We recommend that all employee personnel changes be properly documented in personnel files in a timely manner.

#### (2010-11) Need for Improved Controls over Following City Purchasing Policy

During our testwork performed over the City's compliance with its purchasing policy we found one (1) instance where the City was operating under an expired contract and one (1) instance where the vendor was performing services that were outside the scope of work in the approved contract and no amendment to the contract had been prepared.

##### Recommendation

We recommend that the City develop controls to ensure that for all purchases the City comply with their purchasing policy.

# INGLEWOOD HOUSING AUTHORITY

## Schedule of Findings and Recommendations

(Continued)

### (2010-12) Need for Formalized Review of Utility Rate Allowances for Section 8 Vouchers Program

During our testwork performed over the City's utility rate allowances for the Section 8 Vouchers Program we found that there were significant changes in the rate allowances between 2009 and 2010. Methodology and documentation was provided for the 2010 rate allowances, however such documentation was not available for 2009.

#### Recommendation

We recommend that the City document their calculations annually for utility rate allowances and retain this documentation to support the amounts. For any changes in utility rate allowances over 10% from the prior year, we recommend that the City seek approval from the Department and Housing and Urban Development.

### (2010-13) Efforts Needed to Control Expenditures and Increase Revenues

The Authority incurred an excess of expenses over revenues of \$1,281,640 for the year ended September 30, 2010 after transfers from the City of Inglewood of \$442,200. The Authority has an accumulated deficit of \$4,265,517 at September 30, 2010. The Authority has been unable to bring expenses in line with its funding from the U.S. Department of Housing and Urban Development and other funding sources. Due to financial pressures and economic downturn the City of Inglewood's general fund has had substantial decline in its general fund balance and has been substantially responsible for interfund loans to the Housing Authority.

City management needs to be make significant efforts to ensure that budgets generated for the 2010/2011 fiscal year are based on attainable expectations. Budgets should be established to control the level of expenditures to conform to its anticipated revenues and to provide for an increase in reserves. Throughout the fiscal year, as expectations of revenue levels change, adjustments need to be made with respect to expenditures for the remainder of the year. The City should also make efforts to identify additional reoccurring revenue sources to support City operations.

#### Recommendation

We recommend that City management make the necessary efforts to control expenditures to ensure that expenditures do not exceed revenues for fiscal year 2010/2011. Procedures may need to be implemented to compare actual to budgeted estimates on a monthly basis. Management could then make the necessary decisions to react to anticipated revenue shortfalls or expenditure overages.