CITY OF INGLEWOOD HOUSING AUTHORITY
(A Component Unit of the City of Inglewood)

Financial Statements
and Supplemental Information

Year Ended September 30, 2015
CITY OF INGLEWOOD HOUSING AUTHORITY
FINANCIAL STATEMENTS
AND
SUPPLEMENTAL INFORMATION
YEAR ENDED SEPTEMBER 30, 2015

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# CITY OF INGLEWOOD HOUSING AUTHORITY

**FINANCIAL STATEMENTS**

**AND**

**SUPPLEMENTAL INFORMATION**

YEAR ENDED SEPTEMBER 30, 2015

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INDEPENDENT AUDITORS’ REPORT

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

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major governmental fund of the City of Inglewood Housing Authority (the “Authority”), a component unit of the City of Inglewood, California, as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.
To the Honorable Mayor and Members of the City Council  
Inglewood Housing Authority  
City of Inglewood, California

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 the major funds of the City of Inglewood Housing Authority, as of September 30, 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Change in Reporting Entity

The September 30, 2014 governmental net position and fund balance has been restated to include the Low/Moderate Housing Fund of the City of Inglewood Housing Authority. Please refer to Note 10 of the financial statements for more information.

Correction of an Error

The September 30, 2014 governmental net position and fund balance has been restated to correct receivable balances. Please refer to Note 10 of the financial statements for more information.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management’s discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.
To the Honorable Mayor and Members of the City Council
Inglewood Housing Authority
City of Inglewood, California

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 5, 2016 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Authority's internal control over financial reporting and compliance.

Lance, Lott & Longard, LLP

Brea, California
December 5, 2016
CITY OF INGLEWOOD HOUSING AUTHORITY

STATEMENT OF NET POSITION
SEPTEMBER 30, 2015

<table>
<thead>
<tr>
<th>Assets:</th>
<th>Governmental Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and investments (Note 3)</td>
<td>$ 2,519,535</td>
</tr>
<tr>
<td>Receivables:</td>
<td></td>
</tr>
<tr>
<td>Accrued interest</td>
<td>9,402</td>
</tr>
<tr>
<td>Notes and loans (Note 4)</td>
<td>1,273,811</td>
</tr>
<tr>
<td>Land held for resale</td>
<td>3,070,906</td>
</tr>
<tr>
<td>Restricted cash and investments (Note 3)</td>
<td>19,093,389</td>
</tr>
<tr>
<td>Due from other governments</td>
<td>169,247</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td><strong>26,136,290</strong></td>
</tr>
</tbody>
</table>

| Liabilities:                               |                         |
| Current liabilities:                       |                         |
|    Accounts payable                        | 781,134                 |
|    Deposits payable                        | 51,063                  |
| Long-term liabilities (Note 6):            |                         |
|    Due within one year                     | 53,000                  |
|    Due within more than one year           | 132,944                 |
| **Total Liabilities**                      | **1,018,141**           |

| Net Position:                              |                         |
| Restricted for low and moderate income housing | 25,118,149             |
| **Total Net Position**                     | **$ 25,118,149**        |

See Notes to Financial Statements
<table>
<thead>
<tr>
<th>Functions/Programs</th>
<th>Operating Contributions and Grants</th>
<th>Net Governmental Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Expenses</td>
<td></td>
</tr>
<tr>
<td></td>
<td>$ 22,892,464</td>
<td>$ (14,858,072)</td>
</tr>
<tr>
<td>Community development</td>
<td>$ 8,034,392</td>
<td></td>
</tr>
<tr>
<td><strong>Total Governmental Activities</strong></td>
<td>$ 22,892,464</td>
<td>$ (14,858,072)</td>
</tr>
<tr>
<td>General Revenues</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Use of money and property</td>
<td>6,033,455</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>298,487</td>
<td></td>
</tr>
<tr>
<td><strong>Total General Revenues</strong></td>
<td></td>
<td>6,331,942</td>
</tr>
<tr>
<td>Special Item (Note 9)</td>
<td></td>
<td>(13,929,863)</td>
</tr>
<tr>
<td>Change in Net Position</td>
<td></td>
<td>(22,455,993)</td>
</tr>
<tr>
<td>Net Position at Beginning of Year, as Restated (Note 10)</td>
<td>47,574,142</td>
<td></td>
</tr>
<tr>
<td><strong>Net Position at End of Year</strong></td>
<td></td>
<td>$ 25,118,149</td>
</tr>
</tbody>
</table>
### CITY OF INGLEWOOD HOUSING AUTHORITY

#### BALANCE SHEET
**GOVERNMENTAL FUND**
**SEPTEMBER 30, 2015**

<table>
<thead>
<tr>
<th>Section 8 Housing Vouchers</th>
<th>Housing Successor</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and investments (Note 3)</td>
<td>$ 1,578,710</td>
<td>$ 940,825</td>
</tr>
<tr>
<td>Receivables:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Notes and loans (Note 4)</td>
<td>-</td>
<td>$ 1,273,811</td>
</tr>
<tr>
<td>Accrued interest</td>
<td>$ 81</td>
<td>$ 9,321</td>
</tr>
<tr>
<td>Due from other governments</td>
<td>$ 169,247</td>
<td>-</td>
</tr>
<tr>
<td>Land held for resale</td>
<td>-</td>
<td>$ 3,070,906</td>
</tr>
<tr>
<td>Restricted assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash with fiscal agents (Note 3)</td>
<td>-</td>
<td>$ 19,093,389</td>
</tr>
<tr>
<td>Total Assets</td>
<td>$ 1,748,038</td>
<td>$ 24,388,252</td>
</tr>
</tbody>
</table>

| Liabilities, Deferred Inflows of Resources, and Fund Balances: |       |
| Liabilities:                                                   |       |
| Accounts payable                                             | $ 770,176 | $ 10,958 | $ 781,134 |
| Deposits payable                                             | $ 31,063 | $ 20,000 | $ 51,063 |
| Total Liabilities                                            | $ 801,239 | $ 30,958 | $ 832,197 |

| Deferred Inflows of Resources:                               |       |
| Unavailable Revenue                                           | $ 142,123 | -     | $ 142,123 |
| Total Deferred Inflows of Resources                           | $ 142,123 | -     | $ 142,123 |

| Fund Balances:                                                |       |
| Restricted for low and moderate income housing                | $ 804,676 | $ 24,357,294 | $ 25,161,970 |
| Total Fund Balances                                          | $ 804,676 | $ 24,357,294 | $ 25,161,970 |

| Total Liabilities, Deferred Inflows of Resources and Fund Balances: |       |
| Section 8 Housing Vouchers                                      | $ 1,748,038 | $ 24,388,252 | $ 26,136,290 |

See Notes to Financial Statements
Fund balances of governmental funds $ 25,161,970

Amounts reported for governmental activities in the Statement of Net Position are different because:

- Long-term debt has not been included in the governmental fund activity
- Compensated absences (185,944)

Revenues that are measureable but not available. Amounts are recorded as unavailable revenue under the modified accrual basis of accounting. 142,123

Net position of governmental activities $ 25,118,149
## Statement of Revenues, Expenditures and Changes in Fund Balances

### Governmental Funds

#### Year Ended September 30, 2015

<table>
<thead>
<tr>
<th></th>
<th>Section 8 Housing Vouchers</th>
<th>Housing Successor</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intergovernmental</td>
<td>$ 7,988,072</td>
<td>$ -</td>
<td>$ 7,988,072</td>
</tr>
<tr>
<td>Use of money and property</td>
<td>5,998,966</td>
<td>34,489</td>
<td>6,033,455</td>
</tr>
<tr>
<td>Contributions</td>
<td>-</td>
<td>2,088</td>
<td>2,088</td>
</tr>
<tr>
<td>Other revenue</td>
<td>-</td>
<td>298,487</td>
<td>298,487</td>
</tr>
<tr>
<td><strong>Total Revenues</strong></td>
<td>$ 13,987,038</td>
<td>335,064</td>
<td>14,322,102</td>
</tr>
</tbody>
</table>

|                      |                             |                   |        |
| **Expenditures:**    |                             |                   |        |
| Current:             |                             |                   |        |
| Community development| 14,757,504                  | 8,043,451         | 22,800,955 |
| **Total Expenditures** | 14,757,504              | 8,043,451         | 22,800,955 |

|                      |                             |                   |        |
| **Excess (Deficiency) of Revenues Over Expenditures** | (770,466) | (7,708,387) | (8,478,853) |

| Special Item (Note 9) |                             |                   |        |
|                      | -                           | (13,929,863)      | (13,929,863) |

| Net Change in Fund Balances | (770,466) | (21,638,250) | (22,408,716) |

| **Fund Balances:**       |                             |                   |        |
| Beginning of Year        | 1,575,142                   | -                 | 1,575,142 |
| Restatements (Note 10)   | -                           | 45,995,544        | 45,995,544 |
| Fund balances, beginning of year, as restated | 1,575,142 | 45,995,544 | 47,570,686 |

| **Fund Balances, End of Year** | $ 804,676 | $ 24,357,294 | $ 25,161,970 |

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See Notes to Financial Statements
Net change in fund balances - total governmental funds $ (22,408,716)

Amounts reported for governmental activities in the Statement of Activities are different because:

- To record as an expense the change in compensated absences in the statement of activities. (91,509)
- Revenues that are measureable but not available. Amounts are recorded as unavailable revenue under the modified accrual basis of accounting. 44,232

Change in net position of governmental activities $ (22,455,993)
Note 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 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.

Note 2: Summary of Significant Accounting Policies

a) Basis of Presentation

Government - Wide Financial Statements

The statement of net assets and statement of revenues, expenses, and changes in net position 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 revenues, expenses, and changes in net position 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 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.

When an expense is incurred for a purpose for which both restricted and unassigned fund balance are available, management has discretion as to which resources apply. It is the Authority’s policy to use restricted resources before unassigned 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 two special revenue funds: the Section 8 Housing Vouchers and the Low/Moderate Income Housing Funds.
Note 2: Summary of Significant Accounting Policies (Continued)

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.

c) Cash and Investments

The Authority’s cash from operations is deposited in the City Treasury. The Authority 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) Capital Assets

Capital assets (including infrastructure) are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair market value on the date contributed. Capital assets include public domain (infrastructure) general capital assets consisting of certain improvements including roads, sewer system, landscaping and improvements. The capitalization threshold for all capital assets is $5,000 with a useful life of greater than one year. Capital assets used in operations are depreciated or amortized (assets under capital leases) using the straight-line method over the lesser of the capital lease period or their estimated useful lives in the government-wide statements and proprietary funds.
Note 2: Summary of Significant Accounting Policies (Continued)

The estimated useful lives are as follows:

<table>
<thead>
<tr>
<th>Asset Type</th>
<th>Estimated Life</th>
</tr>
</thead>
<tbody>
<tr>
<td>Infrastructure</td>
<td></td>
</tr>
<tr>
<td>Roads</td>
<td>20 years</td>
</tr>
<tr>
<td>Sewer System</td>
<td>20 years</td>
</tr>
<tr>
<td>Water System</td>
<td>30 to 100 years</td>
</tr>
<tr>
<td>Landscaping and Improvements</td>
<td>20 years</td>
</tr>
<tr>
<td>Vehicles</td>
<td>5 years</td>
</tr>
<tr>
<td>Buildings and Improvements</td>
<td>20 to 40 years</td>
</tr>
<tr>
<td>Machinery and Equipment</td>
<td>5 to 30 years</td>
</tr>
</tbody>
</table>

Maintenance and repairs are charged to operations when incurred. Betterments and major improvements, which significantly increase values, change capacities or extend useful lives, are capitalized. Upon sale or retirement of capital assets, the cost and related accumulated depreciation are removed from the respective accounts and any resulting gains or loss is included in the changes in financial position.

e) Land Held for Resale

The balance sheet caption, “land held for resale” within the governmental funds represents land purchased held for resale. Such amount is valued at the lower of cost or net realizable value once the Authority has entered into an agreement for sale and an amount can be determined.

f) Compensated Absences

Accumulated vacation and sick leave is accrued when incurred in the government-wide financial statements. Accrued vacation and sick leave is recorded in the governmental funds only to the extent that such amounts have matured (i.e., as a result of employee resignations and retirements).

Upon termination of employment, the Authority will pay the employee all accumulated vacation leave at 100% of the employee’s base hourly rate. Upon retirement, termination after ten years of service, or death, the Authority will pay the employee all accumulated sick leave at 50% of the employee’s base hourly rate.
g) Fund Balance

The accompanying financial statements reflect certain changes that have been made with respect to the reporting of the components of fund balances for governmental funds. In previous years, fund balances for governmental funds were reported in accordance with previous standards that included components for reserved fund balance, unreserved fund balance, designated fund balance, and undesignated fund balance.

Fund balances are reported in the fund statements in the following classifications:

Nonspendable Fund Balance

Nonspendable Fund Balance – this includes amounts that cannot be spent because they are either not spendable in form (such as inventory) or legally or contractually required to be maintained intact (such as endowments).

Spendable Fund Balance

Restricted Fund Balance – this includes amounts that can be spent only for specific purposes stipulated by constitution, external resource providers, or through enabling legislation. If the Council action limiting the use of funds is included in the same action (legislation) that created (enables) the funding source, then it is restricted.

Unassigned Fund Balance – this includes the remaining spendable amounts which are not included in one of the other classifications.

It is the City’s policy that restricted resources will be applied first, followed by (in order of application) committed, assigned, and unassigned resources, in the absence of a formal policy adopted by the Council.

h) 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 of the operating budget appropriations lapse. There were no significant changes to the budget during the fiscal year.

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. The Authority did not adopt a budget for the Section 8 Housing Vouchers Fund and the Low/Moderate Income Housing Fund.

i) Estimates

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.
Note 3: Cash and Investments

Cash and investments as of September 30, 2015, consist of the following:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and investments</td>
<td>$2,519,535</td>
</tr>
<tr>
<td>Restricted cash and investments</td>
<td>$19,093,389</td>
</tr>
<tr>
<td><strong>Total cash and investments</strong></td>
<td><strong>$21,612,924</strong></td>
</tr>
</tbody>
</table>

Equity in the Cash and Investment Pool of the City of Inglewood

The Authority has no separate investments other than the Authority’s equity in the cash and investment pool managed by the City of Inglewood. The Authority is a voluntary participant in that pool. This pool is governed by and under the regulatory oversight of the Investment Policy adopted by the City Council of the City of Inglewood. The Authority has adopted an investment policy separate from that of the City of Inglewood. The fair value of the Authority’s investment in this pool is reported in the accompanying financial statements at amounts based upon the Authority’s pro-rata share of the fair value calculated by the City for the entire City portfolio. The balance available for withdrawal is based on the accounting records maintained by the City, which are recorded on an original cost basis.

Note 4: Loans Receivable

The Authority provided financial assistance to qualifying low and moderate income households in connection with the first time home buyers and home rehabilitation loan programs. In addition, the Authority provided a loan for the development of real property. Due to the long-term nature of the loans, the Authority, on the governmental fund financial statements, has deferred recognition of revenues until receipt for loans associated with the first time home buyer loans. As of September 30, 2015, the balance of loans receivable was as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>First time home buyer and rehabilitation loans</td>
<td>$3,482,871</td>
</tr>
<tr>
<td>Development loans</td>
<td>$32,858,092</td>
</tr>
<tr>
<td>Allowance for doubtful accounts</td>
<td>($35,067,152)</td>
</tr>
<tr>
<td><strong>Total loans</strong></td>
<td><strong>$1,273,811</strong></td>
</tr>
</tbody>
</table>
Note 4: Loans Receivable (Continued)

First time home buyer and rehabilitation loans:

One of the primary objectives of the former Inglewood Redevelopment Agency (the "Agency") was to increase, improve and preserve the City's supply of low and moderate income housing. The First-Time Home Buyer Program, established in 1995, was a way in which the Agency attempted to meet this objective. On an annual basis, and in accordance with the Agency's approved budget, the Agency would allocate monies from the Housing Fund for this First-Time Homebuyer Program. Allocated monies were used to provide loans for down payment and closing cost assistance for the purchase of a home to be used as a principal residence by a first-time homebuyer qualifying as a person or family of low- or moderate-income. The assistance was offered as a second mortgage loan made by the Agency concurrently with a first mortgage loan made by a lender. The loans are fully deferred loans until the home is sold or the title to the property is transferred. Program eligibility is based, in part, on the total household size and income. During fiscal year ended September 30, 2015, no new funds were allocated to this program.

Development loans:

Loan to Osage Senior Villas – In 2004 a loan in the amount of $1,700,000 was made to Osage Senior Villas for the construction of 91 very low and low income senior housing units. The loan is to be repaid to the City in monthly installments over thirty years with interest rates ranging from 3-5%. The outstanding balance plus accrued interest as of September 30, 2015 is $1,273,811.

Regency Senior Tower – In 2010 redevelopment tax increment funds were used to issue a loan in the amount of $5,592,000 to Regency Towers Senior Housing L.P. to facilitate in the acquisition and rehabilitation of the 104 unit Regency Senior Housing Complex. The loan is to be repaid over 55 years at 3% simple interest. The repayments are to be made through residual cash receipts. The outstanding balance as of September 30, 2015 is $5,592,000.

Path Venture Loan – In 2010 redevelopment tax increment funds were used to issue a loan in the amount of $2,959,915 to PATH Villas Osage Apartments L.P. to provide construction and development of a 20 rental unit complex for low income housing. The loan accrues interest at 3% simple interest. No loan repayments are due until February 2, 2065 or whenever the property is sold or transferred. Management has evaluated this loan and does not believe it will be fully collectible. As a result, management has set up an allowance for the full amount outstanding. The outstanding balance as of September 30, 2015 is $2,959,915.

Regent 145 L.P. – During 2011 redevelopment tax increment funds were used to issue a new loan in the amount of $13,948,000 to Regent 145 L.P. to provide construction and development of an affordable housing development consisting of 145 rental units. The loan accrues interest at 1.79% compounding interest and is to be repaid over 55 years in annual installments beginning on June 1 after the first full calendar year after the conversion date. Management has evaluated this loan and does not believe it will be fully collectible. As a result, management has set up an allowance for the full amount outstanding. The outstanding balance as of September 30, 2015 is $13,948,000.
Note 4: Loans Receivable (Continued)

Cloudbreak Inglewood – During 2011 a loan in the amount of $7,400,000 was approved to Cloudbreak Inglewood, LLC to provide construction and development of an affordable housing development consisting of 196 rental units. The loan accrues interest at 5% simple interest with repayment due to the City on May 1st each year based on residual residential receipts. The full unpaid balance is due on the earliest of: 1) June 30, 2064, 2) the 55th anniversary of the release of construction covenants, 3) the date of sale, transfer, assignment or refinancing of the Site, or 4) the date of default by the Participant under the terms of the note. Management has evaluated this loan and does not believe it will be fully collectible. As a result, management has set up an allowance for the full amount outstanding. The outstanding balance as of September 30, 2015 is $7,400,018.

Four Prairie, Inc. – In 2005, Low/Mod Income Housing funds were used to issue a loan in the amount of $1,172,000 for the development of nine (9) two-story single-family homes to be made available to moderate-income families for a period of 45 years. The loan bears no interest unless and until there is a default under the terms of the note. In May 2007, an amendment was approved to increase the loan to $1,398,000 to install a fire hydrant as required by the Fire Department. The loan will be forgiven if all requirements are met for the specified period of 45 years as noted within the agreement. As a result, management has set up an allowance for the full amount outstanding. The outstanding balance as of September 30, 2015 is $1,684,348.

Note 5: Capital Assets

Capital asset activity for the year ended September 30, 2015, was as follows:

<table>
<thead>
<tr>
<th>Governmental Activities:</th>
<th>Beginning Balance</th>
<th>Additions</th>
<th>Deletions/Transfers</th>
<th>Ending Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital assets being depreciated:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equipment</td>
<td>$26,184</td>
<td>-</td>
<td>$ -</td>
<td>$26,184</td>
</tr>
<tr>
<td>Total Capital Assets being Depreciated</td>
<td>26,184</td>
<td>-</td>
<td>-</td>
<td>26,184</td>
</tr>
<tr>
<td>Less accumulated depreciation for:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equipment</td>
<td>26,184</td>
<td>-</td>
<td>-</td>
<td>26,184</td>
</tr>
<tr>
<td>Total Accumulated Depreciation</td>
<td>26,184</td>
<td>-</td>
<td>-</td>
<td>26,184</td>
</tr>
<tr>
<td>Total Capital Assets Being Depreciated, Net</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Governmental Activities Capital Assets, Net</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

All of the Authority’s capital assets were fully depreciated as of September 30, 2015, and no depreciation expense was incurred during the fiscal year ended there ended.
Note 6: Long-Term Liabilities

Long-term liability activity for the year ended September 30, 2015, was as follows:

<table>
<thead>
<tr>
<th></th>
<th>Balance at</th>
<th>Additions</th>
<th>Deletions</th>
<th>Balance at</th>
<th>Due Within</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>October 1, 2014</td>
<td></td>
<td></td>
<td>September 30, 2015</td>
<td>One Year</td>
</tr>
<tr>
<td>Compensated absences</td>
<td>$94,435</td>
<td>$91,509</td>
<td>$-</td>
<td>$185,944</td>
<td>$53,000</td>
</tr>
</tbody>
</table>

Note 7: 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.

Note 8: 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 $157,909, for the fiscal year ended September 30, 2015. 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.

Note 9: Special Item

The City was required to submit excess cash to the Department of Finance, related to the Due Diligence Review (“DDR”) of the dissolution of the Former Redevelopment Agency. The DDR disallowed the Cooperative agreement between the City and Former Redevelopment Agency; contending, that the agreement was not an enforceable obligation, therefore the excess proceeds used to purchase and construct the Cooperative agreement to be returned to the State of California. The City contested this finding until it reached an agreement with the State of California’s Auditor-Controller on November 20, 2014 that the City will submit the requested funds. On December 18, 2014, the City wired a total of $25,242,456 to the State of California to satisfy the terms of the reached agreement. The Authority contributed $13,929,863 of the balance using Low/Moderate Income Housing Fund. This item is not considered an expenditure for a specific program purpose, and it therefore recorded as a special item in the Low/Moderate Housing Fund Special Revenue fund.
Note 10: Restatements of Fund Balance / Net Position

<table>
<thead>
<tr>
<th>Fund Balance</th>
<th>Low/Moderate Income Housing</th>
<th>Net Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>September 30, 2014</td>
<td>$ -</td>
<td>$ 1,578,598</td>
</tr>
</tbody>
</table>

Restatements:

To include Low/Moderate Housing Fund with Housing Authority
45,995,544
45,995,544

Setember 30, 2014 (as restated)
$ 45,995,544
$ 47,574,142

The Housing Authority restated net position and fund balance to correct receivables balances as of September 30, 2014. In addition, the Authority corrected its fund balance/net position to include the Low/Moderate Housing Special Revenue Fund.

Note 11: 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.
SINGLE AUDIT REPORT AND RELATED SCHEDULES
To the Honorable Mayor and Members of the City Council
Inglewood Housing Authority
City of Inglewood, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Inglewood Housing Authority (the “Authority”), a component unit of the City of Inglewood, California, as of and for the year ended September 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 December 5, 2016.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses: (2015-001, 2015-002, 2015-003)

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses: (2015-004)
To the Honorable Mayor and Members of the City Council
Inglewood Housing Authority
City of Inglewood, California

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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 instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as items: (2015-005)

Authority's Response to Findings

The Authority’s response to the findings identified in our audit 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 results of that testing, and not to provide an opinion on the effectiveness of the Authority’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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Brea, California
December 5, 2016
INDEPENDENT AUDITORS’ REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

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

Report on Compliance for Each Major Federal Program

We have audited the Inglewood Housing Authority, a component unit of the City of Inglewood, California (the “Authority”)’s 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 September 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.

Auditors’ 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 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.
To the Honorable Mayor and Members of the City Council
Inglewood Housing Authority
City of Inglewood, California

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 September 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 item 2015-008. 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 schedule of findings and questioned costs. 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.

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. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be a material weakness.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2015-008 to be a material weakness.
To the Honorable Mayor and Members of the City Council  
Inglewood Housing Authority  
City of Inglewood, California

The Authority’s response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. 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 governmental activities, each major fund, and the aggregate remaining fund information of the Inglewood Housing Authority as of and for the year ended September 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 December 5, 2016, which contained an unmodified opinion on those financial statements. 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 the 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.

Brea, California  
January 11, 2016 (except for the report on the Schedule of Federal Expenditures which is dated December 5, 2016)
## U.S. Department of Housing and Urban Development

<table>
<thead>
<tr>
<th>Federal Grantor/Pass-Through Grantor Program Title</th>
<th>Federal Domestic Assistance Number</th>
<th>Program Identification Number</th>
<th>Program Expenditures</th>
<th>Amounts Provided to Subrecipients</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct Assistance:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Section 8 Housing Choice Vouchers *</td>
<td>14.871</td>
<td>CA082</td>
<td>$ 9,713,625</td>
<td>$ -</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td></td>
<td></td>
<td><strong>9,713,625</strong></td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Federal Expenditures</strong></td>
<td></td>
<td></td>
<td><strong>9,713,625</strong></td>
<td>$ -</td>
</tr>
</tbody>
</table>

* Major Program

Note a: Refer to Note 1 to the schedule of expenditures of federal awards for a description of significant account policies used in preparing this schedule.

Note b: There was no federal awards expended in the form of noncash assistance and insurance in effect during the year.
Note 1: Summary of Significant Accounting Policies Applicable to the Schedule of Expenditures of Federal Awards

a. Scope of Presentation

The accompanying schedule presents only the expenditures incurred by the City of Inglewood Housing Authority, a component unit of the City of Inglewood, California, (that are reimbursable under federal programs of federal financial assistance. For the purposes of this schedule, federal awards include both federal financial assistance received directly from a federal agency, as well as federal funds received indirectly by the Authority from a non-federal agency or other organization. Only the portion of program expenditures reimbursable with such federal funds is reported in the accompanying schedule. Program expenditures in excess of the maximum federal reimbursement authorized or the portion of the program expenditures that were funded with state, local or other non-federal funds are excluded from the accompanying schedule.

b. Basis of Accounting

The expenditures included in the accompanying schedule were reported on the modified accrual basis of accounting. Under the modified accrual basis of accounting, expenditures are incurred when the City becomes obligated for payment as a result of the receipt of the related goods and services. Expenditures reported included any property or equipment acquisitions incurred under the federal program.
SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unmodified Opinion

Internal control over financial reporting:

- Significant deficiencies identified? ______yes ______no
- Material weaknesses identified? ______yes ______none reported
- Noncompliance material to financial statements noted? ______yes ______no

Federal Awards

Internal control over major programs:

- Significant deficiencies identified? ______yes ______X no
- Material weaknesses identified? ______X yes ______none reported

Type of auditors' report issued on compliance for major programs: Unmodified Opinion

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? ______X yes ______no

Identification of major programs:

<table>
<thead>
<tr>
<th>CFDA Number(s)</th>
<th>Name of Federal Program or Cluster</th>
</tr>
</thead>
<tbody>
<tr>
<td>14.871</td>
<td>Section 8 Housing Choice Vouchers</td>
</tr>
</tbody>
</table>

Dollar threshold used to distinguish between type A and type B program $300,000

Auditee qualified as low-risk auditee? ______yes ______X no
SECTION II - FINANCIAL STATEMENT FINDINGS

Accounting Policies and Procedures (Material Weaknesses):
Accounting policies and procedures are both the foundation and backbone of internal controls over financial reporting. These policies and procedures dictate how financial information is initiated, processed, authorized, recorded, and reported. Without written and enforced accounting policies and procedures, the risk of financial information being presented inaccurately, untimely to make financial decisions, and fraudulently increases significantly. During our audit, we noted that, while the City has written policies and procedures, for the fiscal year that ended September 30, 2015, accounting errors and the override of accounting controls existed in which the City's accounting policies and procedures did not catch or correct until after the fiscal period. Some of these issues were identified to us by City accounting staff; however, there were issues identified by us as a result of our audit procedures. During our audit, the following internal control over financial reporting deficiencies resulted in accounting errors:

FINDING 2015-001

Manual accounting adjustments should be reviewed for the following characteristics prior to the approval and posting of the accounting adjustments: (1) the adjustment is in accordance with generally accepted accounting principles (GAAP), (2) recorded in the proper period, (3) recorded in the proper account and fund. During our audit, we noted the following accounting entries that were not in accordance with GAAP and required audit adjustments:

1. An $11.5 million accounting adjustment performed by the Finance Department to correct an error in the classification of cash balances being reported across the City’s funds.

2. Several expense and revenue items were recorded directly to various fund balance and fund equity accounts as accounting adjustments that did not follow GAAP for recording corrections to fund balance/net position.

Recommendation:
Management has corrected these errors by making the necessary accounting adjustments. We recommend management to continue reviewing journal entries to ensure conformity with GAAP.

Management Response and Corrective Action Plan:
The City ensures that transactions are recorded in the proper period as well as the proper fund and account. In certain instances, transactions noted by the auditors reflected corrections of errors from the prior year. Staff made corrections to these errors with the intent of providing a clear audit trail and were not an attempt to circumvent GAAP. The complexity of the City's financial system and accounts requires thousands of journal entries throughout the fiscal year and those journal entries are properly supported, reviewed and approved on a timely basis.

Responsible Official:
David Esparza, Chief Financial Officer/Assistant City Manager
FINDING 2015-002

Proper levels of segregation should exist to ensure that controls are not overridden, a dependency on a select few individuals exist, and that fraud is not colluded or covered up. During our audit, we noted that segregation of duties did not exist in the following areas:

1. During our audit procedures, it was brought to our attention that accounting controls were overridden by the former Accounting Manager, in which journal entries were recorded with little to no support on the basis of those entries; and were not approved by the Chief Financial Officer prior to posting in the general accounting ledger. The Finance Department investigated the entries, in which most were reversed by the Finance Department due to the lack of support or reasoning behind the entry. Accounting staff personnel should not have the ability to both initiate and post journal entries directly to the accounting system; this increases the risk of financial misstatements due to errors or fraud not being identified or corrected in a timely manner.

2. During our audit we also noted that Deputy Treasurers are allowed to directly receive financial statements and transaction reports from banking institutions; with little to no interaction from the Finance Department. Financial statements from banking institutions and transaction reports should be received by the City’s Finance Department directly to allow for reconciliation and validation of transactions performed by the Treasury Department; to also ensure that treasury transactions are properly being recorded into the general accounting system.

Recommendation:
We recommend the City to review its internal procedures, to ensure that the proper level of segregation exists. The City should consider having financial statements and transaction reports be received directly by the Finance Department, and independent of the Treasury Department. The City should consider performing a cost benefit analysis on implementing a robust cashiering equipment that allows for multiple users.

Management Response and Corrective Action Plan:
The City agrees with the comments above and have taken corrective actions to address the issues noted.

Responsible Official:
David Esparza, Chief Financial Officer/Assistant City Manager
FINDING 2015-003

The City’s internal controls over financial reporting should foster an environment that ensures bank accounts are properly reconciled on a monthly basis, the aging of accounts receivable balances are periodically reviewed, accounts payable balances and other accruals are properly stated, and that assets and other liabilities are properly stated. The City needs to review its monthly and year-end closing procedures to ensure that such processes are being performed. During our audit we noted the following deficiencies as it relates to the financial closing process:

1. Cash accounts for the City were not properly reconciled from October 1, 2014 through March 31, 2016. While the City did in fact perform monthly bank reconciliations, during our audit, we noted, and it was also brought to our attention that the monthly bank reconciliations included unreconciled information for that period. The City was able to identify the errors and issues causing the irreconcilable differences and recreated bank reconciliations for both years ended September 30, 2015 and 2014. This resulting in both material client and audit adjustments to cash for the period ended September 30, 2015.

2. In addition to the above deficiency, the City had several reconciling items that were received and recorded by the Bank, however, were not recorded into the City’s accounting system until the subsequent month. This is due to the fact that some of the accounting functions at the City are decentralize. City Departments outside of the Finance Department are performing accounting duties such as cash receipting, credit card payments to vendors and payroll time keeping. It is important that financial transactions administered by the departments are timely and accurately reported to the Finance Department, to prevent such reconciling issues from happening. In addition, closing procedures of the Finance Department should include procedures of ensuring that all accounting transactions are accounted for in order to reconcile the books and properly report financial activity.

Recommendation:
We recommend that all cash accounts are properly reconciled within 10 business days following the close of the previous month. For example, September bank accounts should be reconciled no later than the 10th business day in October. We also recommend that the City does not close out month ends until all reconciling information has been properly supported and reviewed; and all irreconcilable information has been investigated and resolved.

Management Response and Corrective Action Plan:
The City performs monthly bank reconciliations in a timely fashion although, unfortunately, during the 2014-2015 fiscal year, former accounting staff recorded certain un-reviewed transactions which were subsequently corrected by the finance department. Because of those transactions, the accounts were not completely reconciled and the City engaged an outside consultant to review and perform an additional reconciliation of cash to ensure that all potential incorrect transactions had been properly rectified.

Responsible Official:
David Esparza, Chief Financial Officer/Assistant City Manager
FINDING 2015-004

Internal Control Environment (Significant Deficiencies):
During our audit, we noted that the City is a very large entity with multiple departments and various complexities. In addition, the City has decentralized processes, including accounting functions. Due to the size, and complexities within the City, it is imperative that the City have a strong internal control environment that perform monitoring functions; ensuring the safeguarding of City assets. We noted that the City’s internal control environment did not have the following functionalities within its framework:

  Monitoring of Internal Controls

  Due to the size, complexity, and decentralized processes of the City, a robust monitoring system of internal controls is necessary and may be accomplished through an internal audit function. The City should assess operational and financial risks city-wide, and develop a plan to assess, monitor, and manage those risks.

  Employee Training

  During our audit, we noted multiple accounting entries made by accounting personnel that were not in the accordance with generally accepted accounting principles (GAAP). It is unclear if these entries were done due to limited knowledge of accounting principles or oversight. We recommend that the City look to train accounting personnel on an annual basis on generally accepted accounting principles and ethics.

  Fraud Hotline

  Due to the size, complexity, and decentralized processes of the City, a fraud hotline is needed. The fraud hotline should be anonymous in nature and handled through an independent and objective method. For example, this could be accomplished through an internal audit department. City employees and citizens should be allowed to contact the hotline anonymously. We recommend the City to implement a fraud hotline within the next fiscal year.

Management’s Response and Corrective Action:
Management will review the assessments and recommendations and will identify the necessary steps needed to implement these recommendations.

Responsible Official:
David Esparza, Chief Financial Officer/Assistant City Manager
FINDING 2015-005

Compliance and Other Matters:
As part of obtaining reasonable assurance about whether the City’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 the following instances of noncompliance or other matters that are required to be reported under Government Auditing Standards:

OMB Circular A-133

The City received over $500,000 in federal awards for the fiscal year ended September 30, 2015; which requires a Single Audit in compliance with Office and Management and Budget’s (OMB) Circular A-133. The OMB Circular requires that such audits are completed and submitted to the Federal Clearinghouse within nine (9) months of the City’s fiscal year end, or June 30, 2016. The City did not comply with this requirement. We recommend that the City review its closing policies and procedures to ensure that the requirement is met on an annual basis.

Real Estate Assessment Center (REAC) Submission

On an annual basis, the City is required to submit audited financial trial balances to HUD through the use of its Real Estate Assessment Center (REAC) within nine (9) months of its fiscal year end or June 30, 2016. In addition, agreed upon procedures are to be performed on these submissions by the City’s external independent auditors prior to completion of the submission to HUD. The City did not comply with these requirements. We recommend that the City complete its REAC requirements within the required timeframe.

Management’s Response and Corrective Action:
The City is aware of these compliance and financial reporting due dates, and will work with the auditors in order to meet the financial reporting dates in a timely manner.

Responsible Official:
David Esparza, Chief Financial Officer/Assistant City Manager
FINDING 2015-006

Section 8 Housing Choice Vouchers – Allowable Costs/Cost Principles (Material Weakness)

Information on the Federal Program:
CFDA Number: 14.871
Program Title: Section 8 Housing Choice Vouchers
Federal Award Number: CA082
Federal Award Year: 2014
Name of Federal Agency: U.S. Department of Housing and Urban Development

Criteria:
The Department of Housing and Urban Development (HUD) requires that grantees that elect to allocate overhead/indirect costs to their award programs, prepare a cost allocation plan (CAP) in accordance with OMB Circular A-87. This CAP must be submitted and approved by HUD before the grantee may begin allocating overhead/indirect costs to the award program.

Condition:
During our audit, we identified that the City allocated overhead charges to the Section 8 program without an approved CAP by HUD for the fiscal year ended September 30, 2015.

Questioned Costs: $287,638

Context:
Based on our communication with the City, the City followed the proper procedures in preparing and submitting a CAP to HUD. However, as of our audit, HUD has not approved or denied the CAP and has only requested the City provide additional documentation as support, in which the City has provided.

Effect:
We cannot determine the eligibility of the overhead costs charged to the Section 8 program for the fiscal year ended September 30, 2015 without the approval of the CAP from HUD.

Cause:
The City did not receive a response from HUD, either approving or denying the CAP.

Repeat Finding:
This is a new finding for the fiscal year ended September 30, 2015.

Recommendation:
We recommend that the City implement processes and controls to include follow-up procedures to ensure the CAP is approved by the appropriate federal agency in a timely manner, prior to allocating costs to the program. Additionally, the City should monitor charges made to federal awards to ensure that overhead/indirect costs are not charged to federal awards, in the absence of an approved CAP.

Views of Responsible Officials and Planned Corrective Actions:
The City has submitted an updated cost allocation plan to HUD and has asked for HUD’s approval, however no response from HUD has been received. The Office of the Inspector General has directed HUD to work with the City and to respond to the City’s inquiries and requests in order to address any issues that HUD may have with the City’s cost allocations. To date, no response from HUD has been received and the matter is still open.

Responsible Official:
David Esparza, Chief Financial Officer/Assistant City Manager
SECTION IV - FINANCIAL STATEMENT FINDINGS

FINDING 2014-001

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.

There were material adjustments that were identified during the audit for the year ended September 30, 2014. These material adjustments detected through the audit process included the following: adjustments to correct the accounting for the termination of the Cooperation Agreement, adjustments to correct unearned and unavailable revenue, adjustments to correct interfund transfers and receivables, adjustments to correct activity initially recorded in the wrong fund, adjustments to correct prior period adjustments recorded in error, adjustments to capital assets, adjustments to correct allowance for doubtful accounts, adjustments to correct compensated absences, an adjustment to loans receivable, adjustments to record expenditures in fiscal year 2014 that were paid in fiscal year 2015, a prior period adjustment to record unbilled receivables, an entry to correct land held for resale, an entry to correct wages payable, an entry to correct cash balances.

Recommendation:
Auditing standards require the reporting of material adjustments identified through the audit process as 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 2014.

Management’s Response Regarding Corrective Action Taken or Planned:
The City recognizes that the general ledger accounts need to be reviewed, analyzed and reconciled on a regular basis, and audit preparation needs to be performed at the end of each fiscal year prior to the arrival of the auditors upon commencement of the final audit. The Finance Dept. has developed a check list to follow each month to ensure all postings are being recorded timely. In addition, this check list is being expanded to include timely postings from other system modules in order to help assure all transactions are being recorded timely. All accounts or funds are being assigned to individual staff accountants to reconcile and monitor on a regular basis in order to avoid incorrect postings and to allow for corrections in a timely manner. It has become the department’s goal to analyze and reconcile all accounts prior to the month end closing of the general ledger. As the department works towards this common goal, it is anticipated that the financial information reported will be more accurate and timely.

Status of Prior Period Finding:
Matter was not resolved and therefore was repeated as a current year finding. See accompanying Schedule of Findings and Questioned Costs as items 2015-001.

Responsible Official:
David Esparza, Chief Financial Officer/Assistant City Manager
Finding 2014-002

Review of Fund Structure:
Through discussion with the City it was noted that the Affordable Housing Fund was inappropriately recorded as part of the Successor Agency during previous years. This resulted in a prior period adjustment to move this fund out of the SA and into the nonmajor governmental funds. Additionally, there were a number of journal entries intended to correct activity recorded in the wrong fund.

Recommendation:
It was recommend that the City review how funds in the general ledger will consolidate into the Comprehensive Annual Financial Statements. It was recommended that the City review the intended purpose of each fund with employees responsible for coding revenues and expenditures to ensure clarity on the appropriate fund for activities susceptible to improper recording in the General Ledger.

Management's Response Regarding Corrective Action Taken or Planned:
City staff will evaluate the fund structure in the current fiscal year with staff.

Status of Prior Period Finding:
This finding is considered to be resolved.

Responsible Official:
David Esparza, Chief Financial Officer/Assistant City Manager

Finding 2014-003

Journal Entry Review Procedures:
During the audit it was noted that a number of the correcting journal entries provided by the City did not correctly resolve underlying misstatements. As a result a number of additional entries were required to correct the underlying financial statement accounts in question.

Recommendation:
It was recommended the City consider implementing more thorough Journal Entry review procedures including additional approvers, checklists, and consultation with the Audit Firm regarding unusual or complex entries.

Management's Response Regarding Corrective Action Taken or Planned:
The City will enhance procedures to improve the review of journal entries.

Status of Prior Period Finding:
Matter was not resolved and therefore was repeated as a current year finding. See accompanying Schedule of Findings and Questioned Costs as items 2015-001.

Responsible Official:
David Esparza, Chief Financial Officer/Assistant City Manager
Finding 2014-004

Monthly Bank and General Ledger Reconciliations:
It was noted that although bank reconciliations are being completed on a monthly basis, there are material reconciling items that are not being resolved timely.

Recommendation:
It was recommended 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 unresolved reconciling items on a regular basis.

Management’s Response Regarding Corrective Action Taken or Planned:
Significant reconciling items have been resolved and the City will continue to monitor them on an ongoing basis.

Status of Prior Period Finding:
Matter was not resolved and therefore was repeated as a current year finding. See accompanying Schedule of Findings and Questioned Costs as items 2015-003.

Responsible Official:
David Esparza, Chief Financial Officer/Assistant City Manager
SECTION V - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING 2014-005

Section 8 Housing Choice Vouchers – Special Tests and Provisions:

Information on the Federal Program:
CFDA Number: 14.871
Program Title: Section 8 Housing Choice Vouchers
Federal Award Number: CA082VO
Federal Award Year: 2014
Name of Federal Agency: U.S. Department of Housing and Urban Development

Criteria:
24 CFR 928.202 (d) states that the PHA must admit applicants for participation in accordance with HUD regulations and other requirements, including, but not limited to, 24 CFR part 5, subpart L, protection for victims of domestic violence, dating violence, or stalking, and with PHA policies stated in the PHA administrative plan and the PHA plan. The PHA admission policy must state the system of admission preferences that the PHA uses to select applicants from the waiting list, including any residency preference or local preference.

Condition:
During the testwork performed it was noted that the IHA admitted 24 eligible families facing loss of federal aid as a result of lack of funding from other HUD programs to the Section 8 program prior to amending the administrative plan to allow for special admissions.

Questioned Costs: $0

Recommendation:
It was recommended that the City improve their controls to ensure that actions that are taken as part of the Housing Choice Voucher program be in accordance with Federal guidelines, the Housing Authority’s policies and that those policies be approved by the governing body.

Management’s Response Regarding Corrective Action Taken or Planned:
The City will ensure that the administrative plan to allow for special admissions is properly amended before allowing special admissions.

Status of Prior Period Finding:
This finding is considered to be resolved.

Responsible Official:
David Esparza, Chief Financial Officer/Assistant City Manager