

**SACRAMENTO HOUSING AND
REDEVELOPMENT AGENCY**

Federal Single Audit Report

For the Year Ended December 31, 2017



Certified
Public
Accountants

**SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY
FEDERAL SINGLE AUDIT REPORT
FOR THE YEAR ENDED DECEMBER 31, 2017**

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

Honorable Members of the City Council, Housing Authority
of the City of Sacramento,
County Board of Supervisors, Housing Authority
of the County of Sacramento and
Sacramento Housing and Redevelopment Commission
Sacramento, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Sacramento Housing and Redevelopment Agency (Agency), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated June 29, 2018. Our report includes a reference to other auditors who audited the financial statements of the Shasta Hotel Corporation (Hotel) and the Norwood Avenue Housing Corporation (Corporation) discretely presented component units, as described in our report on the Agency's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those other auditors. The financial statements of the Hotel were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Agency'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 Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2017-001 that we consider to be a significant deficiency.

Compliance and Other Matters

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

The Agency's Response to the Finding

The Agency's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Agency's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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


Sacramento, California
June 29, 2018



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

Honorable Members of the City Council, Housing Authority
of the City of Sacramento,
County Board of Supervisors, Housing Authority
of the County of Sacramento and
Sacramento Housing and Redevelopment Commission
Sacramento, California

Report on Compliance for Each Major Federal Program

We have audited the Sacramento Housing and Redevelopment Agency’s (the Agency) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Agency’s major federal program for the year ended December 31, 2017. The Agency’s major federal program is identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibility

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

Auditor’s Responsibility

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

Opinion on Each Major Federal Program

In our opinion, the Agency complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2017.

Report on Internal Control Over Compliance

Management of the Agency 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 Agency's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over compliance.

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

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

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

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Agency as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements. We issued our report thereon dated June 29, 2018, which contained unmodified opinions on those financial statements. Our report includes a reference to other auditors who audited the financial statements of the Shasta Hotel Corporation and Norwood Avenue Housing Corporation discretely presented component units, as described in our report on the Agency's 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 purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Macias Gini & O'Connell LLP

Sacramento, California
August 14, 2018

**SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED 31, 2017**

<u>Federal Agency/Federal Program Title</u>	<u>Catalog of Federal Domestic Assistance (CFDA) Number</u>	<u>Expenditures</u>	<u>Amounts Provided to Subrecipients</u>
<u>U.S. Department of Housing and Urban Development</u>			
Direct:			
Community Development Block Grants/Entitlement Grants:			
Community Development Block Grants/Entitlement Grants (Entitlements)	14.218	\$ 10,876,500	\$ 1,935,420
Community Development Block Grants/Entitlement Grants (Program Income)	14.218	468,506	-
Total Community Development Block Grants/Entitlement Grants		<u>11,345,006</u>	<u>1,935,420</u>
Emergency Solutions Grant Program	14.231	1,204,159	721,010
Home Investment Partnerships Program:			
Home Investment Partnerships Program (Entitlements)	14.239	2,624,328	-
Home Investment Partnerships Program (Program Income)	14.239	144,770	-
Total Home Investment Partnerships Program		<u>2,769,098</u>	<u>-</u>
Housing Opportunities for Persons with AIDS			
Housing Opportunities for Persons with AIDS (Entitlements)	14.241	802,702	561,456
Housing Opportunities for Persons with AIDS (Program Income)	14.241	542	-
		<u>803,244</u>	<u>561,456</u>
Neighborhood Stabilization Program:			
Neighborhood Stabilization Program (Entitlements)	14.264	298,375	-
Neighborhood Stabilization Program (Program Income)	14.264	941,066	-
Total Neighborhood Stabilization Program		<u>1,239,441</u>	<u>-</u>
Continuum of Care Program	14.267	4,340,642	-
Public and Indian Housing	14.850	11,616,341	-
Lower Income Housing Assistance Program Section 8 Moderate Rehabilitation	14.856	157,161	-
Resident Opportunity and Supportive Services - Service Coordinators	14.870	208,481	-
Section 8 Housing Choice Vouchers	14.871	108,038,960	-
Public Housing Capital Fund	14.872	4,946,249	-
Choice Neighborhoods Implementation Grants	14.889	601,896	-
Jobs-Plus Pilot Initiative	14.895	402,649	-
Family Self-Sufficiency Program	14.896	191,456	-
Total U.S. Department of Housing and Urban Development		<u>147,864,783</u>	<u>3,217,886</u>
Total Expenditures of Federal Awards		<u>\$ 147,864,783</u>	<u>\$ 3,217,886</u>

See accompanying notes to schedule of expenditures of federal awards.

**SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

NOTE A – BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards (SEFA) is prepared on the modified accrual basis of accounting for grants accounted for in governmental funds and the accrual basis of accounting for grants accounted for in proprietary funds, as described in Note I of the Sacramento Housing and Redevelopment Agency's (Agency) financial statements. The Agency has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE B – CATALOG OF FEDERAL DOMESTIC ASSISTANCE (CFDA)

The CFDA numbers included in the accompanying SEFA were determined based on the federal program name, review of grant contract information and the Office of Management and Budget's (OMB) Catalog of Federal Domestic Assistance.

**SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

Section I – Summary of Auditor’s Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified? Yes

Noncompliance material to the financial statements? No

Federal Awards

Internal control over the major federal program:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified? None reported

Type of auditor’s report issued on compliance for the major federal program: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? No

Identification of major federal programs:

<u>CFDA Number</u>	<u>Federal Program Title</u>
14.871	Section 8 Housing Choice Vouchers

Dollar threshold used to distinguish between Type A and Type B programs: \$3,000,000

Auditee qualified as low-risk auditee? No

**SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2017**

Section II – Financial Statement Findings

Reference Number: 2017-001 – Pension Expense

Criteria:

American Institute of Certified Public Accountants (AICPA), *Auditing Standards Codification*, AU-C Section 265: Communicating Internal Control Related Matters Identified in an Audit, Paragraph .07

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

American Institute of Certified Public Accountants (AICPA), *Auditing Standards Codification*, AU-C Section 265: Communicating Internal Control Related Matters Identified in an Audit, Paragraph .A6

Factors that affect the magnitude of a misstatement that might result from a deficiency, or deficiencies, in internal control include, but are not limited to, the following:

- The financial statement amounts or total of transactions exposed to the deficiency
- The volume of activity (in the current period or expected in future periods) in the class of transactions or account balance exposed to the deficiency

Condition:

During the process of auditing the Agency’s year end pension entries, we noted that the Agency incorrectly recorded its year-end journal entry related to the impacts of GASB Statement No. 68, resulting in the understatement of the Agency’s pension expense for the following opinion units:

Governmental Activities - \$1,355,274

Business-type Activities - \$951,510

Aggregate Discretely Presented Component Units - \$663,374

County Housing Choice Vouchers - \$28,855

Cause:

During fiscal year 2017 the Agency encountered high staff turnover in the Finance Department, which included change in the Director of Finance in November 2017, departure of two Finance Managers and the Management Analyst, along with several long-time accountants. The staff turnover resulted in personnel that were less knowledgeable of the Agency’s operations and financial reporting process, carrying out certain activities and functions not previously performed.

Effect:

Due to the staff turnover in fiscal year 2017, complexity of the year-end journal entry relating to the GASB Statement No. 68, the Agency’s established controls were insufficient to properly detect and correct the errors in the Agency’s financial reporting process. The Agency adjusted its financial statements for the identified understatements to correct the pension expense in accordance with GASB Statement No. 68 for the year ended December 31, 2017.

Recommendation:

We recommend that the Director of Finance, or designee, review and approve all nonrecurring and complex year-end financial reporting journal entries for completeness and accuracy. This process should remain in place until new personnel in the Finance Department become more knowledgeable of the Agency’s operations and financial reporting processes.

**SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2017**

Section III – Federal Award Findings and Questioned Costs

None

**SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2017**

There were no audit findings reported for the year ended December 31, 2016.

**SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY
MANAGEMENT’S RESPONSE AND CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED DECEMBER 31, 2017**



Management’s Corrective Action Plan: Finding 2017-001 – Pension Expense

Corrective Action Plan: Management agrees with the Finding 2017-001 and the recommendation. The Director of Finance will continue to routinely review nonrecurring and complex year-end financial journal entries throughout the year.

Anticipated Completion Date:

October 2018

Contact Person:

Russell Robertson, Director of Finance

