,

Single Audit Report
Community Development Commission of the County of Los Angeles, California
Year ended June 30, 2010
with Report of Independent Auditors

Single Audit Report
Community Development Commission of
the County of Los Angeles, California
Year ended June 30, 2010
with Report of Independent Auditors

VASQUEZ & COMPANY LLP
CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS CONSULTANTS
801 South Grand Avenue, Suite 400 ▪ Los Angeles, CA 90017-4646 ▪ Ph. (213) 629-9094 ▪ Fax (213) 996-4242 ▪ www.vasquezcpa.com

Report of Independent Auditors 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*

The Honorable Members of the Board of Commissioners
Community Development Commission of the
County of Los Angeles, California

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Community Development Commission of the County of Los Angeles, California (Commission) as of and for the year ended June 30, 2010, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated October 22, 2010. 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 the *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of the Board of Commissioners and management of the Community Development Commission of the County of Los Angeles, as well as its federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Vasquez + Company LLP

Los Angeles, California
October 22, 2010

VASQUEZ & COMPANY LLP
CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS CONSULTANTS
801 South Grand Avenue, Suite 400 ▪ Los Angeles, CA 90017-4646 ▪ Ph. (213) 629-9094 ▪ Fax (213) 996-4242 ▪ www.vasquezcpa.com

Report of Independent Auditors on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

The Honorable Members of the Board of Commissioners
Community Development Commission of the
County of Los Angeles, California

Compliance

We have audited the compliance of the Community Development Commission of the County of Los Angeles, California (Commission) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Commission's major federal programs for the year ended June 30, 2010. The Commission's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Commission's management. Our responsibility is to express an opinion on the Commission's compliance based on our audit.

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 Commission'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. Our audit does not provide a legal determination of the Commission's compliance with those requirements.

In our opinion, the Commission complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as Finding 2010-01.

Internal Control Over Compliance

The management of the Commission is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Commission's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance 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 Commission's internal control over compliance.

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

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The Commission's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Commission's responses and, accordingly, we express no opinion on the responses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Commission as of and for the year ended June 30, 2010, and have issued our report thereon dated October 22, 2010. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the Commission's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Commissioners and management of the Community Development Commission of the County of Los Angeles, as well as its federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Vasquez + Company LLP

Los Angeles, California
October 22, 2010

Federal Grantor/Program Title	Catalog of Federal Domestic Assistance Number		Federal Expenditures	
U.S. Department of Housing and Urban Development				
Direct Programs:				
Lower Income Housing Assistance Program				
Section 8 Moderate Rehabilitation	14.856	$	2,721,567	
Community Development Block Grants	14.218		41,833,525	
Emergency Shelter Grants Program	14.231		1,322,518	
Shelter Plus Care	14.238		7,138,303	
HOME Investment Partnerships Program	14.239		12,471,977	
Community Development Block Grant ARRA Entitlement Grants (Recovery Act Funded)	14.253		3,133,475	*
Homelessness Prevention and Rapid Re-housing Program (Recovery Act Funded)	14.257		1,288,065	*
Public and Indian Housing - Owned Housing Program	14.850		6,894,152	
Section 8 Rental Certificate Program - project based	14.857		1,843,858	
Resident Opportunity and Supportive Services	14.870		619,585	
Section 8 Housing Choice Vouchers	14.871		236,390,955	*
Public Housing Capital Fund	14.872		5,205,191	
Public Housing Capital Fund Competitive (Recovery Act Funded)	14.884		488,949	
Public Housing Capital Fund Stimulus (Recovery Act Funded)	14.885		3,563,980	*
Total U.S. Department of Housing and Urban Development			324,916,100	
U.S. Department of Transportation				
Direct Program:				
Airport Improvement Program	20.106		5,638,431	
U.S. Department of Commerce				
Direct Program:				
Economic Adjustment Assistance	11.307		13,668,356	**
U.S. Department of Education				
Direct Program:				
Fund for the Improvement of Education	84.215		51,463	
U.S. Department of Health and Human Services				
Direct Program:				
Independent Living Program	93.674		2,058,556	
Health Care and Other Facilities	93.887		147,310	
			2,205,866	
Total Expenditures of Federal Awards		$	346,480,216	

* Major programs.

** In determining Type A programs, this program requires that the following be considered as part of expenditures of federal awards:

1. Balance of RLF loans outstanding at the end of the fiscal year	$	8,058,921
2. Cash and investment balance in the RLF at the end of the fiscal year		5,004,882
3. Expenses paid out of RLF during the fiscal year		604,553
Total expenditures of federal awards considered in determining Type A programs	$	13,668,356

See accompanying notes to the Schedule of Expenditures of Federal Awards and Report of Independent Auditors on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.

NOTE 1 GENERAL

The accompanying schedule of expenditures of federal awards presents the activity of all federal award programs of the Community Development Commission of the County of Los Angeles, California (Commission), a component financial reporting unit of the County of Los Angeles, California. The Commission's reporting entity is defined in note 1 of the notes to the Commission's basic financial statements. All federal awards received directly from federal agencies as well as federal awards passed through other government agencies to the Commission are included in the accompanying schedule.

NOTE 2 BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards is presented using the basis of accounting prescribed by the respective granting agency. Differences between the grantee-agency basis of accounting and the modified-accrual basis of accounting used by the Commission are primarily as follows:

- Amounts disbursed for notes receivable are treated as expenditures.
- Notes receivable collections are treated as grant income.
- Principal payments of long-term debt are treated as a reduction of the long-term debt and are not considered to be expenditures.

NOTE 3 RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Total expenditure amounts reported in the accompanying schedule of expenditures of federal awards agree with the total expenditure amounts reported in the related federal financial reports in all material respects.

NOTE 4 RELATIONSHIP TO THE BASIC FINANCIAL STATEMENTS

Federal award activities are recorded in the Commission's Special Revenue and Enterprise Funds in the basic financial statements.

Section I – Summary of Auditors' Results

Financial Statements

Type of auditors' report issued on the financial statements:	Unqualified
Internal control over financial reporting:	
• Material weakness(es) identified:	No
• Significant deficiency(ies) identified?	None reported
Noncompliance material to the financial statements noted?	No

Federal Awards

Internal control over its major programs:	
• Material weakness(es) identified:	No
• Significant deficiency(ies) identified?	None reported
Type of auditors' report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of OMB Circular A-133?	Yes

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
14.253	Community Development Block Grant ARRA Entitlement Grants (Recovery Act Funded)
14.257	Homelessness Prevention and Rapid Re-housing Program (Recovery Act Funded)
14.871	Section 8 Housing Choice Vouchers
14.885	Public Housing Capital Fund Stimulus (Recovery Act Funded)

Dollar threshold used to distinguish between Type A and Type B programs:	$3,000,000
Auditee qualified as a low-risk auditee:?	No

Section II – Financial Statement Findings

No matters were reported.

Section III – Federal Award Findings

Finding 2010-01 – Internal Controls Over Payments Under HAP Contracts

Program: Section 8 Housing Choice Vouchers
CFDA No.: 14.871
Federal Grantor: Department of Housing and Urban Development
Pass-through entity: Not applicable
Award Year: Fiscal Year 2009-2010
Compliance Requirement: Allowable/Unallowable Costs
Questioned Costs: $258,507

Criteria or Specific Requirement
24 CFR - Part 982—Section 8 Tenant-Based Assistance: Housing Choice Voucher Program, Subpart G—Leasing a Unit:

(a) *Payments under HAP contract.* Housing assistance payments are paid to the owner in accordance with the terms of the HAP contract. Housing assistance payments may only be paid to the owner during the lease term, and while the family is residing in the unit.

(b) *Termination of payment: When owner terminates the lease.* Housing assistance payments terminate when the lease is terminated by the owner in accordance with the lease.

(c) *Termination of payment: Other reasons for termination.* Housing assistance payments terminate if:

(1) The lease terminates;

(2) The HAP contract terminates; or

(3) The PHA terminates assistance for the family.

(d) *Family move-out.* (1) If the family moves out of the unit, the PHA may not make any housing assistance payment to the owner for any month after the month when the family moves out. The owner may keep the housing assistance payment for the month when the family moves out of the unit.

Condition
During our audit, we noted that overpayments were made to various landlords and tenants which amounted to $403,532 for the fiscal year ended June 30, 2010. Cumulative amount of overpayment is $975,276 as of June 30, 2010.

We have tested the Housing Authority's internal controls in place to ensure compliance with the above requirements relative to HAP payments. We tested a total of 60 overpayments and noted the following:

1. For 8 out of 60 overpayments sampled for testing, the owner and/or landlord failed to report terminated leases to the Housing Authority on time.
2. For 7 out of 60 overpayments sampled for testing, the tenant failed to report terminated leases to the Housing Authority on time.
3. For 45 out of 60 overpayments sampled for testing, overpayments were caused by not implementing sufficient control processes. The Housing Authority did not process the termination on a timely basis. Timely documentation of move-outs and discontinued contracts were not made.

Possible Asserted Cause and Effect

Overpayments are caused by (1) the landlords and the tenants not reporting the terminated lease and/or (2) the Housing Authority not adequately administering the program.

Lack of controls and administrative processes might result in unnecessary sanction. If the Housing Authority has not adequately administered Section 8 program, HUD may prohibit use of funds in the administrative fee reserve, and may direct the Housing Authority to use funds in the reserve to improve administration of the program or to seek for reimbursement of ineligible costs. Overpayments caused by lack of controls and administrative processes might be deemed as ineligible costs.

Questioned Costs

$258,507 out of $321,519 overpayments sampled.

Recommendation

We recommend that the Housing Authority implement stricter controls and procedures to ensure that payments are discontinued timely for terminated contracts. We also recommend that the Housing Authority implement procedures that would penalize landlords/owners for not reporting contract termination on time.

Views of Responsible Officials and Planned Corrective Action

HACoLA recognized the problem in the previous fiscal year, thus in accordance with PIH Notice 2007-27, HACoLA reimbursed the overpaid HAP from its Administrative Fees Unrestricted Net Assets. Additionally, HACoLA identified and implemented solutions which have resulted in a downward trend of staff-caused errors. The HACoLA implemented the following to reduce the dollar amount and number of overpayments:

- Increased the number of files in which Quality Control is conducted;
- Implemented an automated hold within the current operating system to place the housing assistance payment on hold, when notified of a pending move;
- Implemented an automated collection notice within the current operating system to be mailed to owners when an overpayment has occurred;
- Entered into a contract with County of Los Angeles Treasurer Tax Collector to expedite collection when the owner has failed to refund HACoLA within 60 days of the initial collection notice;

- Deducted overpayments from future HAP checks for owners with other existing contracts;

- Will not enter into new contracts with owners who have not repaid HAP overpayments;

- Terminate tenants who fail to properly notify the HACoLA prior to moving from the assisted unit; and

- Retrained staff on the process to follow when they are made aware of a client move.

As a result, the HACoLA has realized a 77% decrease in Gross overpayments from October 2009 to June 2010; and a 41.46% decrease in staff-caused errors from a high of $27,519.00 in March 2010 to $11,410.00 at the close of FY June 30, 2010. The number of staff-caused errors also decreased from 13 in March 2010 to 6 at the close of FY June 30, 2010.

Overpayments due to staff-caused errors further declined to $6,046.00 for the month of July 2010 demonstrating the effectiveness of the HACoLA correction efforts.

Program: Section 8 Housing Choice Vouchers
CFDA No: 14.871
Federal Grantor: Department of Housing and Urban Development
Passed-through: Not Applicable
Award Year: Fiscal year June 30, 2009

Finding No. 1 – Tenant Reexaminations Were Not Performed in a Timely Manner

Recommendation
It was recommended that the Housing Authority of County of Los Angeles (HACoLA) implement procedures to ensure that reexaminations are performed on a timely basis. It was also recommended that all of the annual reexaminations that have not occurred annually should be reviewed as soon as possible to determine their eligibility status.

Current Year Status
Implemented. Subsequent to the prior audit, HACoLA has implemented several corrective action plans to ensure reexaminations were done in a timely manner. Continuous efforts were made in achieving the goal.

Finding No. 2 – Overpayments of Section 8 Funds to Landlords and/or Tenants

Recommendation
It was recommended that the HACoLA review the overpayments immediately and identify the portion of overpayments that was a result of HACoLA's administrative errors and reimburse the Section 8 Voucher Program fund for the uncollectible overpayments. It was also recommended that the HACoLA implement procedures to ensure that payments are discontinued immediately when the HACoLA is notified that a contract is terminated. It was also recommended that HACoLA communicate with other housing authorities to make sure that tenants are still living in the units before they continue to make payments to them.

Current Year Status
Condition still exists (See Finding 2010-01).