

***COMMUNITY DEVELOPMENT COMMISSION OF THE
COUNTY OF LOS ANGELES, CALIFORNIA***

**Single Audit Report
Year Ended June 30, 2009**

(With Report of Independent Auditor Thereon)

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Report of Independent Auditor 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, 2009, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated December 15, 2009. 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.

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*.

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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies 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 is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, appearing to read 'Simpson & Simpson', written in black ink.

Los Angeles, California
December 15, 2009



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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

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 are applicable to each of its major federal programs for the year ended June 30, 2009. 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, except for the noncompliance Finding No. 2 as described in the Schedule of Findings and Questioned Costs, the Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009. The results of our auditing procedures also disclosed other instances of noncompliance with these requirements, 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 Finding No. 1.



Internal Control Over Compliance

The management of the Commission is responsible for establishing and maintaining effective internal control over compliance with 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 requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items: Finding No. 1 and Finding No.2 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider Finding No. 2 to be material weakness.

The Commission's response 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 response, and accordingly, we express no opinion on it.



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, 2009, and have issued our report thereon dated December 15, 2009. 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 is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Simpson & Simpson". The signature is written in black ink and is positioned above the typed name.

Los Angeles, California

February 12, 2010, except for the section "Schedules of Expenditures of Federal Awards", as to which the date is December 15, 2009

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2009

<u>Federal Grantor/Program Title</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Housing and Urban Development</u>		
Direct Programs:		
Section 8 Project-Based Cluster		
Section 8 New Construction and Substantial Rehabilitation	14.182	\$ 56,169
Lower Income Housing Assistance Program-Section 8 Moderate Rehabilitation	14.856	2,936,221
Subtotal Section 8 Project-Based Cluster		2,992,390
Community Development Block Grants	14.218	38,225,406 (1)
Emergency Shelter Grants Program	14.231	1,532,970
Shelter Plus Care	14.238	6,686,561 (1)
HOME Investment Partnerships Program	14.239	26,875,311
Economic Development Initiative	14.246	500,000
Public and Indian Housing-Owned Housing Program	14.850	6,872,273 (1)
Section 8 Rental Certificate Program – project based	14.857	2,092,647
Resident Opportunity and Supportive Services	14.870	745,356
Section 8 Housing Choice Vouchers	14.871	201,123,504 (1)
Public Housing Capital Fund	14.872	7,704,292 (1)&(2)
Independent Living Program	93.674	1,888,318
Public Housing Capital Fund Stimulus Recovery Act Funded	14.885	962,653
Total U.S. Department of Housing and Urban Development		298,201,681
<u>U.S. Department of Transportation</u>		
Direct Program:		
Airport Improvement Program	20.106	13,838,071 (3)
U.S. Department of Education	84.215	25,239
Total Expenditures of Federal Awards		\$ 312,064,991
(1) Selected as major program		
(2) The breakdown for the Public Housing Capital Fund is as follows:		
<u>Program Identification Number</u>		
CA16P002-501-05		\$ 1,639,386
CA16P002-501-06		2,580,597
CA16P002-501-07		1,326,861
CA16P002-501-08		2,123,825
CA16R002-501-04		5,362
CA16R002-501-05		28,261
		\$ 7,704,292
(3) The breakdown for the Airport Improvement Program is as follows:		
Los Angeles World Airport		\$ 7,346,716
Federal Aviation Administration		6,491,355
		\$ 13,838,071

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.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2009

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 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.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2009

SECTION 1 – SUMMARY OF AUDITOR'S 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 that are not considered to be material weaknesses? None reported

Noncompliance material to the financial statements noted: No

Federal Awards

Internal control over its major programs:

- Material weakness(es) identified: Yes
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes

Type of auditors' report issued on compliance for major programs: Qualified opinion on Section 8 Housing Choice Vouchers Program only

Unqualified opinions on remaining of the major programs

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:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grant
14.238	Shelter Plus Care
14.850	Public & Indian Housing-Owned Housing Program
14.871	Section 8 Housing Choice Vouchers
14.872	Public Housing Capital Fund

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

Auditee qualified as a low-risk auditee: No

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2009

SECTION 2 – FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION 3 – FEDERAL AWARD FINDINGS

Federal Program Title: Section 8 Housing Choice Vouchers

Awarding Agency: Department of Housing and Urban Development

Catalog of Federal Domestic Assistance (CFDA) Number: 14.871

Award Year: Fiscal year June 30, 2009

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

Criteria:

Public Housing Agencies (PHAs) are required to reexamine family income and composition at least once every 12 months and adjust the tenant rent and housing assistance payment as necessary using the documentation from third party verification (24 CFR section 982.516).

Condition

On a non statistical sample basis, we tested a sample of seventy five (75) tenant files and noted that twenty eight (28) of the files did not have the annual reexamination performed on time. The mandatory annual reexaminations were between 19 days and 19 months late. Furthermore, per review of the PIC Report under Indicator 9 Reexaminations there were 699 out of approximately 20,000 reexaminations that were not completed in a timely manner as of June 30, 2009.

Cause and Effect

Even though Housing Authority of County of Los Angeles (HACoLA) has internal controls designed to detect and monitor the status of the delinquent files, the controls does not appear to be effective to ensure reexaminations are performed on timely basis. By not performing the reexaminations in a timely manner the Housing Authority is not in compliance with HUD requirements. The HACoLA may have tenants that were no longer eligible for the program still participating in the program and therefore may incur costs that were disallowed.

Questioned Costs

The questioned costs could not be quantified.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2009

Recommendation

We recommend that the HACoLA implement procedures to ensure that reexaminations are performed on timely basis. Also, we recommend that all of the annual reexaminations that have not occurred annually should be reviewed as soon as possible to determine their eligibility status.

Management response

To ensure reexaminations are completed in a timely manner the HACoLA contracted with a vendor in April 2009 to complete approximately 7500 annual re-certifications, hired 21 additional staff to reduce caseloads, streamlined the reexamination process, and implemented additional technological upgrades. The U.S. Department of Housing and Urban Development (HUD) monitors all housing authorities that administer the Housing Choice Voucher Program using the Section Eight Management Assessment Program (SEMAP). SEMAP reviews 14 key areas including annual reexaminations. Under SEMAP Indicator 9 Annual Reexaminations the HACoLA is eligible to receive 10 points if fewer than 5 percent of the reexaminations are more than two months overdue. As of January 31, 2010 the HACoLA's Multifamily Tenant Characteristics System (MTCS) report reflects a 1% delinquency of reexamination not processed within a 12 month period.

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

Criteria

The subsidy provided by LACDC is considered a tenant-based subsidy because when an assisted family moves out of a unit leased under the program, the assistance contract with the owner terminates and the family may move to another unit with continued rental assistance (24 CFR section 982.1). If the tenant or landlord receives rental income and the tenant has moved out of the unit the Department of Housing and Urban Development does not provide any subsidy.

Condition

During our audit for the year ending June 30, 2009, we noted that there were significant amount of overpayments made to various landlords and/or tenants accumulatively up to approximately \$1,000,000. We sampled a total of 25 overpayments totaled \$158,098 and noted that the overpayments ranged from one month to over 8 months.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2009

Cause and Effect

The overpayments could be result of the following several reasons:

- 1) Tenants that port out to other Housing Authorities did not receive notification from the other housing authority that the contract was terminated and that they should discontinue sending payments and the administration fee.
- 2) The owner/Landlord failed to report to HACoLA of terminated leases on timely basis.
- 3) HACoLA did not process the termination on timely basis. When the tenant and/or landlord notifies HACoLA of a discontinued contract, the information was not promptly documented and sent to the Financial Management department to discontinue payments to the tenants and/or landlords timely.

The HACoLA has implemented procedures and collection efforts to recover the overpayments. HACoLA staff is also in the process of identifying the causes of the overpayments and the amounts associate with those. However, the portion of overpayments that associated to the HACoLA's administrative errors could be deemed as disallowable cost.

Questioned Costs

Due to the nature of the errors were not determinable at the time of the audit, the question costs could not be quantified.

Recommendation

We recommend 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 uncollectable overpayments. We also recommend that the HACoLA implement procedures to ensure that payments are discontinued immediately when the HACoLA is notified that a contract is terminated. We also recommend 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.

Management response

HACoLA is in the process of reconciling the overpayments which date back to July 2008 to determine the cause of each. The \$1 million referenced in this finding is a cumulative amount, and not specific to payments made in fiscal year 2008/2009. Overpayments are intrinsic to the program and are caused by a number of reasons.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2009

Management response (Continued)

Overpayments caused by landlords, tenants and other Housing Agencies failure to report client move outs timely are not within the HACoLA control and are not HUD disallowed costs. To reduce HAP overpayments HACoLA implemented an automatic hold function in its operating system to prevent future payments once a landlord or tenant notifies the HACoLA of pending move out.. HACoLA hired a financial analyst to monitor overpayments and collections; and develop system reports and technological upgrades to further mitigate overpayments. As of January 31, 2010 the HACoLA has recaptured over \$500,000 in HAP overpayments.

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATION

Federal Program Title: Section 8 Housing Choice Vouchers
Awarding Agency: Department of Housing and Urban Development
Catalog of Federal Domestic Assistance (CFDA) Number: 14.871
Award Year: Fiscal year June 30, 2008

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

Recommendation

We recommend that the HACoLA implement procedures to ensure that reexaminations are performed on timely basis. Also, we recommend 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

Partially implemented. Subsequent to the prior audit, HACoLA has implemented several corrective action plans to ensure reexaminations were done in a timely manner. Continuous efforts will be made in achieving the goal.

Finding No. 2-Annual HQS Inspections Not Performed On Time

Recommendation

We recommend that the HACoLA implement procedures to ensure that Annual HQS Inspections being performed on timely basis. Also, we recommend that all of the annual inspections that have not occurred that were over 12 months should be reviewed as soon as possible.

Current Year Status

Implemented.

Finding No. 3 - Utility Allowance Calculated Incorrectly

Recommendation

We recommend that the HACoLA implement procedures for staff receive proper training and supervision in how to obtain the correct information to determine the amount of utility allowance each tenant should receive. We also recommend that supervision and review process to be in place for the calculations of all the utility allowances to determine that they were calculated properly.

Current Status

Implemented.