Presentation of Annual Audit Report

Fresno Housing Authority
Boards of Commissioners Meeting
September 27, 2016
Overview

- The Board’s Role
- Audit Process
- Audit Compliance
- Parts of the Audit
- Management Responsibilities
- Auditor’s Presentation
- Management’s Responses to the Audit
Board’s Fiduciary Responsibility

• Oversee the PHA’s financial operations and fiscal health
• Review and approve annual budgets
• Ensure compliance with financial, statutory, and regulatory requirements
• Verify strong internal controls are in place to prevent fraud and abuse
• Select and hire the Independent Public Auditor
• Review year-end statements and audits
Audit Process

• Throughout the year, the Accounting staff records transactions and changes in balances
• At year end, final financial statements and supplementary information is prepared for the Auditor’s review
• Auditor performs financial and compliance tests, as required
• Auditor issues their results and findings to the Board and Management
Audit Compliance

- The annual audit must comply with numerous requirements and standards, including:
  - Generally Accepted Accounting Principles (GAAP)
  - *Government Auditing Standards* (Yellowbook) issued by the U.S. Comptroller General
  - *Uniform Financial Reporting Standards* issued by the U.S. Department of Housing and Urban Development
Parts of the Audit

• Independent Auditor’s Reports
• Management’s Discussion and Analysis
• Basic Financial Statements
• Supplementary Information
• Single Audit Reports and Related Schedules
• External Letters:
  – Management Recommendations
  – Communications with those in Charge of Governance
Management’s Responsibilities

- Preparation and presentation of the financial statements and the notes to the financials
- Management’s Discussion and Analysis (MD&A)
- Design, implementation and maintenance of a strong internal control system
Auditor’s Presentation

• Davis Farr
  – Marc Davis, Partner
  – Dean Votava, Senior Manager
Presentation of Results of Audits

September 27, 2016
Discussion Topics

- Audits Required
- Auditor Responsibilities
- Financial Statements
Audits Required

- Annual financial audit required by HUD
- If spend > $750,000 in federal funds, then a Single Audit is required
Auditor Responsibilities

- Express opinion on financial statements
- Conduct audit in accordance with generally accepted auditing standards and Government Auditing Standards
  - Plan and perform audit to obtain reasonable, not absolute assurance, that financial statements are free from material misstatement
- Procedures performed based on auditor’s judgment
Auditor Responsibilities

- Assessment of risk
  - Nature of entity
  - Structure, ownership and governance
  - Industry, regulatory and other external matters
  - Financial statement reporting
  - Fraud
    - NOT a fraud audit
  - Evaluation of internal control, but not to express an opinion on internal control
Financial Statements

- Auditor’s Report
  - Unmodified - clean
  - Modified
    - Qualified
    - Adverse
    - Disclaimer
Financial Statements

- Management’s Discussion and Analysis
  - Condensed financial information
  - Explanation of changes and whether or not financial condition has improved
  - Do restrictions, commitments or limitations affect resources available for future use
  - Significant capital asset and long-term debt activity
Financial Statements

- Statement of Net Position
- Statement of Revenue, Expenses and Changes in Net Position
- Statement of Cash Flows
- Notes to the Financial Statements
Financial Statements

- Required Supplementary Information
  - Required by GASB
  - Apply limited procedures, but do not express an opinion

- Supplemental Information
  - Presented for purposes of additional analysis (required by HUD)
  - Subjected to auditing procedures applied as part of financial audit
Financial Statements

- Single Audit
  - Report on internal control over financial reporting and on compliance and other matters
  - Report on compliance with major programs, internal control over compliance and on Schedule of Expenditures of Federal Awards
  - Schedule of Expenditures of Federal Awards
  - Findings and questioned costs
Results of Audit

- Scope
  - Financial audit of Housing Authority of City
  - Financial audit of Housing Authority of County
  - Single audits of both
- Initial communication to Board at 2/23/16 meeting
- Communicated results of audit to Executive Committee at 9/21/16 meeting
Results of Audit

- **Timing**
  - Interim – January/February 2016
  - Final began in May 2016 and continued to mid September
  - Later timing due to implementation of new financial system
- Unmodified opinion issued for both Authorities
Results of Audit

- **Summary financial results**
  - **City**
    - Assets increased $2.2 million
    - Liabilities increased $4.4 million
    - Net position decreased $2.2 million
  - **County**
    - Assets increased $3.4 million
    - Liabilities increased $7.6 million
    - Net position decreased $4.2 million
Results of Audit

- **Single Audit**
  - **City**
    - $58 million in federal expenditures
    - Section 8 Housing Voucher Program was major program ($50 million out of $58 million)
    - No findings or questioned costs
  - **County**
    - $45 million in federal expenditures
    - Section 8 Housing Voucher Program and Farm Labor Loans and Grants were major programs ($41 million out of $45 million)
    - No findings or questioned costs
Results of Audit

- Implementation of GASB 68
  - Pension liability recorded on books
    - City – $3.8 million
    - County – $3.9 million
- Estimates in preparing statements
  - Useful lives, collectability of grants, notes and related party receivables, actuarial valuation of pension liability
  - All found to be reasonable and have a sound basis
Results of Audit

- No material weaknesses or significant deficiencies
- All recommendations are best practice
  - Cash receipts
  - Accounts payable
  - Journal entries
  - Payroll
  - General ledger accounts
  - Reporting for Parlier Migrant Program
Results of Audit

- 2 immaterial adjustments noted which Authorities chose to not record
- No disagreements with management
- Management provided representations to us at the end of the audit
- No consultations with other accountants
- We remain available to Authorities as a resource throughout the year
Audit Results

• Results can be found in the Schedule of Findings and Questioned Costs in the Audit.
  – 2016 Results
    • Unmodified opinion on financial reports and compliance (i.e. fairly presented)
    • No findings
    • No noncompliance
    • No material weaknesses or significant deficiencies in internal controls
# Audit Result History

## City HA

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FR: Financial Reporting  
IC: Internal Controls
Management Recommendations

• Cash Receipts
  • Auditor’s recommend that the duties of collecting cash, recording cash and making adjustments to ledgers are segregated.
  • Management agrees and is in the process of implementing the recommended controls.

• Accounts Payable
  • Auditor’s recommend that the duties of creating/approving invoices & PO’s and adding/modifying vendors are segregated, and eliminate access for other staff.
  • Management agrees, and has already been implemented with Yardi.
Management Recommendations

- **Journal Entries**
  - Auditor’s recommend that the Agency adopt an approval system for journal entries.
  - Management has already implemented an internal policy and is incorporating those approval levels in Yardi.

- **Payroll**
  - Auditor’s recommend restricting access to the payroll system for accounting staff.
  - Management agrees and is investigating systems that will allow for this control.
Management Recommendations

• General Ledger Accounts
  • Auditor’s recommend that GL accounts be reviewed and adjustments made before the audit begins.
  • Management agrees and is implementing a monthly close process that will eliminate most year-end adjustments.

• Reporting for Parlier Migrant Program
  • Auditor’s recommend reporting on a calendar year basis instead of the fiscal year.
  • Staff agrees and will implement during 2016 audit.
Questions or Comments?