



# BOARD OF DIRECTORS

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*California Housing Finance Agency  
Board of Directors*

*Audit Committee*

Thursday, March 7, 2013

Burbank Airport Hilton  
& Convention Center  
Burbank, California  
(818) 843-6000

9:30 a.m.

1. Roll Call.
2. Chairman comments.
3. Follow-up report to the Audit Committee on the Single Audit finding (timely disbursement of Federal Funds received from HUD) and recommendations identified in the management letter. (Lori Hamahashi/Liane Morgan) .....1
4. Report on the: a) audit of the State Controller's requirement for additional information; b) Proposition 1C agreed-upon procedures; and c) Financial Adjustment Factor agreed-upon procedures. (Lori Hamahashi) .....5
5. Public testimony.
6. Adjournment.

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State of California

## MEMORANDUM

To: Audit Committee

Date: March 7, 2013



Lori Hamahashi, Deputy Comptroller

From: CALIFORNIA HOUSING FINANCE AGENCY

Subject: Section 8 Housing Assistance Payment (HAP) Program – Cash Management of Federal Funds

The Single Audit of the Section 8 HAP Program for the period ending June 30, 2012 resulted in an audit finding in the cash management area of the program. Specifically, Federal draws (receipts) should be disbursed to the projects no more than three business days after the receipt of the funds. However, the Agency's disbursement process ranged from seven to eleven business days.

Fiscal Services and Asset Management staff interviewed other HFA's on their procedures around Section 8 disbursement process. These discussions helped confirm the proposed changes that needed to occur in each of the divisions in order to be able to meet the required disbursement timeframe.

The staff worked with Information Technology to make the necessary changes and tested the new processes in early February 2013. The disbursement process ranged from three to seven business days during February.

The process is being refined and the Agency's goal is to be in compliance by March 2013.

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State of California

## MEMORANDUM

To: Audit Committee

Date: March 7, 2013



Lori Hamahashi, Deputy Comptroller

From: CALIFORNIA HOUSING FINANCE AGENCY

Subject: Housing Finance Fund – Responses to Management Letter Recommendations by CliftonLarsonAllen (CLA)

### Derivatives

Recommendation #1: We recommend that the Agency modify how they record internal transfers of derivative borrowings and ensure such transfers are not recorded in the financial statements.

- Response: The Agency corrected the recording of the transfers prior to completion of the Fiscal Year 2011-12 audit and will ensure that such transfers will not be recorded in any future reporting periods.

### Allowance for Doubtful Accounts – Multifamily

Recommendation #2: We recommend that the Agency develop and document their own basis for valuation percentages used in the calculation of the Allowance for its Multifamily Portfolio.

- Response: The staff is currently working on developing the appropriate basis for the Multifamily Portfolio. Staff expects to have the analysis, recommendation and approval of the allowance for loan loss basis completed by 6/30/13.

### Information Technology

#### *Logical Access*

Recommendation #3: We recommend that password parameters for key systems be aligned with industry leading practices (enable complexity) in order to limit unauthorized access to systems.

- Response: In accordance with best practices and to assist in the creation of more secure computer systems, CalHFA will implement either a complex password or a 15 character

passphrase instead of the current password settings to gain access to our CalHFA networks on 4/1/2013.

Recommendation #4: We recommend that administrator accounts be reviewed for appropriateness and limited to the least number of staff to ensure risk of compromised accounts is reduced.

- Response: The list of user names with access to the databases that was given to CLA was inclusive of all user access, including access to the DB indirectly through program control, not just administrator access. We have reviewed administrator access and have removed direct access for those users deemed unnecessary at this time. We have set Outlook reminders to review database access on a quarterly basis going forward.

Recommendation #5: We recommend that the two test accounts be disabled or their access to the production data be removed

- Response: Access was removed for the two test accounts. We track all transactional activity through audit trail tracking and these accounts show no activity prior to removing access.

#### *Change Management*

Recommendation #6: We recommend that segregation of duties be in place between development activities and the production environment to prevent unauthorized changes to be made to production by personnel.

- Response: CalHFA IT has a formal documented change management process which includes segregation of duties between programmers. Because of limited IT resources, the formal change management process has been modified so that IT is responsive to the business needs while still ensuring only appropriate changes are made to the system and that all changes are thoroughly tested and approved before migration to production.

Recommendation #7: We recommend that the Agency develop change management procedures including formal approval for change initiation, testing scripts, and results and final approval prior to changes made to production systems.

- Response: As resources increase, CalHFA will re-institute formal change management procedures to ensure the documentation of change requests and their approval, usage of testing scripts, and approval of changes prior to migration to production systems. CalHFA acknowledges this as an acceptable risk.



CliftonLarsonAllen LLP  
www.cliftonlarsonallen.com

### **Independent Auditor's Report on Additional Information**

Board of Directors  
California Housing Finance Agency  
Sacramento, California

Our audit of the financial statements of the California Housing Finance Fund, which is administered by the California Housing Finance Agency (the Agency), a component unit of the State of California, as of and for the year ended June 30, 2012, was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying financial statements of the Fund are not intended to present the financial position or the results of the operations of the Agency. The additional information listed in the table of contents on pages 71 through 73 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This additional information is the responsibility of the Agency's management and is presented in accordance with the requirements established by the California State Controller. Such information has been subjected to the auditing procedures applied in our audit of the basic 2012 financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic 2012 financial statements taken as a whole.

*CliftonLarsonAllen LLP*

Baltimore, Maryland  
October 12, 2012

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**STATEMENT OF NET ASSETS**  
**FORMAT FOR AUDITED FUNDS**

(amounts in thousands)

<b>ASSETS</b>			
Current assets:			
	Cash and pooled investments	\$	
	Cash and pooled investments - restricted		1,872,012
	Amount on deposit with U.S. Treasury		
	Investments		
	Investments - restricted		339,955
	Receivables (net)		224,219
	Due from other funds		
	Due from other governments		
	Due from other governments - restricted		
	Prepaid Items		442
	Inventories		
	Other current assets		85,094
	<b>Total Current Assets</b>		<b>2,521,722</b>
Noncurrent assets:			
Restricted assets:			
	Cash and pooled investments		
	Investments		577,505
	Investments		
	Net investment in direct financing leases		
	Receivables		
	Interfund receivables		
	Loans receivable		
	Loans receivable - restricted		5,295,050
	Deferred Charges		23,860
Capital assets:			
Capital assets not being depreciated or amortized			
	Land		
	Libraries/collections/works of art/historical treasures		
	Construction in progress		
	Internally generated intangible assets in progress		
	Land use rights - non-amortizable		
	Patents, copyrights, and trademarks - non-amortizable		
	Other intangible assets - non-amortizable		
Capital assets being depreciated or amortized:			
	Buildings and building improvements		
	Equipment		2,153
	Infrastructure		
	Libraries/collections/works of art/historical treasures		
	Other fixed assets		
	Computer software - amortizable		
	Land use rights - amortizable		
	Patents, copyrights, and trademarks - amortizable		
	Other intangible assets - amortizable		
	Less: accumulated depreciation - Buildings and building improvements		
	Less: accumulated depreciation - Equipment		(1,034)
	Less: accumulated depreciation - Infrastructure		
	Less: accumulated depreciation - Libraries/collections/works of art/historical treasures		
	Less: accumulated depreciation - Other fixed assets		
	Less: accumulated amortization - computer software		
	Less: accumulated amortization - land use rights		
	Less: accumulated amortization - patents, copyrights, and trademarks		
	Less: accumulated amortization - other intangible assets		
	Other noncurrent assets		328,748
	<b>Total Noncurrent Assets</b>		<b>6,226,282</b>
	<b>Total Assets</b>	<b>\$</b>	<b>8,748,004</b>

**STATEMENT OF NET ASSETS**  
**FORMAT FOR AUDITED FUNDS**

(amounts in thousands)

<b>LIABILITIES</b>			
Current Liabilities:			
Accounts payable		\$	2,827
Due to other funds			570
Due to component units			
Due to other governments			
Deferred revenue			
Deposits			227,246
Contracts and notes payable			
Advance collections			
Interest payable			84,955
Benefits payable			
Current portion of long-term obligations			107,273
Compensated absences payable			4,254
Other current liabilities			297
<b>Total Current Liabilities</b>			<b>427,422</b>
Noncurrent Liabilities:			
Interfund payables			
Benefits payable			
Lottery prizes and annuities			
Compensated absences payable			
Certificates of participation, commercial paper and other borrowings			
Capital lease obligations			
General obligation bonds payable			
Revenue bonds payable			6,490,172
Due to other funds			13,417
Due to other governments			19,388
Advance collections			23,569
Other noncurrent liabilities			324,224
<b>Total Noncurrent Liabilities</b>			<b>6,870,770</b>
<b>Total Liabilities</b>			<b>7,298,192</b>
<b>NET ASSETS</b>			
Investment in capital assets, net of related debt			1,119
Restricted, expendable			1,448,693
Unrestricted			
<b>Total Net Assets</b>			<b>1,449,812</b>
<b>Total Liabilities and Net Assets</b>		\$	<b>8,748,004</b>

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS**  
**FORMAT FOR AUDITED FUNDS**  
**COMPONENT UNITS**  
(amounts in thousands)

<b>OPERATING REVENUES</b>		
Unemployment and disability insurance	\$	
Lottery ticket sales		
Student tuition and fees		
Services and Sales		27,378
Investment and Interest		365,342
Rent		
Other		21,172
<b>Total operating revenues</b>		<b>413,892</b>
<b>OPERATING EXPENSES</b>		
Lottery prizes		
Personal services		30,366
Supplies		
Services and charges		22,625
Amortization		(1,024)
Distributions to beneficiaries		
Interest expense		191,265
Amortization of deferred charges		105,833
Other		170,232
<b>Total operating expenses</b>		<b>519,297</b>
Operating income (loss)		<b>(105,405)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Donations and grants received		
Grants provided		
Investment and interest income		
Interest expense and fiscal charges		
Lottery payments for education		
Other		
<b>Total nonoperating revenues (expenses)</b>		<b>0</b>
Income (loss) before contributions and transfers		<b>(105,405)</b>
Capital contributions		
Operating transfers in		75,142
Operating transfers out		
Change in net assets		<b>(30,263)</b>
<b>Total net assets, July 1</b>		<b>1,480,075</b>
<b>Total net assets, June 30</b>	\$	<b>1,449,812</b>

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## Independent Accountant's Report

To the Board of Directors  
California Housing Finance Agency  
Sacramento, California

We have examined the assertion of the management of the California Housing Finance Agency (the Agency) that during the year ended June 30, 2012: "(1) the Agency used Prop 1C funds committed/disbursed for the purpose specified in the California Homebuyer's Down Payment Assistance Program, (2) Borrowers qualified based on income level and sales price as determined by the California Homebuyer's Down Payment Assistance Program, and (3) Proper loan agreement/lien was recorded against the property." Management is responsible for the Agency's compliance with those requirements. Our responsibility is to express an opinion on management's assertion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included 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 examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Agency's compliance with specified requirements.

In our opinion, management's assertion that the Agency complied with the aforementioned requirements during the year ended June 30, 2012, is fairly stated, in all material respects.

*CliftonLarsonAllen LLP*

Baltimore, Maryland  
January 31, 2013

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## Report of Independent Accountants on Applying Agreed-Upon Procedures

To the Board of Directors of  
 California Housing Finance Agency  
 Sacramento, California

We have performed the procedures enumerated below, which were agreed to by California Housing Finance Agency (the Agency), solely to assist you in evaluating the Agency's compliance with requirements of the FAF Refunding Agreements related to those real estate developments as set forth in the FAF Savings Disbursements Schedule attached (the Schedule) during the period from July 1, 2009 to June 30, 2012. The Agency's management is responsible for the Agency's compliance with those requirements. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures that we performed are as follows:

1. Read the FAF Refunding Agreements dated March 1, 1991, June 1, 1992 and the First Amendment, dated July 15, 1992, to the FAF Refunding Agreement dated March 1, 1991 (together referred to as the "Agreements").

### **Results**

We obtained copies of the FAF Refunding Agreements. We read the agreements and gained an understanding of the Program and its requirements.

2. Obtained the FAF Savings Disbursement Schedule (the "Schedule"). For each disbursement included in the Schedule made during the period from July 1, 2009 through June 30, 2012, compared the amount to the FAF Savings General Ledger and found them to be in agreement.

### **Results**

We obtained the FAF Savings Disbursement Schedule and agreed the total disbursements for the period July 1, 2009 through June 30, 2012 to the Agency's general ledger and Annual Savings Report without exception.

3. Read the Regulatory Agreement for each FAF Project with disbursements included in the Schedule.

### **Results**

We obtained copies of the regulatory agreements for each FAF Project. We read the agreements and gained an understanding of the regulatory requirements.

4. Obtained the definition of “very low income” as defined in the Agreements.

**Results**

The Agency determined “very low income” based on definitions determined by HUD.

5. For each FAF Project with a disbursement during the current triennial review period, and included in the Schedule, obtained the Sources and Uses Report from the Final Commitment Package approved by the CalHFA Board of Directors.

**Results**

We obtained the Sources and Uses report approved by the CalHFA Board of Directors for each FAF Project. No exceptions were noted.

6. For each FAF Project selected in step 5, noted that the ratio of cumulative FAF funds disbursed to total financing sources as shown in the Sources and Uses Report is less than or equal to the ratio of “very low income” units to total units.

**Results**

We calculated the ratio of cumulative FAF funds disbursed to total financing sources for each of the Subsidy Interest Rate Projects and noted the ratios were less than the ratio of “very low income” units to total units. No exceptions were noted.

7. For each FAF Project with disbursements included in the Schedule, we obtained a listing of the “very low income” units for each FAF Project and recalculated the project’s “very low income” threshold. Selected 10% of the “very low income” units from each FAF Project and compared each tenant’s income with the “very low income” threshold, with no exceptions.

**Results**

We tested 10% of tenant files for income verification and documentation of annual recertification for each of the Subsidy Interest Rate Projects listed in the schedule. No exceptions were noted.

8. For each FAF Project with disbursements included in the Schedule, obtained the most recent Physical Inspection Report and noted that the maintenance of the FAF Project is described as satisfactory.

**Results**

We obtained the most recently completed physical inspection reports for all Subsidy Interest Rate Projects. No exceptions were noted.

9. Obtain and review the most recent annual certification to HUD that is required in accordance with 24 C.F.R. Part 883.

**Results**

We obtained and reviewed a copy of the 2009 Agreed Upon Procedures report prepared by Deloitte.

We were not engaged to, and did not, conduct an examination, the objective of which would be the expression of an opinion on compliance. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information of the specified parties listed above and is not intended to be and should not be used by anyone other than these specified parties.

*CliftonLarsonAllen LLP*

Baltimore, Maryland  
December 13, 2012

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**CALIFORNIA HOUSING FINANCE AGENCY**  
**FINANCING ADJUSTMENT FACTOR SAVINGS DISBURSEMENT SCHEDULE**  
**For the Period July 1, 2009 to June 30, 2012**

					Disbursements
	Commitment	Commitment	Disbursements	Remaining	from July 1,
Name	Date	Amount	To-Date	Commitments	2009 to
					30-Jun-12
<b>Special Needs Program Loans</b>					
San Pascual	02/01/95	\$ 75,646.23	\$ 75,646.23	\$ -	\$ -
Parke Los Robles	03/01/95	135,416.65	135,416.65	-	-
Walter House	03/29/99	350,000.00	350,000.00	-	-
Michele Circle	03/05/02	425,000.00	425,000.00	-	-
Life Services Alternatives	09/19/01	2,500,000.00	2,456,632.15	-	-
Life Services Alternatives	01/29/04	900,000.00	900,000.00	-	-
Mandela Gateway	10/01/05	900,000.00	900,000.00	-	-
Dana Strand	03/01/06	580,000.00	580,000.00	-	-
Lion Creek Crossing I	02/01/07	575,000.00	575,000.00	-	-
Lion Creek Crossing II	09/21/07	730,000.00	730,000.00	-	-
Nuevo Sol	04/01/08	405,464.00	405,464.00	-	-
Le Beaulieu	09/01/08	2,310,000.00	2,310,000.00	-	-
Lion Creek Crossing III	02/01/09	530,000.00	530,000.00	-	-
Fireside Apts	02/01/11	900,000.00	900,000.00	-	900,000.00
		<u>11,316,526.88</u>	<u>11,273,159.03</u>	<u>-</u>	<u>900,000.00</u>
<b>Subsidy Interest Rate</b>					
Village Place	09/01/97	162,172	104,457	57,715	26,766
Duchow Way/Mercy Village	01/08/98	1,129,349.00	672,705.00	456,644.00	210,932.38
The ARC Apartments	11/19/98	980,541.15	561,705.20	418,835.95	129,462.35
Longfellow Apts	1/3/2000	360,448.73	185,261.47	175,187.26	50,230.04
Stanley Ave	3/28/2001	170,256.75	104,795.21	65,461.54	22,638.53
Far East	7/26/2004	19,047.48	17,177.83	1,869.65	5,294.94
Fremont Oaks	12/20/2005	1,281,494.00	402,578.00	878,916.00	204,144.00
Lorenzo Creek	6/28/2006	666,748.00	368,898.00	297,850.00	187,496.00
Gish Apts.	9/10/2007	1,112,184.00	246,956.00	865,228.00	183,129.00
Encore Hall	5/8/2008	973,748.00	220,000.00	753,748.00	220,000.00
Vista Sunrise	4/8/2008	113,007.00	63,264.00	49,743.00	63,264.00
Cesar Chavez	4/11/2008	341,723.00	151,177.00	190,546.00	151,177.00
Woodland Terrace	3/31/2008	255,890.00	248,589.00	7,301.00	248,589.00
Camino de las Flores	12/11/2007	133,255.00	111,290.00	21,965.00	111,290.00
Diamond Aisle	12/23/2009	165,741.00	54,328.00	111,413.00	54,328.00
		<u>7,865,605.11</u>	<u>3,513,181.71</u>	<u>4,352,423.40</u>	<u>1,868,741.00</u>
		<u>\$ 19,182,131.99</u>	<u>\$ 14,786,340.74</u>	<u>\$ 4,352,423.40</u>	<u>\$ 2,768,741.00</u>

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