

**CALIFORNIA HOUSING FINANCE AGENCY**  
**(A Component Unit of the State of California)**

**SINGLE AUDIT REPORT**  
**June 30, 2012**

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## CliftonLarsonAllen

### **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***

Board of Directors  
California Housing Finance Agency  
Sacramento, California

We have audited the basic financial statements of the California Housing Finance Fund (the 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, and have issued our report thereon dated October 12, 2012. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### **Internal Control Over Financial Reporting**

Management of the Fund is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Fund'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 Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund'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 misstatements on a timely basis. A material weakness is a deficiency, or 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 would not necessarily 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 Agency'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 or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Agency in a separate letter dated October 12, 2012.

This report is intended solely for the information and use of management, the Board of Directors, others within the Agency, and 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.

*CliftonLarsonAllen LLP*

Baltimore, Maryland  
October 12, 2012



**Independent Auditor's Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance and Schedule of Expenditures of Federal Awards in Accordance with OMB Circular A-133**

Board of Directors  
California Housing Finance Agency  
Sacramento, California

**Compliance**

We have audited the California Housing Finance Fund (the Fund), which is administered by the California Housing Finance Agency (the Agency), a component unit of the State of California, with the types of compliance requirements described in the Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. The Fund'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 Fund's management. Our responsibility is to express an opinion on the Fund'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 Fund'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 on the Agency's compliance with those requirements.

In our opinion, the Fund 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, 2012. 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 item 2012-01.

## **Internal Control Over Compliance**

The management of the Fund 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 Fund's internal control over compliance with the 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 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 Fund'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. However, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as item 2012-01. *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.

The Fund's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Fund's response and, accordingly, we express no opinion on it.

## **Schedule of Expenditures of Federal Awards**

We have audited the basic financial statements of the California Housing Finance Fund (the 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, and have issued our report thereon dated October 12, 2012. Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the Fund'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. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly

to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

This report is intended solely for the information and use of the Board of Directors, management, and 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.

*CliftonLarsonAllen LLP*

Baltimore, Maryland  
October 12, 2012

**CALIFORNIA HOUSING FINANCE AGENCY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ended June 30, 2012**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA #</u>	<u>Federal Expenditures</u>
<b>U.S. Department of Housing and Urban Development</b>		
Section 8 Housing Assistance Payment Program	14.195	\$ 70,767,374
<b>Department of Agriculture</b>		
National Foreclosure Mitigation Counseling	21.000	<u>2,643,997</u>
<b>Total Federal Financial Awards</b>		<u>\$ 73,411,371</u>

See accompanying note to the schedule.

**CALIFORNIA HOUSING FINANCE AGENCY**  
**NOTE TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**June 30, 2012**

**NOTE 1 – BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the California Housing Finance Agency (the Agency), and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*. Therefore, some of the amounts presented in the schedule may differ from amounts presented in, or used in the preparation of, the financial statements. All federal awards received directly from federal agencies as well as federal awards passed through other government agencies or other entities are included in the schedule.

This information is an integral part of the accompanying schedule.

**CALIFORNIA HOUSING FINANCE AGENCY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2012**

**I. Summary of Independent Auditor's Results**

**Financial Statements**

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_ Yes   X   No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? \_\_\_\_\_ Yes   X   None reported
- Noncompliance material to financial statements noted? \_\_\_\_\_ Yes   X   No

**Federal Awards**

Internal control over major programs:

- Material weakness(es) identified? \_\_\_\_\_ Yes   X   No
- Significant deficiency(ies) identified that are not considered to be material weaknesses?   X   Yes \_\_\_\_\_ None reported

Type of auditor's 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 Circular A-133? \_\_\_\_\_ X Yes \_\_\_\_\_ No

**Identification of Major Programs**

Name of Federal Program	CFDA Number	Expenditures
Section 8 Project-Based Cluster	14.195	\$ 70,767,374

Dollar threshold used to distinguish between type A and type B programs \$2,202,341

Auditee qualified as low-risk auditee?   X   Yes \_\_\_\_\_ No

**CALIFORNIA HOUSING FINANCE AGENCY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2012**

**II. Financial Statement Findings**

None

**III. Federal Award Findings and Questioned Costs**

**Finding 2012-01: U.S. Department of Housing and Urban Development, Section 8 Project-Based Cluster, CFDA # 14.195, Cash Management**

***Condition/Context***

All 15 federal draws tested for Housing Assistance Payments paid out to Projects between July 1, 2011 – June 30, 2012, were disbursed more than three business days after the receipt of the funds. The time frame ranged from seven to eleven days.

***Criteria***

24 CFR 85.21 describes the methods under which Federal agencies will pay grantees and how the grantees make payments to contractors. Section 85.21(b) states “Methods and procedures for payment shall minimize the time elapsing between the transfer of funds and disbursement by the grantee or subgrantee, in accordance with Treasury regulations at 31 CFR part 205.”

***Cause***

The Agency deposits these federal funds into several different accounts and performs reconciliations before these funds are passed through to the Projects.

***Effect***

The Agency has not complied with cash management procedures established by the U.S. Treasury.

***Questioned Costs***

Not determined.

***Recommendation***

We recommend that management review the current process in place and determine if there is a more efficient way to deposit and disburse funds in a more timely manner that would meet the cash management requirements of the U.S. Treasury.

***Management’s Response***

The Agency agrees to identify a more efficient way to deposit and disburse the federal funds within the three business day timeframe as established by the U.S. Treasury. Once the process is identified and tested, the Agency will implement the new procedures immediately.

**CALIFORNIA HOUSING FINANCE AGENCY  
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2011**

None noted.