

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

SINGLE AUDIT REPORT

YEAR ENDED JUNE 30, 2016

CALIFORNIA HOUSING FINANCE FUND
(A Component Unit of the State of California)
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INDEPENDENT AUDITORS' 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 Fund
Sacramento, California

We have audited, in accordance with the 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, the financial statements of the California Housing Finance Fund (the Fund), which is administrated 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, 2016, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements, and have issued our report thereon dated October 26, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control.

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. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund’s financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Fund’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Bellevue, Washington
October 26, 2016



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM, REPORT ON INTERNAL CONTROL OVER COMPLIANCE, AND
REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
REQUIRED BY THE UNIFORM GUIDANCE**

Board of Directors
California Housing Finance Fund
Sacramento, California

Report on Compliance for Each Major Federal Program

We have audited the California Housing Finance Fund's (the Fund), which is administered by the California Housing Finance Agency (the Agency), a component unit of the State of California, compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Fund's major federal programs for the year ended June 30, 2016. The Fund's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Fund's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Fund's compliance.

Opinion on Each Major Federal Program

In our opinion, the Fund complied, in all material respects, with the types of 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, 2016.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2016-001 and 2016-002. Our opinion on each major federal program is not modified with respect to these matters.

The Fund's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Fund's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control Over Compliance

Management of the Fund is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Fund's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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. *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.

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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2016-001 and 2016-002 that we consider to be significant deficiencies.

Board of Directors
California Housing Finance Fund

The Fund's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Fund's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the Fund as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements. We issued our report thereon dated October 26, 2016, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



CliftonLarsonAllen LLP

Bellevue, Washington
October 26, 2016

**CALIFORNIA HOUSING FINANCE FUND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2016**

Federal Grantor/Pass through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
U.S. Department of Housing and Urban Development				
Section 8 Housing Assistance Payment Program	14.195	-	\$ -	\$ 59,068,499
Section 811 Project Rental Assistance Demonstration Program	14.326	-	-	473,071
U.S. Department of Treasury				
National Foreclosure Mitigation Counseling	21.000	-	-	642,215
Total Expenditures of Federal Awards			<u>\$ -</u>	<u>\$ 60,183,785</u>

See accompanying Note to the Schedule.

CALIFORNIA HOUSING FINANCE FUND
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2016

NOTE 1 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the California Housing Finance Fund (the Fund) under programs of the federal government for the year ended June 30, 2016. The information in this schedule is presented in accordance with the requirements of 2 CFP Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Fund, it is not intended to and does not present the financial position, changes in net assets, or cash flow of the Fund.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowed or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The Fund has elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE 3 SUB-RECIPIENTS

The Fund provided no federal awards to sub-recipients during the fiscal year ended June 30, 2016.

**CALIFORNIA HOUSING FINANCE FUND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016**

Section I – Summary of Auditors’ Results

Financial Statements

1. Type of auditors’ report issued: Unmodified
2. Internal control over financial reporting:
- Material weakness(es) identified? _____ yes x no
 - Significant deficiency(ies) identified? _____ yes x none reported
3. Noncompliance material to financial statements noted? _____ yes x no

Federal Awards

1. Internal control over major federal programs:
- Material weakness(es) identified? _____ yes x no
 - Significant deficiency(ies) identified? x yes _____ none reported
2. Type of auditors’ report issued on compliance for major federal programs: Unmodified
3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? x yes _____ no

Identification of Major Federal Programs

CFDA Number(s)

14.195

Name of Federal Program or Cluster

Section 8 Project Based Cluster

Dollar threshold used to distinguish between Type A and Type B programs:

\$ 1,805,514

Auditee qualified as low-risk auditee?

_____ yes x no

**CALIFORNIA HOUSING FINANCE FUND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016**

Section II – Financial Statement Findings

Our audit did not disclose any matters required to be reported in accordance with *Government Auditing Standards*.

Section III – Findings and Questioned Costs – Major Federal Programs

2016 – 001

Federal agency: U.S. Department of Housing and Urban Development
Federal program title: Section 8 Housing Assistance Payment Program
CFDA Number: 14.195
Award Period: 2016
Type of Finding: Significant Deficiency in Internal Control over Compliance

Condition/Context: 2 of 10 Fund monitored projects tested did not deposit the required amount within 90 days of the fiscal year end.

Criteria or specific requirement: As the contract administrator, the Fund is responsible for monitoring each project's compliance with HUD regulations. Non-profit owners and owners of limited distribution projects, Section 202 projects, and Section 811 projects shall establish a residual receipts account and make deposits into the account in accordance with HUD requirements (within 90 days after the close of the fiscal year). (HUD Audit Guide, Chapter 3 HUD Multifamily Housing Programs (2000.04 Rev-2 Chg-7)).

Questioned costs: Not determined

Cause: Auditors can only finalize the audits with each project if the owner reviews and approves the audited financial statements. For the two projects with the audit finding, the owners were unavailable due to either failing health or death of an immediate family member. This delayed the submission of the audited financial statements of both projects; therefore the residual receipts payment exceeded the 90 day timeframe.

Effect: The Fund did not properly monitor the project and the project is not in compliance with HUD requirements.

Repeat Finding: No.

Recommendation: We recommend that CalHFA staff actively monitor residual receipt deposit requirements to ensure each project is in compliance.

Views of responsible officials and planned corrective actions:

Explanation of disagreement with audit finding: There is no disagreement with the audit finding.

**CALIFORNIA HOUSING FINANCE FUND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016**

Actions planned in response to finding: Management will implement an email notification to owners on the requirement to submit the audited financial statement and residual receipt within 90 days of the project's fiscal year end starting with the 2016 audits. The Asset Manager will send monthly notifications 60 days prior to the close of the fiscal year and up to 90 days after the fiscal year. The 90 day submission requirement is noted in the published Audited Financial Statement Handbook used by the project's CPA. Language will be included in the audited financial review letter on the 90 day submission timeframe as an additional reminder to both the project and CPA.

Responsible party: Janet Louie, Asset Management

Planned completion date for corrective action plan: November 1, 2016

Plan to monitor completion of corrective action plan: Asset Management Chief will review a tracking log, completed by the Asset Manager, which will capture dates of the email notifications. The Asset Manager will inform the Asset Management Chief of any projects not in compliance two weeks prior to the 90 day submission timeframe and follow-up with those projects.

2016 – 002

Federal agency:	U.S. Department of Housing and Urban Development
Federal program title:	Section 8 Housing Assistance Payment Program
CFDA Number:	14.195
Award Period:	2016
Type of Finding:	Significant Deficiency in Internal Control over Compliance

Condition/Context: 1 of 17 Fund monitored projects tested did not make the required monthly deposits to the replacement reserve account.

Criteria or specific requirement: As the contract administrator, the Fund is responsible for monitoring each project's compliance with HUD regulations. An amount as required by HUD or the State Agency for 24 CFR part 883 projects, as applicable, shall be deposited monthly into the reserve fund in accordance with the Regulatory Agreement or HAP contract (24 CFR sections 880.601, 880.602, 881.601, and 883.701).

Questioned costs: Not determined

Cause: The Replacement Reserve deposit was suspended per the owner's request due to the high cost in maintaining the property. The Replacement Reserve was not reinstated at end of the suspension period. The project's reserve balance was and continues to be over the recommended amount of \$1,000 per unit; it currently stands at \$8,588 per unit.

Effect: The Fund did not properly monitor the project and the project is not in compliance with HUD requirements.

Repeat Finding: No.

Recommendation: We recommend that CalHFA staff actively monitor replacement reserve deposit requirements to ensure each project is in compliance.

**CALIFORNIA HOUSING FINANCE FUND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016**

Views of responsible officials and planned corrective actions:

Explanation of disagreement with audit finding: There is no disagreement with the audit finding.

Actions planned in response to finding: Management has automated the replacement reserve process to track the request, approval, and treatment of suspended reserves. The Multifamily Servicing system will store any pending replacement reserve amount changes and the system will update the monthly impound amount when the effective date is reached. Asset Managers will review a monthly replacement reserve report to verify that the amount concurs with the most recent approved amount to be deposited in the replacement reserve account.

Responsible party: Janet Louie, Asset Management

Planned completion date for corrective action plan: September 1, 2016

Plan to monitor completion of corrective action plan: Asset Managers review a monthly replacement reserve report to verify that the amount concurs with the most recent approved amount to be deposited in the replacement reserve account. Any discrepancy will be brought to the attention of the Asset Management Chief to address the issue and make any necessary changes.

**CALIFORNIA HOUSING FINANCE FUND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016**

Section IV – Prior Year Findings

Finding 2015-001:	Section 8 Housing Assistance Payment Program, CFDA #14.195
Federal Agency:	U.S. Department of Housing and Urban Development
Compliance Requirement:	Subrecipient Monitoring
Type of Finding:	Noncompliance, Significant Deficiency

During this year's testing of the Section 8 Project-Based Cluster program, no instances of noncompliance with subrecipient monitoring was noted.