

**CALIFORNIA HOUSING FINANCE FUND
(California Housing Finance Agency –
A Component Unit of the State of California)**

SINGLE AUDIT REPORT

YEAR ENDED JUNE 30, 2017

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, 2017, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements, and have issued our report thereon dated November 7, 2017.

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

Baltimore, Maryland
November 7, 2017

**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 the Fund's major federal program for the year ended June 30, 2017. The Fund's major federal program is 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 the Fund's major federal program 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 its major federal program for the year ended June 30, 2017.

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 item 2017-001. Our opinion on each major federal program is not modified with respect to these matters.

The Fund's responses to the noncompliance finding 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 a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2017-001 that we consider to be a significant deficiency.

The Fund's responses to the internal control over compliance finding 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, 2017, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements. We issued our report thereon dated November 7, 2017, 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

Baltimore, Maryland
November 7, 2017

**CALIFORNIA HOUSING FINANCE FUND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2017**

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	-	\$ -	\$ 56,472,392
Section 811 Project Rental Assistance Demonstration Program	14.326	-	-	440,193
U.S. Department of Treasury				
National Foreclosure Mitigation Counseling	21.000	-	-	336,960
Total Expenditures of Federal Awards			<u>\$ -</u>	<u>\$ 57,249,545</u>

See accompanying Note to the Schedule.

CALIFORNIA HOUSING FINANCE FUND
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2017

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, 2017. 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, 2017.

**CALIFORNIA HOUSING FINANCE FUND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2017**

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:

\$ 1,717,486

Auditee qualified as low-risk auditee?

 x yes _____ no

**CALIFORNIA HOUSING FINANCE FUND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2017**

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

2017 – 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: 2017
Type of Finding: Significant Deficiency in Internal Control over Compliance, Other Noncompliance

Condition/Context: 1 of 15 projects tested did not make the required monthly deposits to the replacement reserve account. 1 of 12 projects selected did not have a Management and Occupancy Review (MOR) completed within the past 12 months.

Criteria or specific requirement: As the traditional contract administrator (TCA), the Asset Management Division 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). As the traditional contract administrator, the Asset Management Division is responsible for performing a MOR for each project annually. The performance of the annual MOR is an industry standard as well as a policy the division has been conducting since they have been the TCA.

Questioned costs: Not determined

Cause: The Replacement Reserve deposit was suspended per the owner's request to HUD due to the high cost in maintaining the property. After the suspension period was over, the project failed to make payments and the Asset Management Division did not properly monitor and work with the project to rectify the situation. Certain MORs are postponed during the year due to the lack of staffing resources. During discussions with management, it was noted that there are no written policies or procedures in place for conducting MORs.

Effect: The Asset Management Division did not properly monitor the projects for replacement reserve and MOR requirements and the projects are not in compliance with HUD requirements.

Repeat Finding: Yes

Recommendation: We recommend that the Asset Management Division develop and document in writing processes and procedures in order to ensure monthly replacement reserve deposit requirements are met. In the event that any project is unable to make the required

**CALIFORNIA HOUSING FINANCE FUND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2017**

monthly deposits due to cash flow issues, we recommend the department develop a process by which it can identify the issue immediately and document the steps that will be taken with management of the project (i.e. determine if a waiver should be filed with HUD) to ensure the project remains in compliance.

We recommend that the Asset Management Division perform a review of the department to assess staffing levels as well as establish written policies and procedures for all of their activities, including MORs and replacement reserve monitoring.

Views of responsible officials:

Management has addressed the audit finding and plans to implement new policy and procedures in order to mitigate the same issues from occurring in the future.

Regarding the monthly replacement reserve deposits, the Asset Management Division plans to implement the following procedures to better manage potentially delinquent or problem loans in the portfolio:

- Accounting will provide the Asset Management Division with a copy of the mortgage invoice three weeks prior to the payment due date.
- Asset Manager will contact the development via phone and e-mail in regards to the invoice and determine if a Plan of Action is needed if the development communicates it will be unable to make the mortgage payment timely.
- Additionally, beginning in 2018, the Asset Management Division will conduct status meetings on troubled assets with Senior Management (Legal, Executive office, etc.) no less than quarterly and provide monthly management reports on delinquent/troubled loans.

The project cited in the finding is now current with their mortgage payments and has expressed to the Asset Management Division that they will make all payments in a timely manner.

Regarding the MORs, the Asset Management Division plans to implement a new policy and procedure to conduct MOR reviews within a 12 month period.

- Annual MOR review of a development will be conducted within 12 months of the prior MOR. While there is no specific language for traditional contract administrators to perform MORs annually, it is a best practice to conduct MORs annually to ensure the development remains in compliance with HUD.
- In the event there are extenuating circumstances, as defined by HUD, that prevents the MOR from being completed within 12 months of the prior MOR, the circumstance will be formally documented explaining the extenuating circumstance and will identify the new date of the MOR. This document will be approved by both the Asset Management Chief and the Director of Multifamily Programs and placed in the development's file.

**CALIFORNIA HOUSING FINANCE FUND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2017**

The Asset Management Division has taken steps to ensure that the MORs conducted for the current fiscal year will be performed within 12 months of the prior MOR. At this time, it is not expected that there will be any MORs conducted outside of the 12 month period.

Additionally, Management has already scheduled an outside consultant to start evaluating staffing levels and workload within the division beginning in November 2017. The assessment of the division is expected to be completed by March 31, 2018.

**CALIFORNIA HOUSING FINANCE FUND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2017**

Section IV – Prior Year Findings

Finding 2016-001: Section 8 Housing Assistance Payment Program, CFDA #14.195
Federal Agency: U.S. Department of Housing and Urban Development
Compliance Requirement: Special Tests – Residual Receipts
Type of Finding: Noncompliance, Significant Deficiency

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

Finding 2016-002: Section 8 Housing Assistance Payment Program, CFDA #14.195
Federal Agency: U.S. Department of Housing and Urban Development
Compliance Requirement: Special Tests – Replacement Reserves
Type of Finding: Noncompliance, Significant Deficiency

A similar finding was noted during this year's testing of the Section 8 Project-Based Cluster program.