

INGLEWOOD HOUSING AUTHORITY

Basic Financial Statements and Supplementary Information

For the Fiscal Year Ended September 30, 2011

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INGLEWOOD HOUSING AUTHORITY
FINANCIAL AND COMPLIANCE REPORT

Fiscal Year Ended September 30, 2011

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The Honorable Mayor and
Members of the City Council
Inglewood Housing Authority, California

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities and major fund of the Inglewood Housing Authority (Authority), a component unit of the City of Inglewood, California (City), as of and for the fiscal year ended September 30, 2011, which collectively comprise the Authority's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the Authority as of September 30, 2011, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described further in note 1 to the financial statements, the accompanying financial statements reflect certain changes in the reporting of fund types and fund balance classifications for governmental funds due to the implementation of GASB Statement No. 54.

The Authority has not presented *management's discussion and analysis* which according to accounting principles generally accepted in the United States of America is necessary to supplement, although not required to be part of, the basic financial statements.

The Honorable Mayor and
Members of the City Council

The information identified in the accompanying table of contents as *required supplementary information* is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2012 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

A handwritten signature in blue ink that reads "Wayne Hubbard McCann P.C.".

Irvine, California
June 28, 2012

INGLEWOOD HOUSING AUTHORITY

Statement of Net Assets

September 30, 2011

Assets:	
Cash and investments (note 3)	\$ 1,774,495
Accounts receivable	41
Due from other governments	<u>133,596</u>
Total assets	<u>1,908,132</u>
Liabilities:	
Due to other governments	113,764
Long-term liabilities (note 4):	
Due within one year	65,836
Due in more than one year	<u>592,525</u>
Total liabilities	<u>772,125</u>
Net assets:	
Unrestricted	<u>1,136,007</u>
Total net assets	<u>\$ 1,136,007</u>

See accompanying notes to the basic financial statements.

INGLEWOOD HOUSING AUTHORITY

Statement of Activities

Fiscal Year Ended September 30, 2011

		Program Revenues		
	Expenses	Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants
				Net Governmental Activities
Governmental activities:				
Community development	\$ 9,012,960	-	14,481,583	-
Total governmental activities	\$ 9,012,960	-	14,481,583	-
General revenues:				
Other general revenues				397,607
Total general revenues				397,607
Change in net assets				5,866,230
Net assets (deficit) at beginning of year				(4,730,223)
Net assets at end of year				\$ 1,136,007

See accompanying notes to the basic financial statements.

INGLEWOOD HOUSING AUTHORITY

Governmental Funds

Balance Sheet

September 30, 2011

Assets:	<u>Housing</u>	New <u>Construction</u>	<u>Total</u>
Cash and investments (note 3)	\$ 1,694,199	80,296	1,774,495
Interest receivable	41	-	41
Due from other governments	<u>133,596</u>	<u>-</u>	<u>133,596</u>
 Total assets	 <u>1,827,836</u>	 <u>80,296</u>	 <u>1,908,132</u>
 Liabilities and Fund Balance (deficit)			
Liabilities:			
Due to other governments	<u>33,468</u>	<u>80,296</u>	<u>113,764</u>
 Total liabilities	 <u>33,468</u>	 <u>80,296</u>	 <u>113,764</u>
 Fund balance:			
Restricted	<u>1,794,368</u>	<u>-</u>	<u>1,794,368</u>
 Total liabilities and fund balance	 <u>\$ 1,827,836</u>	 <u>80,296</u>	 <u>1,908,132</u>

See accompanying notes to the basic financial statements.

INGLEWOOD HOUSING AUTHORITY

Governmental Funds

**Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets**

September 30, 2011

Fund balances (deficits) of governmental funds	\$ 1,794,368
Amounts reported for governmental activities in the statement of net assets are different because:	
Long term debt that has not been included in the governmental fund activity	
Compensated absences	<u>(658,361)</u>
Net assets (deficits) of governmental activities	<u>\$ 1,136,007</u>

See accompanying notes to the basic financial statements.

INGLEWOOD HOUSING AUTHORITY

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

Fiscal Year Ended September 30, 2011

	Housing	New Construction	Total
Revenues:			
Intergovernmental	\$ 9,241,258	-	\$ 9,241,258
Other	397,607	-	397,607
Total revenues	9,638,865	-	9,638,865
Expenditures:			
Personnel services	721,677	-	721,677
Housing assistance payments	7,581,476	-	7,581,476
Maintenance and operation	139,069	-	139,069
Total expenditures	8,442,222	-	8,442,222
Excess (deficiency) of revenues over (under) expenditures	1,196,643	-	1,196,643
Other financing sources (uses):			
Transfers from City (note 8)	4,854,799	385,526	5,240,325
Transfers to the City (note 8)	(377,083)	-	(377,083)
Total other financing sources (uses)	4,477,716	385,526	4,863,242
Change in fund balance	5,674,359	385,526	6,059,885
Fund balance (deficit) at beginning of year	(3,879,991)	(385,526)	(4,265,517)
Fund balance at end of year	\$ 1,794,368	-	1,794,368

See accompanying notes to the basic financial statements.

INGLEWOOD HOUSING AUTHORITY
Governmental Funds

**Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities**

Fiscal Year Ended September 30, 2011

Net changes in fund balances of governmental funds	\$ 6,059,885
Amounts reported for governmental activities in the statement of activities is different because:	
To record as an expense the change in compensated absences in the statement of activities.	<u>(193,655)</u>
Change in net assets of governmental activities	<u>\$ 5,866,230</u>

See accompanying notes to the basic financial statements.

INGLEWOOD HOUSING AUTHORITY

Notes to the Basic Financial Statements

Fiscal year ended September 30, 2011

(1) Nature and Operations of the Authority

The Inglewood Housing Authority (Authority) is a separate governmental entity created in 1976 to foster the growth and development of affordable housing for low-income residents of the City of Inglewood (City). The Authority has the responsibility of managing federally subsidized rent programs within the City, including:

- The Housing Choice Voucher Program through which the Authority administers over 1,846 tenant-based vouchers.
- The Section 8 New Construction Program, which provides 500 units of subsidized housing for senior citizens and disabled persons:

The members of the City Council of the City also act as members of the Board of Directors of the Authority. Similarly, the officers of the City serve as officers of the Authority. Facilities, equipment and administrative, financial and legal services are provided to the Authority by the City, for which the City is reimbursed. The primary sources of revenue for the Authority are intergovernmental revenues.

Under Governmental Accounting Standards Board (GASB) Statement No. 14, the Authority is a component unit of the City and its financial activities have been blended with the financial activities of the City for purposes of financial reporting.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

Government - wide Financial Statements

The statement of net assets and statement of activities display information about the Authority's activities. These statements include the financial activities of the Authority. These statements present the Authority's *governmental activities*, which normally are supported by intergovernmental revenues.

The statement of activities presents a comparison between program expenses and program revenues for each function of the Authority's governmental activities. Program expenses include such direct expenses that are specifically associated with a program or function and therefore, are clearly identifiable to a particular function. Program revenues include 1) charges paid by the recipients of goods or services offered by the programs and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented instead as general revenues.

INGLEWOOD HOUSING AUTHORITY

Notes to the Basic Financial Statements

(Continued)

(2) Summary of Significant Accounting Policies, (Continued)

(a) Basis of Presentation, (Continued)

When an expense is incurred for a purpose for which both restricted and unrestricted net assets are available, management has discretion as to which resources apply. It is the Authority's policy to use restricted resources before unrestricted resources.

Fund Financial Statements

The fund financial statements provide information about the Authority's funds. The emphasis of fund financial statements is on the major governmental funds. The financial activities of the Authority are accounted for in a single special revenue fund.

(b) Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the Authority gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, special assessments, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from grants, entitlements and donations are recognized in the fiscal year in which all eligible requirements have been satisfied.

Governmental fund type financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues and other governmental fund type financial resources are recognized when they become susceptible to accrual — that is, when they become both measurable and available.

Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Property taxes are considered available and are accrued when received within sixty days after fiscal year-end.

Revenue received from expenditure driven (cost-reimbursement) grants, contracts and other nonexchange transactions, as defined by GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, are considered available and accrued if expected to be received within twelve months after fiscal year-end.

INGLEWOOD HOUSING AUTHORITY

Notes to the Basic Financial Statements

(Continued)

(2) Summary of Significant Accounting Policies, (Continued)

(c) Cash and investments

The Authority's cash from operations is deposited in the City Treasury. The City pools its funds with other government agencies in the City and invests them as prescribed by the California Government Code. The Authority's deposits in the City pool may be accessed at any time. The Authority is allocated interest income on monies deposited with the City based on its average monthly proportional share of the pooled cash and investments. All pooled investments are carried at fair market value.

(d) Net Assets

The government-wide financial statements utilize a net assets presentation. Net assets are categorized as invested capital assets (net of related debt), restricted and unrestricted.

- Invested In Capital Assets, Net of Related Debt - This category groups all capital assets into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.
- Restricted Net Assets - This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Assets - this category represents net assets of the Authority, not restricted for any project or other purpose.

(e) Fund Balance

The accompanying financial statements reflect certain changes that have been made with respect to the reporting of the components of fund balances for governmental funds. In previous years, fund balances for governmental funds were reported in accordance with previous standards that included components for reserved fund balance, unreserved fund balance, designated fund balance, and undesignated fund balance.

Due to the implementation of GASB No. 54, the components of the fund balances of governmental funds now reflect the component classifications described below. Prior year amounts have been restated to reflect the component designations required by GASB No. 54.

Fund balances are reported in the fund statements in the following classifications:

INGLEWOOD HOUSING AUTHORITY

Notes to the Basic Financial Statements

(Continued)

(2) Summary of Significant Accounting Policies, (Continued)

Nonspendable Fund Balance

Nonspendable Fund Balance – this includes amounts that cannot be spent because they are either not spendable in form (such as inventory) or legally or contractually required to be maintained intact (such as endowments).

Spendable Fund Balance

Restricted Fund Balance – this includes amounts that can be spent only for specific purposes stipulated by constitution, external resource providers, or through enabling legislation. If the Council action limiting the use of funds is included in the same action (legislation) that created (enables) the funding source, then it is restricted.

Unassigned Fund Balance – this includes the remaining spendable amounts which are not included in one of the other classifications.

It is the City's policy that restricted resources will be applied first, followed by (in order of application) committed, assigned, and unassigned resources, in the absence of a formal policy adopted by the Council.

(f) Budgetary Information

The Governing Board approves each year's budget submitted by the Executive Director prior to the beginning of the new fiscal year. Supplemental appropriations, where required during the period are also approved by the Governing Board. Intradepartmental budget changes are approved by the Executive Director. In most cases, expenditures may not exceed appropriations at the fund level. At fiscal year-end all operating budget appropriations lapse. There were no significant changes to the budget during the fiscal year.

Formal budgetary information is employed as a management control device during the year for the Special Revenue Funds. The budgets for all Governmental Funds are adopted on a basis consistent with generally accepted accounting principles.

(g) Estimate

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

INGLEWOOD HOUSING AUTHORITY

Notes to the Basic Financial Statements

(Continued)

(3) Cash and Investments

Cash and investments as of September 30, 2011 consist of the following:

Cash and investments	\$ <u>1,774,495</u>
Total cash and investments	\$ <u>1,774,795</u>

Equity in the Cash and Investment Pool of the City of Inglewood

The Authority has no separate investments other than the Authority's equity in the cash and investment pool managed by the City of Inglewood. The Authority is a voluntary participant in that pool. This pool is governed by and under the regulatory oversight of the Investment Policy adopted by the City Council of the City of Inglewood. The Authority has adopted an investment policy separate from that of the City of Inglewood. The fair value of the Authority's investment in this pool is reported in the accompanying financial statements at amounts based upon the Authority's pro-rata share of the fair value calculated by the City for the entire City portfolio. The balance available for withdrawal is based on the accounting records maintained by the City, which are recorded on an original cost basis.

(4) Long-Term Liabilities

Long-term liability activity for the year ended September 30, 2011 was as follows:

	Balance at October 1, <u>2010</u>	<u>Additions</u>	<u>Deletions</u>	Balance at September 30, <u>2011</u>	Amounts due within <u>one year</u>
Compensated absences	\$ <u>464,706</u>	<u>304,753</u>	<u>(111,098)</u>	<u>658,361</u>	<u>65,836</u>

(5) Self-Insurance Program

In conjunction with the City, the Authority is self-insured for the first \$1,000,000 of general liability claims and for the first \$250,000 of workers compensation claims. Information pertaining to the amounts accrued for claims payable may be found in the City's Basic Financial Statements.

(6) Retirement Plan

The Authority, as part of the City, contributes to the California Public Employees Retirement System (PERS). PERS is an agent multiple-employer defined benefit plan that acts as a common investment and administrative agent for municipalities in California. The Authority pays its share of pension costs to the City and Employer Paid

INGLEWOOD HOUSING AUTHORITY

Notes to the Basic Financial Statements

(Continued)

(6) Retirement Plan, (Continued)

Member Contribution, which amounted to \$68,425 and \$38,641, respectively, for the fiscal year ended September 30, 2011. Contribution amounts are based upon rates established by PERS for the City's general employees who have performed services for the Authority. No separate pension benefit obligation is calculated for the Authority; and accordingly, no obligation is presented herein. Further information regarding the City's participation in PERS may be found in the City's Basic Financial Statements.

(7) Relationship with the City of Inglewood

The Authority does not have any employees and does not own or use facilities separated from the City. Facilities, equipment and administrative, financial and legal services are provided to the Authority by the City, for which the City is reimbursed.

(8) Transfers To and From the City of Inglewood

During the fiscal year ended September 30, 2011 the General Fund of the City of Inglewood transferred \$4,854,799 and \$385,526 to the Housing Fund and New Construction Fund, respectively. This transfer was approved by the City Council to write off the deficit balances in these funds.

In fiscal year 2010 the Inglewood Redevelopment Agency transferred \$442,000 to the Housing Fund to cover cash shortfalls. In fiscal year ended September 30, 2011 the Housing Fund transferred \$377,083 back to the Agency, which represented the unused amounts of the transfer from 2010.

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REQUIRED SUPPLEMENTARY INFORMATION

INGLEWOOD HOUSING AUTHORITY

Housing Fund - Special Revenue Fund

Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

Fiscal Year Ended September 30, 2011

	<u>Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)	<u>Prior Year Actual</u>
Revenues:				
Intergovernmental	\$ 8,264,746	9,241,258	976,512	8,345,693
Other	<u>976,550</u>	<u>397,607</u>	<u>(578,943)</u>	<u>425,814</u>
Total revenues	<u>9,241,296</u>	<u>9,638,865</u>	<u>397,569</u>	<u>8,771,507</u>
Expenditures:				
Current:				
Personnel services	1,212,595	721,677	490,918	1,211,916
Housing assistance payments	8,264,746	7,581,476	683,270	8,476,957
Maintenance and operation	<u>581,912</u>	<u>139,069</u>	<u>442,843</u>	<u>806,473</u>
Total expenditures	<u>10,059,253</u>	<u>8,442,222</u>	<u>1,617,031</u>	<u>10,495,346</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(817,957)</u>	<u>1,196,643</u>	<u>2,014,600</u>	<u>(1,723,839)</u>
Other financing sources (uses):				
Transfers from City	-	4,854,799	4,854,799	442,200
Transfers to the City	<u>-</u>	<u>(377,083)</u>	<u>(377,083)</u>	<u>-</u>
Total other financing sources (uses)	<u>-</u>	<u>4,477,716</u>	<u>4,477,716</u>	<u>442,200</u>
Change in fund balance	(817,957)	5,674,359	6,492,316	(1,281,639)
Fund balance (deficit) at beginning of year	<u>(3,879,991)</u>	<u>(3,879,991)</u>	<u>-</u>	<u>(2,598,352)</u>
Fund balance (deficit) at end of year	<u>\$ (4,697,948)</u>	<u>1,794,368</u>	<u>6,492,316</u>	<u>(3,879,991)</u>

INGLEWOOD HOUSING AUTHORITY

New Construction - Special Revenue Fund

Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

Fiscal Year Ended September 30, 2011

	<u>Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>	<u>Prior Year Actual</u>
Revenues:				
Intergovernmental	\$ -	-	-	-
Total revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Expenditures:				
Current:				
Personnel services	-	-	-	-
Housing assistance payments	-	-	-	-
Maintenance and operation	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other financing sources (uses):				
Transfers from City	<u>-</u>	<u>385,526</u>	<u>385,526</u>	<u>-</u>
Total other financing sources (uses)	<u>-</u>	<u>385,526</u>	<u>385,526</u>	<u>-</u>
Change in fund balance	-	385,526	385,526	-
Fund balance (deficit) at beginning of year	<u>(385,526)</u>	<u>(385,526)</u>	<u>-</u>	<u>(385,526)</u>
Fund balance (deficit) at end of year	<u>\$ (385,526)</u>	<u>-</u>	<u>385,526</u>	<u>(385,526)</u>



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**REPORT ON COMPLIANCE AND OTHER MATTERS AND ON INTERNAL
CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

The Honorable Mayor and
Members of the City Council
Inglewood Housing Authority, California

We have audited the financial statements of the governmental activities and the governmental fund of the Inglewood Housing Authority (the Authority), a component unit of the City of Inglewood, California (City), as of and for the year ended September 30, 2011 and have issued our report thereon dated June 28, 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority'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*.

Internal Control Over Financial Reporting

Management of the City is responsible for establishing and maintaining effective internal controls over financial reporting. In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures 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 Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 and correct 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. We consider items that have been described in the accompanying Schedule of Findings and Recommendations to be material weaknesses in internal control.

The Honorable Mayor and
Members of the City Council
Page Two

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 that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weakness. However, we consider items 2011-01 through 2011-09 that have been described in the accompanying Schedule of Findings and Recommendations to be material weaknesses.

We noted other certain matters we reported to the management of the City of Inglewood in a separate report dated June 28, 2012.

This report is intended solely for the information and use of the Mayor, City Council and management of the Authority and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in blue ink that reads "Mayor Herbman McLennan P.C.".

Irvine, California
June 28, 2012

INGLEWOOD HOUSING AUTHORITY

Schedule of Findings and Recommendations

(Continued)

(2011-01) Need for Enhanced Controls over Citywide Cash and Investment Reconciliation

We noted that throughout the fiscal year ended September 30, 2011 the monthly bank reconciliations of the City's cash and investment accounts were not being completed in a timely manner. In addition to the reconciliation issues noted above, we also identified a liability account used by the City to track stale and outdated checks. These amounts should be included as outstanding checks in the monthly reconciliation until the point that the City has gone through the proper escheating procedures rather than as a liability of the General fund. Furthermore, the City should take the necessary steps to clean up these stale and outdated checks and review these items on a more regular basis. Accurate and timely completion of monthly bank reconciliations are important internal controls that help the City identify any potential fraudulent activity and accurately state the financial position of the City's funds.

Recommendation

We recommend that monthly bank reconciliations be completed in a timely manner to ensure that all activity has been properly reconciled to the accounting records. Furthermore, the City should take the necessary steps to process and monitor uncleared items on a regular basis.

(2011-02) Adjustments Detected Through the Audit Process

An important element of control over financial reporting is for management to identify adjustments necessary for financial statements to be fairly stated. Whenever possible, adjustments should be reflected in the accounting records prior to the start of the audit. When this is not possible, management should identify and communicate to the auditors the potential areas of adjustment that may need to be addressed during the audit process. This is an important element of internal control to reduce the risk of material misstatement.

There were, however, material adjustments that were identified during the audit for the year ended September 30, 2011. These material adjustments detected by the audit process included the following: an adjustment to record grant receivable accruals, an adjustment to record fourth quarter tax revenue accruals, an adjustment to agree beginning fund balance in seven funds to the prior year audited financial statements, an adjustment to record expenditures in fiscal year 2011 that were paid in fiscal year 2012, an adjustment to increase the City's claims liability as of September 30, 2011 for a case settlement, an adjustment to remove prepaid expenses, an adjustment to remove overhead and internal service fund charges from restricted funds that could not be supported by a methodology, an adjustment to deferred revenue balances, an adjustment to record two new long term receivables, an adjustment to correct interfund transfers between City funds to agree to actual expenditures incurred during the fiscal year, adjustments to account for the transfer of RDA assets from the Agency to the City of Inglewood based on the Cooperation Agreement, an adjustment to correct formula errors in the fixed asset schedules and a prior period adjustment to correct the reporting of unearned revenue in a grant fund.

INGLEWOOD HOUSING AUTHORITY

Schedule of Findings and Recommendations

(Continued)

(2011-02) Adjustments Detected Through the Audit Process (continued)

Recommendation

Auditing Standards indicate that material adjustments identified through the audit process are an indication of weaknesses in an entity's internal control structure. Efforts should be made to enhance the City's year end closing procedures to include areas that resulted in audit adjustments in 2011.

(2011-03) Need for Improved Controls over Taxes and Grant Receivable Accruals

During our audit we found unrecorded receivables related to the Gas Tax, and AQMD funds, and unrecorded receivables relating to federally fund HUD, FAA and Department of Transportation grant programs. Adjustments were made to properly record the City's outstanding grant receivables and accrue 4th quarter gas tax revenue as of September 30, 2011.

The City receives grant funding from various agencies on a cost reimbursement basis. Under the terms of the grant funding agreements, the City incurs costs in advances and then requests reimbursement from granting agencies. Delays in communications and reconciliations between Finance and other City departments have caused grant eligible reimbursements to go unreported for extended periods of time.

Recommendation

We recommend that reimbursements be submitted to granting agencies on at least a quarterly basis in order to maximize the investment income of the City, reduce the cash flow impacts of delayed reimbursements, and to ensure that such reimbursements are fully collectible and prepared properly.

We also recommend that the City develop controls to properly track outstanding receivables and to follow-up with stale receivables in a timely manner. Known uncollectible receivables should also be completely written off from the City's general ledger.

(2011-04) Need for Reporting Investments at Market Value

During our testwork performed over the City's investment portfolio, we noted that the City records all of its investments throughout the year at cost. As part of the City's year end closing, no adjustments are made to record investments at the fair market value as of yearend, as required by the Generally Accepted Accounting Principles (GAAP). As of September 30, 2011, the difference between cost and fair market value for the City's investment portfolio was approximately \$104,240.

INGLEWOOD HOUSING AUTHORITY

Schedule of Findings and Recommendations

(Continued)

(2011-04) Need for Reporting Investments at Market Value, (continued)

Recommendation

We recommend that on an annual basis, as part of the City's year end closing procedures, all of the City's investments be adjusted to market value.

(2011-05) Need for Update of Cost Allocation Plan

The City uses both a direct and indirect cost allocation plan to allocate overhead expenditures to different departments. In the past the City has updated this plan each year during the budget process to ensure that the overhead charges reflect current activity. During the 2011 fiscal year, the City was unable to provide a current allocation plan or methodology to support the indirect charges being charged to different City funds. Adjustments were recorded to eliminate these charges to restricted funds where proper support was not obtained.

The Information Technology & Communications fund is currently being used to account for internal services provided by the City's and external services the City performs for electronic ticket processing for other local Agencies. These are two distinct operations and should be recorded for separately in the City's general ledger.

Recommendation

We recommend that the City update its cost allocation plan on an annual basis to ensure that expenses being charged to different departments are an accurate reflection of current activity. Additionally, services performed for entities outside of the City's reporting unit should be accounted for as an enterprise fund.

(2011-06) Need for Improved Controls over Journal Entries

During our audit, we identified instances where significant journal entries were required to be made to the general ledger and in many instances, the audit adjustments were a result of system generated journal entries automatically posted to the system without proper review and approval of the Finance Department. These system generated journal entries are reoccurring entries that are, in most cases, based on budgeted projections of costs which are not reconciled to actual programmatic expenditures or are not supported by a cost allocation plan.

Recommendation

We recommend that adjustments posted to the general ledger be reviewed by a knowledgeable individual. We also recommend that the City review all reoccurring adjustments that are currently being posted and determine the necessity of each reoccurring adjustments. Furthermore, we recommend that documentation be retained to support all reoccurring adjustments.

INGLEWOOD HOUSING AUTHORITY

Schedule of Findings and Recommendations

(Continued)

(2011-07) Need for Improved Controls over Year End Accounts Payable Accruals

During our testwork performed over year end accruals, we noted ten (10) disbursements totaling over \$2,456,165 that related to services performed during fiscal year 2011, but had been recorded in fiscal year 2012. An audit adjustment was posted to record these disbursements in the proper year.

Recommendation

We recommend that the Finance Department develop procedures to ensure that disbursements made close to the end of the fiscal year be closely reviewed, to ensure that all activity is recorded in the proper fiscal year.

(2011-08) Need for Improved Controls over Following City Purchasing Policy

During our testwork performed over the City's compliance with its purchasing policy we found one (1) instance where the City was operating under an expired contract and one (1) credit card bill that was paid without any supporting documentation or support.

Recommendation

We recommend that the City develop controls to ensure that for all purchases the City comply with their purchasing policy.

(2011-09) Need for Increased Controls over Budgetary Measures

During our audit we found that there were several individual accounts where the City had recorded a revenue/expenditure where there had been no budgeted amounts. It was also noted that there were accounts with a budgeted amount recorded but no actual revenue/expenditures. In addition, the City does not currently budget for all of its annual debt service payments, which resulted in \$17 million of unbudgeted expenditures in fiscal year 2011.

Recommendation

We recommend that the City's budget be prepared on the same detailed level as revenue and expenditures are accounted for in the general ledger, to ensure that the City can perform accurate reviews of budget to actual amounts incurred.