

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

SINGLE AUDIT REPORT

YEAR ENDED JUNE 30, 2019

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, 2019, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements, and have issued our report thereon dated March 27, 2020.

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 results 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
March 27, 2020



**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 the 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, 2019. 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 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 its major federal program for the year ended June 30, 2019.

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 is described in the accompanying schedule of findings and questioned costs as item 2019-001. Our opinion on the major federal program is not modified with respect to this matter.

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

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 have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify a deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2019-001 that we consider to be a significant deficiency.

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

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, 2019, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements. We issued our report thereon dated March 27, 2020, 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
March 27, 2020

**CALIFORNIA HOUSING FINANCE FUND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2019**

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	-	\$ -	\$ 49,460,595
Section 811 Project Rental Assistance Demonstration Program	14.326	-	-	<u>1,191,296</u>
Total Expenditures of Federal Awards			<u>\$ -</u>	<u>\$ 50,651,891</u>

See accompanying Note to the Schedule.

CALIFORNIA HOUSING FINANCE FUND
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2019

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, 2019. 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 position, 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 did not provide any federal awards to sub-recipients during the fiscal year ended June 30, 2019.

**CALIFORNIA HOUSING FINANCE FUND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2019**

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:

\$ 1,519,557

Auditee qualified as low-risk auditee?

 x yes _____ no

**CALIFORNIA HOUSING FINANCE FUND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2019**

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

2019-001 (Special Tests)

Federal agency: U.S. Department of Housing and Urban Development

Federal program: Section 8 Housing Assistance Payments Program

CFDA Number: 14.195

Award Period: July 1, 2018 through June 30, 2019

Type of Finding:

- Significant Deficiency in Internal Control over Compliance, Other Matters

Criteria or specific requirement: 24 CFR Sections 880.601, 880.602, 881.601 and 883.701 state that all disbursements from the replacement reserve must be as approved or directed by HUD.

Condition/Context: Although the disbursements were for an approved purpose, 2 of 8 projects tested did not have HUD approval for disbursements from the replacement reserve account. The sample was a statistically valid sample.

Questioned costs: None

Cause: Not all staff were requiring that the HUD form 9250 be submitted as part of the package submitted to request replacement reserve funding. The gap in this procedure resulted in replacement reserve requests being funded without the appropriate approval from HUD.

Effect: CalHFA is not in compliance with HUD requirements.

Repeat Finding: No

Recommendation: We recommend CalHFA review all HAP contracts to determine whether CalHFA has authorization to approve disbursements from the Replacement Reserve Accounts. We recommend CalHFA ensure HUD approves all disbursements from the replacement reserve accounts for projects which CalHFA is not authorized to approve.

Views of responsible officials: Management has addressed the audit finding and has implemented new procedures, to complement existing policy and procedures, which will ensure that all future disbursements from replacement reserve accounts are approved or directed by HUD as required.

**CALIFORNIA HOUSING FINANCE FUND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2019**

Regarding requests for Replacement Reserve disbursements, the Asset Management Division will implement the following procedure to ensure that all HUD requirements are met:

- Asset Management will ensure that the Owner/Agent has included an approved HUD Form 9250 in any submitted request for a disbursement from the Replacement Reserve Account.
- Fiscal Services will ensure that the approved HUD Form 9250 is included in the final approval package prior to disbursement of funds.

**CALIFORNIA HOUSING FINANCE FUND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2019**

Section IV – Prior Year Findings

There were no findings in the prior year that were required to be reported.

U.S. Department of Housing and Urban Development

The California Housing Finance Agency respectfully submits the following corrective action plan for the year ended June 30, 2019.

Audit period: July 1, 2018 through June 30, 2019

The findings from the schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

FINDINGS—FEDERAL AWARD PROGRAMS AUDITS

2019-001 Section 8 Housing Assistance Payments Program – CFDA No. 14.195

Recommendation: We recommend CalHFA review all HAP contracts to determine whether CalHFA has authorization to approve disbursements from the Replacement Reserve accounts. We recommend CalHFA ensure HUD approves all disbursements from the replacement reserve accounts for projects which CalHFA is not authorized to approve.

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

Action taken in response to finding: Management has addressed the audit finding and has implemented new procedures, to complement existing policy and procedures, which will ensure that all future disbursements from replacement reserve accounts are approved or directed by HUD as required. Regarding requests for Replacement Reserve disbursements, the Asset Management Division will implement the following procedure to ensure that all HUD requirements are met:

- Asset Management will ensure that the Owner/Agent has included an approved HUD Form 9250 in any submitted request for a disbursement from the Replacement Reserve Account.
- Fiscal Services will ensure that the approved HUD Form 9250 is included in the final approval package prior to disbursement of funds.

Name of the contact person responsible for corrective action: Kate Ferguson, Director of Multi-Family Programs.

Planned completion date for corrective action plan: August 2019

If the U.S. Department of Housing and Urban Development has questions regarding this plan, please call Kate Ferguson at 916-326-8802.