

Desert Hot Springs Housing Authority

Desert Hot Springs, California

Compliance as the Housing Successor and Independent Auditors' Report

For the Year Ended June 30, 2020



Desert Hot Springs Housing Authority

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**REPORT ON COMPLIANCE AS THE HOUSING SUCCESSOR; REPORT ON INTERNAL CONTROL
OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXCESS SURPLUS**

Independent Auditors' Report

To the Board of Directors
of the Desert Hot Springs Housing Authority
Desert Hot Springs, California

Report on Compliance as the Housing Successor

We have audited the Desert Hot Springs Housing Authority's (the "Housing Authority"), a component unit of the City of Desert Hot Springs (the "City"), compliance as the housing successor of the former Redevelopment Agency of the City of Desert Hot Springs with the type of compliance requirements described in the California Health and Safety Code Sections 34176 and 34176.1 applicable to the Redevelopment Agency's housing successor for the year ended June 30, 2020.

Management's Responsibility

Compliance with the requirements referred to above is the responsibility of the Housing Authority's management.

Auditors' Responsibility

Our responsibility is to express an opinion on the Housing Authority's compliance as housing successor 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, and the standards applicable to financial audits contained in the *Government Auditing Statements*, 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 noncompliance with the compliance requirements referred to above that could have a material effect on the Housing Authority occurred. An audit includes examining, on a test basis, evidence about the Housing Authority'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. However, our audit does not provide a legal determination of the Housing Authority's compliance with those requirements.

Opinion

In our opinion, the Housing Authority complied, in all material respects, with the compliance requirements referred to above that are applicable to the housing successor for the year ended June 30, 2020.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the California Health and Safety Code Sections 34176 and 34176.1 applicable to the Redevelopment Agency's housing successor and which are described in the accompanying schedule of findings and responses as item 2020-001. Our opinion on the Housing Authority's compliance as housing successor is not modified with respect to these matters.

The Housing Authority's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Housing Authority'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 Housing Authority is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit, we considered the Housing Authority's internal control over compliance to determine the auditing procedures for the purpose of expressing an opinion on compliance, but not for the purpose of expressing an opinion of the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Housing Authority'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 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 a material noncompliance with a compliance requirement 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 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 weakness. However, we did identify certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and responses as item 2020-001, that we consider to be significant deficiencies.

The Housing Authority'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 Housing Authority'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 California Health and Safety Code Sections 34176 and 34176.1 applicable to the Redevelopment Agency's housing successor. Accordingly, this report is not suitable for any other purpose.

To the Board of Directors
of the Desert Hot Springs Housing Authority
Desert Hot Springs, California
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Report on the Schedule of Excess Surplus

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Desert Hot Springs as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated November 24, 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 Excess Surplus is presented for purposes of additional analysis 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 other 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 Excess Surplus is fairly stated in all material respects in relation to the basic financial statements as a whole.

The PwC Group, LLP

Santa Ana, California
November 24, 2020

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Desert Hot Springs Housing Authority
Schedule of Excess Surplus
For the Year Ended June 30, 2020

		Low and Moderate Housing Funds July 1, 2019
Opening Fund Balance	\$	3,548,740
Less: notes receivables		(3,389,172)
Less: land held for resale		(85,090)
Available Housing Funds		74,478
Limitation (greater of \$1,000,000 or four years deposits)		
Aggregate amount deposited for last four years:		
2018-2019		58,299
2017-2018		21,495
2016-2017		58
2015-2016		7,861
Total	\$	87,713
Greater amount		1,000,000
Computed Excess Surplus	\$	(925,522)

Desert Hot Springs Housing Authority
Schedule of Findings and Responses
For the Year Ended June 30, 2020

Finding 2020-001 – Internal Control over Compliance and Compliance with Monitoring and Reporting of Affordable Housing

Criteria:

In accordance with California Health and Safety Code (“HSC”) Section 34176(c), the housing successor may enforce affordability covenants and perform related activities including, but not limited to, Section 33418.

HSC Section 33418(a) An agency shall monitor, on an ongoing basis, any housing affordable to persons and families of low or moderate income developed or otherwise made available pursuant to any provisions of this part. As part of this monitoring, an agency shall require owners or managers of the housing to submit an annual report to the agency. The annual reports shall include for each rental unit the rental rate and the income and family size of the occupants, and for each owner-occupied unit whether there was a change in ownership from the prior year and, if so, the income and family size of the new owners. The income information required by this section shall be supplied by the tenant in a certified statement on a form provided by the agency.

HSC Section 33418(b) The data specified in subdivision (a) shall be obtained by the agency from owners and managers of the housing specified therein and current data shall be included in any reports required by law to be submitted to the Department of Housing and Community Development or the Controller.

HSC Section 33148(c)(1) The agency shall compile and maintain a database of existing, new and substantially rehabilitated, housing units developed or otherwise assisted with moneys from the Low and Moderate Income Housing Fund, or otherwise counted towards the requirements of subdivision (a) or (b) of Section 33413. The database shall be made available to the public on the Internet and updated on an annual basis and shall include the date the database was last updated.

HSC Section 33148(c)(3) Upon establishment of a database under this section, the agency shall provide reasonable notice to the community regarding the existence of the database.

HSC Section 34176.1 further requires that if the housing successor is a city, it shall also include in its report pursuant to Section 65400 of the Government Code and post on its Internet Web site of the following information for the previous fiscal year:

(f)(4) A description of expenditures from the fund by category;

(f)(13) An inventory of homeownership units assisted by the former redevelopment agency or the housing successor that are subject to covenants or restrictions or to an adopted program that protects the former redevelopment agency's investment of moneys from the Low- and Moderate-Income Housing Fund pursuant to subdivision (f) of Section 33334.3.

Condition:

There were 3 multi-unit low-and-moderate income housing projects funded by the former Redevelopment Agency loans with outstanding balances as of June 30, 2020. During our testing of the monitoring requirements, we noted that there were no policies and procedures in place for monitoring the affordability of the projects. We noted 3 contracts which had ongoing compliance requirements for the operators which were not being reviewed. The contracts with the project owners included the requirements noted above for the owners or managers of the housing projects to submit the annual reports. However, the annual reports were not submitted, reviewed and filed with the Housing Authority.

In addition, information needed to be included in the annual reports was not obtained and submitted to the Department of Housing and Community Development. We also reviewed the City's website and noted the required data that shall be made available to the public under HSC Sections 33418(c)(1), 33418(c)(3), 34176.1(f)(4) and 34176.1(f)(13) was not available.

Desert Hot Springs Housing Authority
Schedule of Findings and Responses (Continued)
For the Year Ended June 30, 2020

Finding 2020-001 – Internal Control over Compliance and Compliance with Monitoring and Reporting of Affordable Housing (Continued)

Cause:

The Housing Authority has been inactive since the dissolution of the redevelopment agency and there has been turn over in the Housing Authority to monitor the projects funded with low-and-moderate income housing fund. In addition, the Housing Authority has not established a formal policy to monitor the affordability covenant imposed on the housing projects funded with low-and-moderate income housing fund and the reporting of the required data.

Effect or Potential Effect:

The lack of monitoring of the affordability covenant can cause noncompliance in affordability requirements of the projects being undetected. Projects funded by the Low-and-Moderate Housing Fund may not achieve the goals of fulfilling the housing needed for low-and-moderate income families within the City.

Without receiving and reviewing the annual reports from the affordable housing project managers/owners, the Housing Authority would not have the necessary data to accurately complete and submit the annual report in accordance with HSC Sections 34176 and 34176.1 that governs the housing successor.

Recommendation:

We recommended the Housing Authority develop proper policies and procedures that 1) define specific roles of the Housing Authority's employees, 2) provide guideline to adequately monitor ongoing projects and expenditures funded by the Low-and-Moderate Income Housing Fund, and 3) establish a process for the accurate and timely reporting of required data to the California Department of Housing and Community Development and posting the data on its website, including proper notice to the public on the availability of the data.

View of Responsible Officials:

The Housing Authority have been inactive since the dissolution of the former Redevelopment Agency in 2012 and because of the SERAF loan made to the Successor Agency, did not have funding to resume any activities. As the Housing Authority did not have staff since the dissolution and there has only been Finance staff available to monitor the outstanding loans, the monitoring and reporting of housing units has been inconsistent. Now that funding for the Housing Authority has resumed in the form of repayment of the over \$3 million SERAF loan, the City has hired and Economic Development Manager and an Assistant, both of whom have time allocated to Housing Authority activities. The Finance Department and the Economic Development Department are in the process of establishing policies and procedures to monitor the affordability covenant imposed on the housing projects funded with low-to-moderating income housing fund and the reporting of the required data.

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