

Desert Hot Springs Housing Authority

Desert Hot Springs, California

Compliance as the Housing Successor and Independent Auditors' Report

For the Year Ended June 30, 2022

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

Opinion on Compliance

We have audited the Desert Hot Springs Housing Authority's (the "Housing Authority"), a component unit of the City of Desert Hot Springs, California (the "City"), compliance with the type of compliance requirements described in the California Health and Safety Code sections applicable to the former Redevelopment Agency's Housing Successor (the "Housing Successor") for the year ended June 30, 2022.

In our opinion, the Housing Authority complied, in all material respects, with the compliance requirements referred to above that are applicable to Housing Authority for the year ended June 30, 2022.

Basis for Opinion

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America ("GAAS"); the standards applicable to financial audits contained in the *Government Auditing Standards* issued by the Comptroller General of the United States ("*Government Auditing Standards*"); and California Health and Safety Code sections applicable to the Housing Successor (the "Healthy and Safety Codes"). Our responsibilities under those standards and the Health and Safety Codes are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Housing Authority and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit does not provide a legal of the Housing Successor's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Housing Authority's government programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Housing Authority's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Health and Safety Codes will always detect material noncompliance when it exists. The risk of not material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Housing Authority's compliance with the requirements of the government program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Health and Safety Codes, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Housing Authority's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Housing Authority's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Health and Safety Codes, but not for the purpose of expressing an opinion on the effectiveness of the Housing Authority's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Health and Safety Codes and which are described in the accompanying schedule of findings and responses as item 2022-001. Our opinion is not modified with respect to this matter.

Government Auditing Standards requires the auditor to perform limited procedures on the Housing Authority's response to the noncompliance findings identified in our compliance audit described in the accompanying schedule of findings and responses. The Housing Authority's response was not subjected to other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the "Auditors' Responsibilities for the Audit of Compliance" section above and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses in internal control over compliance 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, as discussed below, we did identify certain deficiencies in internal control of compliance that we consider to be significant deficiencies.

To the Board of Directors
of the Desert Hot Springs Housing Authority
Desert Hot Springs, California
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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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and responses as item 2022-001 to be a significant deficiency.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on the Housing Authority's responses to the internal control over compliance findings identified in our compliance audit described in the accompany schedule of findings and responses. The Housing Authority's response was not subjected to the other 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 Health and Safety Codes. Accordingly, this report is not suitable for any other purpose.

Report on the Schedule of Excess Surplus

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Desert Hot Springs, California as of and for the year ended June 30, 2022, and the related notes to the basic financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated June 8, 2023, 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 the 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 GAAS. 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.



Santa Ana, California
June 8, 2023

Desert Hot Springs Housing Authority
Schedule of Excess Surplus
For the Year Ended June 30, 2022

	Low and Moderate Housing Funds July 1, 2021
Opening fund balance	\$ 4,499,095
Less: notes receivables	(3,389,172)
Less: land held for resale	(85,090)
Available housing funds	1,024,833
Limitation (greater of \$1,000,000 or four years deposits)	
Aggregate amount deposited for last four years:	
2020-2021	727,722
2019-2020	381,574
2018-2019	58,299
2017-2018	21,495
Total	\$ 1,189,090
Greater amount	1,189,090
Computed Excess Surplus	\$ (164,257)

Desert Hot Springs Housing Authority
Schedule of Findings and Responses
For the Year Ended June 30, 2022

Finding 2021-001 – Internal Control Over Compliance and Compliance with Reporting Requirement

Criteria:

Each jurisdiction is required to create an annual report on the status and progress in implementing the housing element of its general plan using forms and definitions adopted by the California Department of Housing and Community Development (“HCD”). The report must be submitted to HCD and the Governor’s Office of Planning and Research on or before April 1 of each year.

Condition:

During our audit we noted the annual housing element progress report for calendar year 2021 was submitted to HCD on July 8, 2022, which is after the due date of April 1, 2022.

Cause:

New hiring of key personnel in charge of submitting the Housing Authority report occurred during the time the report was to be submitted. The new personnel were unaware of the report due date.

Effect or Potential Effect:

Late submission of the annual housing element progress report to HCD.

Recommendation:

We recommended the Housing Authority develop policies and procedures to ensure timely submission of the annual housing element progress report to HCD.

View of Responsible Officials:

There were key staffing changes during the time of the preparation of the annual housing element progress report to the effect that the report was submitted late for 2022. The new Community Development Director has created an automatic reminder to begin working on the report starting January of every year so that the City meets the April 1st deadline. A reminder will be sent to the responsible staff members starting in January with monthly updates on the reports progress to the City Manager so that the report is ready to be brought before the City Council on the first meeting of March.

Status:

Finding carried over from prior year.