



# Housing Authority of the County of San Diego, San Diego, CA

## Intergovernmental Agreement for Multiple Services

**Office of Audit, Region 9  
Los Angeles, CA**

**Audit Report Number: 2019-LA-1009  
July 15, 2019**





**To:** Marcie Chavez, Director, Office of Public Housing, Los Angeles, CA, 9DPH

**//SIGNED//**

**From:** Tanya E. Schulze, Regional Inspector General for Audit, 9DGA

**Subject:** The Housing Authority of the County of San Diego, San Diego, CA, Executed and Administered Its Intergovernmental Agreement as Required

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of the Housing Authority of the County of San Diego's intergovernmental agreement services.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

The Inspector General Act, Title 5 United States Code, section 8M, requires that OIG post its publicly available reports on the OIG website. Accordingly, this report will be posted at <http://www.hudoig.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at 213-534-2471.



**Audit Report Number: 2019-LA-1009**

**Date: July 15, 2019**

**The Housing Authority of the County of San Diego, San Diego, CA, Executed and Administered Its Intergovernmental Agreement as Required**

## Highlights

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### What We Audited and Why

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We audited the Housing Authority of the County of San Diego's intergovernmental agreement due to the results of our completed internal auditability survey of public housing agencies with intergovernmental agreements. The auditability survey identified public housing authorities with intergovernmental agreements for potential external reviews due to a recent external audit the Housing Authority of the City of Los Angeles (audit report 2018-LA-1008). According to that report, the Authority did not always follow HUD requirements and its intergovernmental agreement when it managed its legal services with the City of Los Angeles. Based on result of the auditability survey, we selected the Housing Authority of the County of San Diego. Our audit objective was to determine whether the Authority executed and administered its intergovernmental agreement in compliance with U.S. Department of Housing and Urban Development (HUD) requirements, its own policies and procedures, and the terms of its agreement.

### What We Found

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The Authority executed and administered its intergovernmental agreement with the County for administrative and operations activities in compliance with HUD requirements, its own policies and procedures, and the terms of its agreement. Specifically, the Authority ensured that it (1) fostered greater economy and efficiency, (2) monitored its contractor's performance, and (3) used program funds for supported and eligible activities.

### What We Recommend

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There are no recommendations.

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# Background and Objective

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The Housing Authority of the County of San Diego serves to support the creation of affordable housing, supportive housing, and new housing resources for vulnerable populations and assists families with achieving stability and self-sufficiency for the San Diego region, which is healthy, safe, and thriving. The Authority’s mission statement is to promote safe, affordable housing opportunities and improved communities in the San Diego region. The Authority’s goal is to help families find safe, affordable housing and work with property owners to increase the supply of quality, economical places to live.

The Authority’s services include assisting low-income people and increasing the amount of safe, affordable housing within San Diego County. The Authority owns and operates 159 apartments in five housing sites for low-income families and elderly and disabled persons. In addition, it conducts 12,291 annual housing inspections to ensure that all Housing Choice Voucher Program residences are safe, decent, and sanitary. The Authority received more than \$334.5 million in U.S. Department of Housing and Urban Development (HUD) funding for the following programs: the Public Housing Operating Fund, the Public Housing Capital Fund, the Housing Choice Voucher Program, and the Section 8 Moderate Rehabilitation Program. The Authority disbursed more than \$31.5 million in total expenses related to its intergovernmental agreement with the County of San Diego. These funds were disbursed to the following Authority programs:

| Program   | Fiscal year 2016  | Fiscal year 2017  | Fiscal year 2018              | Total             |
|---|-------------------|-------------------|-------------------------------|-------------------|
| Housing Choice Voucher Program (formerly Section 8) | \$9,863,880       | \$10,424,300      | \$10,468,567                  | \$30,756,747      |
| Public Housing Operating Fund                       | 145,529           | 180,120           | 117,181                       | 442,830           |
| Moderate Rehabilitation Program                     | 139,824           | 81,538            | 74,353                        | 295,715           |
| Mainstream Voucher Program                          | 22,371            | 8,783             | 23,270                        | 54,424            |
| Capital Fund  | 17,893            | 3,043             | 2,814                         | 23,750            |
| <b>Total</b>  | <b>10,189,497</b> | <b>10,697,784</b> | <b>10,686,186<sup>1</sup></b> | <b>31,573,467</b> |

In 1975, the Authority and the County entered into an intergovernmental agreement through which the County performs all administrative and operational services on behalf of the Authority. These services include but not limited to the following:

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<sup>1</sup> Rounding error to the nearest full dollar.

- Accounting services, which include financial reporting, audit services, collections and accounts receivable management services, payroll, accounts payable, projects and grant management, and revenue and recovery.
- HUD program services, such as certifying and recertifying tenant eligibility, approving housing assistance payments, performing quality control inspections, and negotiating lease provisions in compliance with program requirements.
- Legal services, such as civil advisory and litigation, legal advice and guidance, review of contracts or other legal documents, and counsel for matters or transactions involving legal issues.
- Procurement services with third-party vendors, providing policies and procedures for the procurement of goods and services, providing a standard contract template, and negotiating contracts with contractors.

The Authority's board of commissioners and the County's board of supervisors approved this agreement. HUD encouraged the Authority to enter into an agreement with a government agency for common supplies and services, such as accounting services, legal services, and security. This agreement provided greater economy and efficiency, which resulted in cost savings to the Authority.

Our objective was to determine whether the Authority executed and administered its intergovernmental agreement in compliance with HUD requirements, its own policies and procedures, and the terms of its agreement.

# Results of Audit

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## **Finding: The Authority Executed and Administered Its Intergovernmental Agreement as Required**

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The Authority executed and administered its intergovernmental agreement in compliance with HUD requirements, its own policies and procedures, and the terms of its agreement. Specifically, the Authority ensured that it fostered greater economy and efficiency, monitored its contractor's performance, and used program funds for eligible and supported activities.

### **The Authority Fostered Greater Economy and Efficiency**

The Authority fostered greater economy and efficiency when it needed to purchase goods and services from the County. The Authority's board of supervisors policy, BOS-66, section A, states that any purchase from a government agency must include a determination that the price or cost of any goods or services was fair and reasonable. However, the Authority's economy and efficiency policy, sections 703.10 and 916, allowed it to determine whether it could obtain goods and services more economically and efficiently from independent contractors. For instance, the Authority wanted to determine whether there was a cost savings in keeping the property management services with the County or hiring an independent contractor. The Authority determined that there would be a cost savings of \$2.3 million by executing a contract with an independent contractor rather than having the County perform property management services. Based on the cost savings, it executed an agreement with the independent contractor for property management services.

Overall, the Authority fostered greater economy and efficiency, which resulted in cost savings, by executing an intergovernmental agreement with the County and hiring an independent contractor for goods and services as needed.

### **The Authority Monitored Its Intergovernmental Agreement Activities**

The Authority provided adequate oversight of its intergovernmental agreement activities. HUD regulations at 2 CFR (Code of Federal Regulations) 200.328(a) required the Authority to monitor the activities of its agreement. The Authority developed monitoring plans, performed monitoring assessments, reviewed monthly billing reports, and conducted board meetings, which ensured that the performance of its activities complied with the terms of its agreement. As a result, the Authority ensured that it monitored the performance of intergovernmental agreement activities as required by HUD.

### **Intergovernmental Agreement Expenses Were Supported and Eligible**

The Authority disbursed \$31.5 million for housing program expenses, which complied with the terms of its intergovernmental agreement and HUD requirements. Section 9 of the agreement stated that the Authority would reimburse the County for expenses incurred by the County on behalf of the Authority. We reviewed six disbursements totaling more than \$8.8 million in

program expenses, or 28 percent (\$8,838,684/\$31,573,467) of program funds incurred for administrative costs and revenue recovery fees,<sup>2</sup> as shown in the table below.

| Sample       | Sample period | Administrative costs | Revenue recovery fees | Total            |
|--------------|---------------|----------------------|-----------------------|------------------|
| 1            | June 2016     | \$1,424,132          | \$8,057               | \$1,432,190      |
| 2            | August 2016   | 1,192,484            | 623                   | 1,193,107        |
| 3            | June 2017     | 1,140,571            | 623                   | 1,141,194        |
| 4            | August 2017   | 1,790,842            | 1,832                 | 1,792,675        |
| 5            | March 2018    | 1,538,278            | 676                   | 1,538,954        |
| 6            | June 2018     | 1,740,089            | 476                   | 1,740,565        |
| <b>Total</b> |               | <b>8,826,396</b>     | <b>12,288</b>         | <b>8,838,684</b> |

The Authority ensured that the reviewed expenses were supported and eligible. Before an expense was paid, the Authority reviewed and approved billing reports, which allocated staff hours and distributed the costs of supplies and overhead, as well as the related supporting general ledger reports. As a result, the Authority ensured that program funds used for housing program activities were supported and eligible.

### Conclusion

The Authority executed and administered its intergovernmental agreement in compliance with HUD requirements, its own policies and procedures, and the terms of its agreement. Specifically, the Authority ensured that it fostered greater economy and efficiency, monitored its contractor’s performance, and used program funds for supported and eligible activities.

### Recommendations

There are no recommendations.

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<sup>2</sup> Administrative costs include staff time allocated to the public housing programs. Revenue recovery fees include overpayments of rental assistance from the Housing Choice Voucher Program.

# Scope and Methodology

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We performed our audit work at the Authority's office in San Diego, CA, from February 25 to May 2, 2019. Our review covered the period October 1, 2015, to September 30, 2018.

To accomplish our objective, we

- Reviewed relevant background information, which included the Authority's administrative plan and agency plan.
- Reviewed applicable HUD requirements.
- Reviewed the Authority's intergovernmental agreement file and program expenses related to its agreement.
- Obtained an understanding of the Authority's internal controls.
- Interviewed Authority officials to obtain an understanding of its program processes, specifically its intergovernmental agreement services.
- Interviewed HUD officials to obtain an understanding of the use of intergovernmental agreements.
- Reviewed HUD funding and monitoring reports.
- Reviewed the Authority's audited financial statements for fiscal years 2016 and 2017.
- Reviewed the Authority's general ledgers.
- Reviewed the Authority's board minutes.

We determined that the audit universe consisted of one intergovernmental agreement that was in place between October 1, 2015, and September 30, 2018. Using the Authority's agreement log, we identified that it executed one intergovernmental agreement with the County. This agreement authorized the County to perform all administrative and operations activities on behalf of the Authority. Therefore, we determined that a 100 percent selection was appropriate to review during the survey phase.

The audit universe totaled more than \$31.5 million in public housing program expenses, which consisted of 34 disbursements made between October 1, 2015, and September 30, 2018. Of the

34 disbursements, we selected a nonstatistical sample<sup>3</sup> of 13 disbursements of at least \$1 million between October 1, 2015, and September 30, 2018. The 13 disbursements totaled more than \$17.5 million in total expenses. For the survey phase, we reviewed six disbursements, which consisted of two of the highest disbursements from each fiscal year, totaling more than \$8.8 million in expenses. Overall, we reviewed 28 percent (\$8,838,684/\$31,573,467) of the total expenses that the Authority incurred using program funds. The sampling method did not allow us to project to the universe, but it was sufficient to meet the audit objective.

We relied in part on the computer-processed data from the Authority, such as the agreement logs, general ledgers, and financial data schedules. We used the data to determine the audit universe, agreements for review, and selection of disbursements. We, therefore, assessed the computer data to be sufficiently reliable to meet the audit objective.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective(s). We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

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<sup>3</sup> A nonstatistical sample is appropriate when the auditor knows enough about the population to identify a relatively small number of items of interest.

# Internal Controls

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Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

- effectiveness and efficiency of program operations,
- reliability of financial reporting, and
- compliance with applicable laws and regulations.

Internal controls comprise the plans, methods, policies, and procedures used to meet the organization's mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

## **Relevant Internal Controls**

We determined that the following internal controls were relevant to our audit objective:

- Effectiveness and efficiency of program operations – Implementation of policies and procedures to reasonably ensure that program funds are used for eligible purposes.
- Reliability of financial reporting – Implementation of policies and procedures to reasonably ensure that relevant and reliable information is obtained to adequately support eligible program expenditures.
- Compliance with applicable laws and regulations – Implementation of policies and procedures to reasonably ensure that the monitoring of and expenditures for program activities comply with applicable HUD requirements.

We assessed the relevant controls identified above.

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, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

We evaluated the internal controls related to the audit objective in accordance with generally accepted government auditing standards. Our evaluation of internal controls did not identify significant deficiencies related to our audit objective. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

# Appendix

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## Appendix A

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### Auditee Comments and OIG's Evaluation

#### Ref to OIG Evaluation

#### Auditee Comments

#### Comment 1

  
**County of San Diego**

**NICK MACCHIONE, FACHE**  
AGENCY DIRECTOR

**HEALTH AND HUMAN SERVICES AGENCY**  
HOUSING AND COMMUNITY DEVELOPMENT SERVICES  
3989 RUFFIN ROAD, SAN DIEGO, CA 92123  
(858) 694-4801 • FAX (858) 467-9713

**DAVID ESTRELLA**  
DIRECTOR, HOUSING AND COMMUNITY  
DEVELOPMENT SERVICES

June 19, 2019

Tanya E. Schulze  
Regional Inspector General for Audit  
Office of Audit, Region 9  
300 North Los Angeles Street, Suite 4070  
Los Angeles, CA 90012

Dear Ms. Schulze:

**RE: Audit of the Housing Authority of the County of San Diego Intergovernmental Agreement for Multiple Services**

The Housing Authority of the County of San Diego thanks the Region 9 Regional Inspector General for Audit for the audit of its Intergovernmental Agreement for Multiple Services conducted February 2, 2019 through June 13, 2019. We concur with the audit report and are pleased the audit concluded with no findings or recommendations.

We would also like to express our gratitude and acknowledge [REDACTED] the on-site auditors, for their professionalism and consideration during the course of the audit.

Sincerely,



DAVID ESTRELLA  
Director, Housing and Community Development Services

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## **OIG Evaluation of Auditee Comments**

- Comment 1    We appreciate the Authority's cooperation during our review. As a correction, we started the audit on February 25, not February 2, 2019.
- We redacted individuals' names mentioned in the letter for privacy.