Garza/Gonzalez & Associates
CERTIFIED PUBLIC ACCOUNTANTS

HOUSING AUTHORITY OF THE CITY OF LAREDO

Laredo, Texas

REPORT ON CONDUCT OF AUDIT

Year Ended March 31, 2018

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Garza/Gonzalez & Associates
CERTIFIED PUBLIC ACCOUNTANTS

Members of the Board of Commissioners
Housing Authority of the City of Laredo
Laredo, Texas

We have audited the financial statements of the Housing Authority of the City of Laredo (the Authority) for the year ended March 31, 2018, and have issued our report thereon dated December 27, 2018. Professional standards require that we provide you with the following information related to our audit.

- the conduct of our audit (Parts I – VIII)
- comments related to immaterial noncompliance with federal requirements, state requirements, and other comments and recommendations (Part IX-XI)

This letter does not affect our report dated December 27, 2018, on the financial statements of the Authority. Our comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to ensure compliance with federal and state requirements and to improve the internal control structure.

This report is intended solely for the information and use of the members of the Board of Commissioners, management, federal awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.

We would like to take this opportunity to acknowledge the courtesy and assistance extended by the personnel of the Authority during the course of our audit.

Garza/Gonzalez & Associates

December 27, 2018

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HOUSING AUTHORITY OF THE CITY OF LAREDO
Laredo, Texas

REPORT ON CONDUCT OF AUDIT

For the Year Ended March 31, 2018

I. The Auditor's Responsibility Under U.S. Generally Accepted Auditing Standards and the Uniform Guidance

As stated in our engagement letter dated May 23, 2018, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that 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; therefore, our audit involved judgment about the number of transactions examined and the areas tested.

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance.

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 grants. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with the Uniform Guidance, we examined, on a test basis, evidence about the Authority's compliance with the types of compliance requirements described in the OMB Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opinion on the Authority's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the Authority's compliance with those requirements.

We are responsible for communicating significant matters related to the audit that is, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

II. Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Authority are described in Note I to the financial statements. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

The financial statement disclosures, as included in the financial statements, are neutral, consistent, and clear.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the Authority's financial statements were:

- Depreciation is based on estimated useful lives of the respective capital asset class.
- Allowance for uncollectible receivables is based on an analysis of the collectability of individual accounts.
- Prepaid insurance is based on the premiums paid during the year which are applicable to future periods.
- Unearned revenues and non-current liabilities – other are amortized over the useful life of the land leases (75 years).
- Family self-sufficiency escrow liability is based estimated amounts credited towards an individual's hypothetical account.

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

III. Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit except for delays in the reconciliation of the general ledger that caused delays in completing the preparation of the financial statements.

IV. Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial and communicate them to the appropriate level of management. We proposed significant audit adjustments and made various reclassifications of balances. Certain adjustments resulted in uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. Uncorrected misstatements included proposed adjustments to decrease cash and accounts payable in the amount of $76,527 and decrease accounts receivable and net position by $79,318.

We proposed significant audit adjustments to fairly state the Authority's financial statements, including corrections to beginning balances, cash, interfunds, accounts payable, and accounts receivable, and others. Overall, the net effect of all audit adjustments on the various financial statement components was as follows:

- Assets decreased by $7,312,637
- Liabilities decreased by $6,981,831
- Equity increased by $1,205,174
- Revenues decreased by $366,328
- Expenses increased by $149,563
- Transfers out increased by $947,489.

V. Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

VI. Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 27, 2018.

VII. Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" in certain situations. If a consultation involves the application of an accounting principle to the Authority's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

VIII. Other Issues

Major Issues Discussed with Management Prior to Appointment
We may discuss a variety of matters, including the application of accounting principles and auditing standards, with management prior to appointment as the Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our appointment.

Required Supplementary Information
We applied certain limited procedures to management's discussion and analysis and budgetary comparison information for the general fund, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and did not express an opinion or provide any assurance on the RSI.

Supplementary Information
With respect to the schedule of expenditures of federal awards, as listed in the annual financial and compliance report's table of contents; and, accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the schedules in the supplementary sections, which accompany the financial statements but are not RSI. We did not audit or perform other procedures on this other information, and we do not express an opinion or provide any assurance on it.

Other Information in Documents Containing the Audited Financial Statements
We are not aware of any other documents that contain the audited financial statements and the auditor's report thereon. If we become aware that such documents were published, we would have a responsibility to read such information, in order to identify material inconsistencies, if any, with the audited financial statements.

IX. Internal Control and Other Matters

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 Authority'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, and therefore, material weaknesses and significant deficiencies may exist that were not identified. We consider the deficiencies described as *2018-001,* in the Schedule of Findings and Questioned Costs that is included in the Financial Statements and Independent Auditor's Reports, to be a material weakness in internal control over financial reporting. We were also required to report noncompliance with the OMB Compliance supplement, over performance reporting, which is described as 2018-002 in the Schedule of Findings and Questioned Costs that is included in the Financial Statements and Independent Auditor's Reports.

X. Compliance with Federal Requirements

CURRENT YEAR FINDINGS

<u>Low Income Public Housing</u>

The Authority must comply with HUD requirements, and requirements set forth in its Admissions and Continued Occupancy Policy (ACOP), to ensure adequate screening of applicants and for continued occupancy by tenants. Based on our review of forty (40) Public Housing tenant files, we noted the following deficiencies:

- Dwelling inspection forms were incomplete or missing in eleven (11) instances.
- Lease agreement information did not agree to the Form 50058 in two (2) instances.
- Lease Agreements were missing signatures in three (3) instances.
- Lease Agreement information did not agree to the Family Choice of Payment Form in two (2) instances.

We recommend that monitoring and review of tenant files be strengthened to ensure that policies and procedures are in compliance. Tenant files should be reviewed more frequently and timely to ensure that issues are detected early and addressed appropriately.

Consumption Data Report

The Authority is required to maintain form HUD-52667, Allowances for Tenant-Furnished Utilities and Other Services, and any supporting documentation used in determining the utility allowances and subsequent revisions. Our review of the utility allowances indicated that there was no documentation supporting the calculation of the average monthly consumption units used, therefore we were unable to determine if the schedule was accurate.

We recommend that the Authority maintain all supporting documentation used in determining the allowances along with documentation supporting subsequent revisions.

Management Fee

The Authority may charge certain grants a management fee which is earned by the Central Office Cost Center (COCC). The Authority may charge a reasonable management fee based on the property management fee schedule established by HUD. We noted that the management fee used by the Authority for the current year was obtained from the 2015 HUD Management Fee Schedule and not the 2017 version. This error resulted in management fees being understated by approximately $24,000.

We recommend that the Authority ensure that the most current HUD Management Fee Schedule is utilized to calculate the management fees so that management fees earned may be fully recovered.

Schedule of Position and Compensation

HUD requires that the Authority file a Schedule of Position and Compensation (Form HUD-52725) listing information for the five highest compensated employees. This information is to be posted on HUD's website. Management was not able to provide us with a copy of the Schedule of Position and Compensation report, therefore we were unable to verify the information submitted as required.

We recommend that the Authority complies with HUD's requirement to prepare and have available the Schedules of Position and Compensation report.

XI. Compliance with State Requirements

PRIOR YEAR FINDING

Unclaimed Property

State law requires that unclaimed payroll checks over one (1) year and vendor checks over three (3) years old be remitted to the State of Texas Comptroller's Office as unclaimed property. The Authority's financial statements include a liability for outstanding checks totaling $76,526. (Housing Choice Voucher Program checks $51,311, and the Central Office Cost Center checks $25,215). The liability is comprised of approximately two thousand (2,000) long outstanding checks, with some checks dating back as far as 1997.

We recommend that the Authority conduct a review of the outstanding checks to determine their disposal. There is a possibility that some of the checks may not be valid. Valid outstanding checks should be remitted to the State as unclaimed property in accordance with the applicable requirements. Checks that are determined to be void/reissued should be adjusted on the Authority's general ledger.