

Housing Assistance Council's
Finance & Resource Development Committee Teleconference
March 19, 2018

Members Present: L. Buxbaum; S. Ferniza, T. Manning-Beavin, N. Scipio

Members Absent: I. Jacobs

Other Board Members Present: P. Carey

RAFFA Staff Present: K. Robertson, R. Alfred

HAC Staff Present: K. Klusmann, D. Lipsetz, L. Sutton

CALL TO ORDER: The meeting of the Finance & Resource Development teleconference was called to order at 4:05, PM., on Monday, March 19, 2018.

D. Lipsetz welcomed the meeting attendees and stated that the meeting had been scheduled to review the final 2017 audit. K. Robertson of RAFFA began to report on the 2017 HAC audit. K. Robertson reviewed the agenda and engagement objectives. The audit materials are attached to these minutes as appendices A, B & C.

K. Robertson stated that it was important to note that the Management Letter states that there were no "Material Weaknesses" found in the 2017 Audit. Other matters mentioned in the letter are: Account Reconciliations, Documents of Management Review, Bank Statement Review, Temporarily Restricted Grants, Loan Programs and Debt Covenants. Under the prior year comments section, the debarment and suspension item.

K. Robertson noted that HAC has an unmodified (clean) opinion issued on its financial statements. She proceeded to highlight key totals from the audited financials (please refer to the final audit for exact numbers). HAC ended the year with a net decrease in unrestricted net assets of \$2.24 million, a net increase in temporarily restricted net assets of \$2.22 million, and a total net decrease in assets of \$19,083.

HAC's sources of revenue are as follows: Loan income and services are at 13%. Investment income net 7%; Grants and contracts are at 74%; conference registrations and support at 5%; and other income at 1%. Operating expenses are at 24% for lending programs; 14% for research and information activities; 1% for fundraising; 37% for T&TA activities and 24% for management and general support.

Rural Housing Services, Inc. (RHSI) total net assets and liabilities are \$466,000. Revenue and support are \$8,838; expenses \$1,893; and change in net assets of \$6,945.

K. Robertson continued with government auditing standards' and the OMB uniform guidance's Schedule of Expenditures of Federal Awards. HAC has approximately \$1,831,000 of federal expenditures, \$1,676,000 of loans disbursed, and outstanding loan balances of \$17,405,000.

The Government Auditing Standards (GAS) report indicated that there were no material weaknesses in internal control over financial reporting. It also indicates no instances of noncompliance reported. R. Alfred reported on the management letter, and reiterated that HAC had "No Material Weaknesses" reported on the 2017 audit.

OTHER MATTERS: During the audit, R. Alfred noted that Raffa became aware of several other matters that are opportunities for strengthening internal controls and operating efficiency. He noted the following:

- Accounting Reconciliations - Raffa observed that several trial balances and certain general ledger accounts reported under cash and investments in the statement of financial positions were not reconciled during the year. Specially, the petty cash account was not reconciled and certain bank accounts that held certain Self-Help Homeownership Program and Preservation Revolving Loan Fund were closed, but the book balances were not written off. The balances were not material to the financial statements, so no audit adjustments were proposed. Raffa recommends that all general ledger accounts included in cash and investments be reconciled on a monthly basis, and that any bank accounts that have been closed during the year be written off the books.

Documentation of Management Review – HAC has internal controls processes in place requiring the periodic review of various reports submitted to funders and government agencies. Raffa found that there was no evidence of review of quarterly reports or loan status reports from subrecipient by a program manager. Raffa recommends that all reviewers be reminded of the process which requires that all reviews be evidenced by initialing the documents reviewed once the management review had taken place.

- Bank Statement Review – The 2017 Bank statements were forwarded directly to HAC finance division for reconciliation. Cash is the most liquid asset of an organization and is subject to theft. It is important that controls around cash be adequate. HAC processes a large number of check and cash transactions annually. Raffa recommends that HAC implement a "positive pay" system. Under this system, the bank is provided with a list of every cash disbursement that HAC intends to pay by payee and amount, so that the bank can verify that the check presented is authentic and approved by HAC as an actual cash disbursement. This will help to mitigate any problems of theft.
- Temporarily restricted grants - The auditors identified two grants that were received for programmatic purpose but were not properly classified as restricted grants and included in the temporarily restricted net assets schedule. Raffa recommends that procedures be established to review all grant agreements and awards to determine if

any donor restrictions have been imposed. In instances in which the grant or award contains a specific purpose or is restricted for a time period, the grant should be recorded as temporarily restricted and the funds only released as the restrictions are satisfied.

- Loan Program - A loan was disbursed to a borrower on September 2017, but the related revenue was not recognized in trial balance or financial statements. HAC policy is that when a loan is disbursed, the revenue is earned and a receivable from HUD and revenue related to the loan should be recognized. By not recognizing the revenue, the balances were understated, and the receivable was understated as well. RAFFA recommends an adjustment be made to this loan and recognize the revenue. HAC should follow its policy and recognize revenue when a loan is disbursed from HUD funds.
- Prior Year Comments – During the audit of HAC’s financial statements for the year ended September 30, 2016, Raffa noted a matter involving the internal control structure and its operation. The related comment, which was not fully addressed as of September 30, 2017, has been updated accordingly and is repeated as applicable again this year.
- Disbarment and Suspension. Raffa noted that management has no documentation for noting debarment or suspension process. Raffa recommends a policy should be developed and any of these items should be documented.

QUESTIONS/COMMENTS

L. Buxbaum mentioned that she thought the audit was delayed due to its late completion not because of a lack of reporting requirements. K. Robertson stated that was a finding for 2016, not this audit. L. Buxbaum continued that due to report date, if the audit is not complete, how can you submit it? K. Robertson stated that she understood the point and will change that comment within the report.

P. Carey asked if there were any concerns regarding journal entry number 10 that extends for several pages. Raffa did not express undue concern.

Raffa continued the audit report with FASB updates which included Leases, Not-for-Profit Entities, and Tax Act which now requires compensation of 21 percent excise tax on NPO’s with employees earning compensation in excess of \$1 million per year.

Raffa, completed the presentation and thanked the HAC team for its cooperation and patience. K. Klusmann thanked the Raffa team for their work on HAC’s 2017 audit and for their patience with the transition. It was very much appreciated.

T. Manning-Beavin noted that the presentation was very thorough and would ask that RAFFA present to the full board in May. S. Ferniza and N. Scipio concurred.

S. Ferniza recommended that HAC have a session at the May meeting that educates the board on current audit practices. T. Manning-Beavin asked if this should be done with the committee and the full board?

L. Buxbaum suggested that the Finance & Resource Development discuss first to prepare for the board's session.

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S. Ferniza moved and N. Scipio seconded to accept the Audit report as presented. The motion carried unanimously.

With no further business, the teleconference of the Finance & Resource Development Committee audit review adjourned at 5:45 on April 19th, 2018.

Respectfully Reviewed by:

Tom Manning-Beavin, Treasurer