

AUDIT REPORT  
AND  
SUPPLEMENTAL DATA FOR  
HOUSING AUTHORITY OF THE CITY OF COMMERCE  
COMMERCE, OKLAHOMA

JUNE 30, 2012

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HOUSING AUTHORITY OF THE CITY OF COMMERCE  
COMMERCE, OKLAHOMA  
JUNE 30, 2012

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Housing Authority of the City of Commerce  
Commerce, Oklahoma

We were engaged to audit the accompanying financial statements of the Housing Authority of the City of Commerce, as of and for the fiscal year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the Housing Authority of the City of Commerce's management.

Past management, which was removed in January 2012, imposed restrictions on access to financial records, or did not maintain adequate accounting records. Substantially all of the Authority's books of original entry; the subsidiary ledgers; related accounting manuals; records such as work sheets and spreadsheets supporting cost allocations, computations, and reconciliations; as well as substantially all corroborating evidence in support of the financial statements cannot be located by current management. Current management has tried unsuccessfully to locate additional financial records. However, because of the inadequate recordkeeping of past management, no other documents can be located. The records that remain are not sufficient to permit the application of auditing procedures that would be adequate for us to express an opinion on the accompanying financial statements, and therefore, we do not express an opinion on these financial statements.

In accordance with Government Auditing Standards, we have also issued our report dated August 23, 2013, on our consideration of the Housing Authority of the City of Commerce's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in compliance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Housing Authority of the City of Commerce has implemented the general provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34. However the Authority has not presented the Management's Discussion and Analysis required by the Governmental Accounting Standards Board (GASB) that the GASB has determined is necessary to supplement, although not required to be part of, the basic financial statements.

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The accompanying financial information listed as supplemental data in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Housing Authority of the City of Commerce. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

*Kershaw CPA & Associates, P.C.*

Kershaw CPA & Associates, PC

August 23, 2013

HOUSING AUTHORITY OF THE CITY OF COMMERCE  
 COMMERCE, OKLAHOMA  
 STATEMENT OF NET ASSETS  
 JUNE 30, 2012

	2012
<b><u>ASSETS</u></b>	
<b><u>Current Assets:</u></b>	
Cash - Unrestricted	\$ 53,337
Cash - Tenant Security Deposits	5,372
Accounts Receivable:	
Tenants, Net of Allowance for Doubtful Accounts	6,969
HUD	5,346
Prepaid Expenses	14,067
Inventory, Net of Allowance for Obsolete	826
Other Receivables	186
Total Current Assets	86,103
<b><u>Noncurrent Assets:</u></b>	
Capital Assets, Net of Depreciation	418,251
Total Noncurrent Assets	418,251
TOTAL ASSETS	\$ 504,354
<b><u>LIABILITIES &amp; NET ASSETS</u></b>	
<b><u>Current Liabilities:</u></b>	
Accounts Payable	\$ 11,448
Tenant Security Deposits	5,372
PILOT Liability	26,010
Accrued Employee Leave	-
Prepaid Tenant Rents	1,907
Employee Withholding	3,773
Total Current Liabilities	48,509
<b><u>Noncurrent Liabilities:</u></b>	
Accrued Compensated Absences - Long-Term	-
Total Noncurrent Liabilities	-
TOTAL LIABILITIES	48,509
<b><u>NET ASSETS</u></b>	
Invested in capital assets, net of related debt	418,251
Restricted for debt service	5,372
Unrestricted	32,222
TOTAL NET ASSETS	455,845
TOTAL LIABILITIES AND NET ASSETS	\$ 504,354

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

**HOUSING AUTHORITY OF THE CITY OF COMMERCE  
COMMERCE, OKLAHOMA  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN TOTAL NET ASSETS  
FOR THE TWELVE MONTHS ENDED JUNE 30, 2012**

	2012
<b><u>OPERATING REVENUE:</u></b>	
Dwelling Rental	\$ 67,279
HUD Operating Subsidies	50,563
Capital Grants	182,387
Other Income	13,035
Total Operating Revenue	313,264
<b><u>OPERATING EXPENSES:</u></b>	
Administration	68,833
Tenant Services	-
Utilities	15,873
Ordinary Maintenance	62,427
Protective Services	33
Insurance	11,188
General	33,532
Extraordinary Maintenance	-
Other Expenses	-
Depreciation	32,080
Total Operating Expenses	223,965
NET OPERATING INCOME (LOSS)	89,298
<b><u>NON-OPERATING REVENUES (EXPENSES):</u></b>	
Interest Income	87
Interest Expense	-
NET NON-OPERATING REVENUES (EXPENSES)	87
CHANGE IN NET ASSETS	89,385
TOTAL NET ASSETS, BEGINNING OF YEAR	365,660
PRIOR YEAR ADJUSTMENTS	800
TOTAL NET ASSETS, END OF YEAR	\$ 455,845

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

HOUSING AUTHORITY OF THE CITY OF COMMERCE  
 COMMERCE, OKLAHOMA  
 STATEMENT OF CASH FLOWS  
 FOR THE TWELVE MONTHS ENDED JUNE 30, 2012

	2012
<b><u>Net Cash Flows from Operating Activities:</u></b>	
Cash From Dwelling Rentals	\$ 72,738
Cash From HUD and Other Sources	245,985
Cash Payments for Laborers and Suppliers	(208,987)
Net Cash Provided (Used) by Operating Activities	109,735
<b><u>Net Cash Flows from Capital &amp; Related Financing Activities:</u></b>	
Additions to Capital Assets	(69,757)
Principal Payments on Long-Term Debt	-
Interest Paid On Long-Term Debt	-
Net Cash Provided (Used) by Capital & Related Financing Activities	(69,757)
<b><u>Net Cash Flows from Investing Activities:</u></b>	
(Increase)Decrease in Investments	-
Interest Income	87
Net Cash Provided (Used) by Investing Activities	87
Net Increase (Decrease) in Cash and Cash Equivalents	40,065
Cash & Cash Equivalents, Beginning of Year	18,644
Cash & Cash Equivalents, Prior Year Adjustment	-
Cash & Cash Equivalents, End of Year	\$ 58,709
<b><u>Reconciliation of operating income (loss) to net cash provided</u></b>	
<b><u>operating activities:</u></b>	
Net Operating Income (Loss)	\$ 89,298
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities	
Depreciation	32,080
(Increase)Decrease in Receivables	4,333
(Increase)Decrease in Prepaid Expenses	(3,423)
Increase(Decrease) in Accounts Payable	(17,491)
Increase(Decrease) in Tenant Security Deposits	276
Increase(Decrease) in Prepaid Rents	1,126
Increase(Decrease) in Other Liabilities	3,537
Net Cash Provided (Used) by Operating Activities	\$ 109,735

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

HOUSING AUTHORITY OF THE CITY OF COMMERCE  
COMMERCE, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - The Housing Authority of the City of Commerce, Oklahoma is a non-profit governmental organization which was organized under the laws of the State of Oklahoma to provide housing for qualified individuals in accordance with the rules and regulations prescribed by HUD.

Reporting Entity - The PHA's financial statements include all of the Housing Authority's operations. The criteria for including organizations as component units within the PHA's reporting entity include whether:

1. The organization is legally separate (can be sued in their own name).
2. The PHA holds the corporate powers of the organization.
3. The PHA appoints a voting majority of the organizations board.
4. The organization has the potential to impose a financial benefit/burden on the PHA.
5. There is fiscal dependency by the organization on the PHA.

Based on these criteria, the PHA has no component units.

Basis of Accounting - The PHA uses fund accounting and all funds are of the proprietary fund type. Proprietary funds use the economic resources measurement focus. The accounting objectives are determination of net income, financial position, and cash flows. All assets and liabilities associated with a proprietary fund's activities are included on the statement of net assets. Proprietary fund net assets are segregated into Invested in Capital Assets, Net of Related Debt, Restricted for Debt Services and Unrestricted.

The financial statements of the Housing Authority are prepared in accordance with generally accepted accounting principles (GAAP). The Housing Authority's reporting entity applies to all relevant *Governmental Accounting Standards Board (GASB)* pronouncements. Proprietary funds and similar component units apply to *Financial Accounting Standards Board (FASB)* pronouncements and *Accounting Principles Board (APB)* opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict *GASB* pronouncements, in which case, *GASB* prevails.

Basis of Presentation - The financial statements of the Housing Authority have been prepared using the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recorded when the liability is incurred. The financial statements of this audit report were prepared using the following fund types:

Proprietary Fund Types:

Enterprise Funds - Enterprise funds are used to account for the acquisition, operation, and maintenance of the Housing Authority, which are financed primarily by tenant rents. The Housing Authority used an enterprise fund to account for all of its operations.

Cash and Cash Equivalents - The Housing Authority's deposits with financial institutions are fully insured or collateralized by securities held by the Housing Authority or its agent in the Housing Authority's name. For purposes of the statement of cash flows, all investment instruments purchased with a maturity of three months or less are considered to be cash equivalents.



HOUSING AUTHORITY OF THE CITY OF COMMERCE  
COMMERCE, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

Capital Assets - Capital assets, which include, property, plant and equipment are reported in the financial statements. The Housing Authority capitalizes assets with an initial cost of \$25 and a useful life of more than one year. The assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed and reported as construction in progress. Property, plant, and equipment of the Housing Authority is depreciated using the straight line method over the following useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Building improvements	7-15
Equipment and vehicles	5

Risk Management - Significant losses are covered by commercial insurance for all significant Authority operations.

Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 - DEPOSITS AND INVESTMENTS

The Housing Authority's cash balance and investments consist of demand deposits and time deposits maintained at financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). The Housing Authority may invest funds in accordance with HUD guidelines as referenced by the Financial Management Handbook.

For purposes of the Statement of Cash Flows, the Housing Authority considers all highly liquid investments to be cash equivalents. All certificates of deposit, other time deposits and investments are considered cash equivalents.

Custodial Credit Risk

At June 30, 2012, the Authority held deposits of approximately \$58,709 at financial institutions. The Authority's cash deposits, including interest-bearing certificates of deposit are covered by Federal Depository Insurance (FDIC) or collateralized with securities held by the Authority or by its agent in the Authority's name.

Investment Interest Rate Risk

The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

HOUSING AUTHORITY OF THE CITY OF COMMERCE  
 COMMERCE, OKLAHOMA  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2012

Investment Credit Risk

The Authority has no policy that limits its investment choices other than the limitation of state law as follows:

- a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of deposits or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c. With certain limitation, negotiable certificates of deposit, prime bankers' acceptances, prime commercial paper and repurchase agreements with certain limitations.
- d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district.
- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a.-d.).

NOTE 3 - CAPITAL ASSETS

A summary of the capital asset activity is as follows:

	Balance at June 30, 2011	Additions	Deductions	Reclass/ Transfers	Balance at June 30, 2012
Non-depreciable assets:					
Land	\$ 24,270	\$ -	\$ -	\$ -	\$ 24,270
Construction in Progress	78,634	61,917	-	-	140,552
Total non-depreciable assets	<u>\$ 102,904</u>	<u>\$ 61,917</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 164,822</u>
Depreciable assets:					
Dwelling Structures	1,231,458	-	-	-	1,231,458
Dwelling Equipment	17,250	1,200	-	-	18,450
Non-Dwelling Structures	69,070	-	-	-	69,070
Office Equipment	6,186	590	-	-	6,776
Maintenance Equipment	14,059	6,050	(7,510)	-	12,599
Total depreciable assets	<u>1,338,023</u>	<u>7,840</u>	<u>(7,510)</u>	<u>-</u>	<u>1,338,353</u>
Less: Accum. Depreciation	<u>(1,060,354)</u>	<u>(32,080)</u>	<u>7,510</u>	<u>-</u>	<u>(1,084,924)</u>
Total depreciable assets, net	277,669	(24,240)	-	-	253,429
Total Capital Assets, Net	<u><u>\$ 380,573</u></u>	<u><u>\$ 37,677</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 418,251</u></u>

NOTE 4 - BUDGET PROCESS

The PHA prepares budgets for all HUD programs. These budgets are approved by the Board of Commissioners and by HUD. Appropriations for operating funds lapse at the end of the fiscal year. Capital fund budgets carry over until the project is completed.

HOUSING AUTHORITY OF THE CITY OF COMMERCE  
COMMERCE, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

NOTE 5 - ECONOMIC DEPENDENCY

The Housing Authority receives a significant portion of its revenue from funds provided through federal grants. The grant amounts are appropriated each year at the federal level. If significant budget cuts are made at the federal level, the amount of the funds the Housing Authority receives could be reduced significantly, and have an adverse impact on its operations. Management is not aware of any actions that will adversely affect the amount of funds the Housing Authority will receive in the next fiscal year.

NOTE 6 - RETIREMENT PLAN

The Housing Authority does not participate in a retirement plan.

NOTE 7 - INTERPROGRAM ACCOUNTS

Inter-program receivables and payables arise from Inter-program transactions and are recorded by all programs affected in the period in which transactions are executed. These receivables and payables are eliminated for presentation of the financial statements.

NOTE 8 - FEDERAL GRANTS

In the normal course of operations, the PHA receives grant funds from various governmental agencies. These grant programs are subject to audit by agents of the granting agency. The purpose of which is to ensure compliance with the provisions of the granting agency. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

NOTE 9 - SUBSEQUENT EVENTS

Warrants were issued in March 2013 for former Authority employees who are charged with embezzlement.

The PHA did not have any other subsequent events through the date the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year ending June 30, 2012.

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## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors  
Housing Authority of the City of Commerce  
Commerce, Oklahoma

We were engaged to audit the financial statements of the Housing Authority of the City of Commerce, as of June 30, 2012 and have issued our report thereon dated August 23, 2013, which was a disclaimer of opinion because inadequate accounting records precluded us from performing sufficient audit procedures on the financial statements. The Housing Authority of the City of Commerce has implemented the general provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34, except that the Authority did not present the required MD&A.

### Internal Control Over Financial Reporting

Management of the Housing Authority of the City of Commerce is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Housing Authority of the City of Commerce's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Housing Authority of the City of Commerce's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Housing Authority of the City of Commerce's internal control over financial reporting.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the

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accompanying Schedule of Findings as Items 12-01, 12-03, 12-04, 12-05, 12-06, 12-07 & 12-08 to be material weaknesses.

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. We consider the deficiencies described in the accompanying Schedule of Findings as Item 12-02 to be a significant deficiency.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Housing Authority of the City of Commerce's financial statements are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly we do not express such an opinion. The results of our test disclosed instances of noncompliance that are required to be reported under Government Auditing Standards, which are described in the accompanying Schedule of Findings as Items 12-09, 12-10, 12-11 and 12-12. The results of our tests disclosed no instances of "Other Matters" that are required to be reported under *Government Auditing Standards*.

The Authority's response to the findings identified in our audit is described in the accompanying Schedule of Findings. We did not audit the Authority's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the board of directors and management of the Housing Authority of the City of Commerce, Commerce, Oklahoma, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Kershaw CPA & Associates, P.C.*  
Kershaw, CPA & Associates, PC

August 23, 2013

HOUSING AUTHORITY OF THE CITY OF COMMERCE  
COMMERCE, OKLAHOMA  
SCHEDULE OF FINDINGS  
JUNE 30, 2012

INTERNAL CONTROL FINDINGS:

Item 12-01: Management-Imposed Restrictions on Access to Financial Records

Criteria: It is important to have efficient response from management to facilitate the audit process, and keep the Board informed about the operation of the Authority. Extensive audit work including preliminary audit planning, analytical procedures, field work, and limited substantive audit testing must be followed by additional audit testing in accordance with professional auditing standards.

Condition: Past management, which was removed in January 2012, did not maintain adequate accounting records. Current management has tried unsuccessfully to locate additional financial records. However, because of the inadequate recordkeeping of past management no other documents can be located.

Cause: Inadequate Accounting Records

Effect: Since audit documentation is an essential element of an audit performed in accordance with generally accepted auditing standards, the auditor cannot state that he or she has performed an audit in accordance with generally accepted auditing standards without the required audit documentation.

Recommendation: The governing body should be aware of the increased risk and develop policies and procedures to reduce the effect of the internal control deficiency.

Response: The Authority has new management which is maintaining the current accounting records.

Item 12-02: Segregation of Duties

Criteria: The segregation of duties is important to have adequate control over financial assets.

Condition: The Authority has the same employees performing work normally segregated between two or more employees, including receiving funds and posting those funds to the Authority's books.

HOUSING AUTHORITY OF THE CITY OF COMMERCE  
COMMERCE, OKLAHOMA  
SCHEDULE OF FINDINGS  
JUNE 30, 2012

Cause: The Authority's small size limits the amount of staffing needed to properly segregate accounting functions.

Effect: The lack of segregation of duties could increase the risk that misstatements material to the financial statements could occur and not be detected within a timely manner.

Recommendation: The lack of segregation of duties is a common deficiency in small entities. The governing body should be aware of the increased risk and develop policies and procedures to reduce the effect of the internal control deficiency.

Response: The Board will continue to be actively involved in the operations of the organization. The Authority's small size and limited funding restricts the amount of staff needed for proper segregation.

Item 12-03: Contract Labor

Criteria: Internal control refers to the methods and procedures used to provide reasonable assurance regarding the achievement of objectives in the following categories: Safeguarding assets, Ensuring validity of financial records and reports, Promoting adherence to policies, procedures, regulations and laws, and Promoting effectiveness and efficiency of operations. Internal control also refers to how an entity processes, summarizes and records the financial transactions. In general terms, internal controls are simply good business practices.

Condition: The Authority did not have strong internal controls in place for verification of work completed by laborers.

Cause/Effect: Due to the weak internal control system, a breach of internal controls could occur. Contract labor which was authorized and paid could not be verified as to whether or not it had been completed or in some instance even started.

Recommendation: All contract labor should be documented and specifically identified as to specific dates completed. The Board should continue to be actively involved in the operations of the Authority.

HOUSING AUTHORITY OF THE CITY OF COMMERCE  
COMMERCE, OKLAHOMA  
SCHEDULE OF FINDINGS  
JUNE 30, 2012

Response: Past management which was responsible for such functions is no longer with the Authority.

Item 12-04: Debit Card Transactions

Criteria: Same as Item 12-03 above.

Condition: The Authority did not have strong internal controls in place for safeguarding its assets (i.e. cash), and in some instances internal control is virtually non-existent.

Cause/Effect: Due to the weak internal control system, a breach of internal controls could occur. Debit card transactions shown on the bank statements for the operating account 33939 are not supported with receipt documentation or evidence of approval of the related transactions. Examples of transactions that could not be verified included payments to motels and to PayPal.

Recommendation: To increase controls over disbursements, all expenses should be documented with the supporting invoice and evidence of approval of payment of the invoice.

Response: Past management which was responsible for such functions is no longer with the Authority.

Item 12-05: Credit Card Transactions

Criteria: Same as Item 12-03 above.

Condition: The Authority did not have strong internal controls in place for safeguarding its assets (i.e. cash), and in some instances internal control is virtually non-existent.

Cause/Effect: Due to the weak internal control system, a breach of internal controls could occur. The bank statements showed checks written to Capital One and Bank of America. The credit card statements for these transactions were not available for review and it is unknown if these were credit cards in the Authority's name or personal credit cards of the employees.



HOUSING AUTHORITY OF THE CITY OF COMMERCE  
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JUNE 30, 2012

Recommendation: To increase controls over disbursements, all expenses should be documented with the supporting invoice and evidence of approval of payment of the invoice.

Response: Past management which was responsible for such functions is no longer with the Authority.

Item 12-06: Accounts Receivable

Criteria: Same as Item 12-03 Above.

Condition: The Authority did not have strong internal controls in place for promoting effectiveness and efficiency of operations and in some instances internal control is virtually non-existent.

Cause/Effect: Due to the weak internal control system, the Authority's hard copy reports and computer data for tenant accounts receivable do not match and it is unclear as to which, if any, of the data are correct.

Recommendation: The Authority needs to reconcile all reports and not have any discrepancies.

Response: Past management which was responsible for such functions is no longer with the Authority.

Item 12-07: Management Oversight

Criteria: Same as Item 12-03 Above.

Condition: The Authority did not have strong internal controls in place for promoting effectiveness and efficiency of operations and in some instances internal control is virtually non-existent.

Cause/Effect: Past management was able to operate the Authority with little or no oversight.

Recommendation: The Board needs to be actively involved in the operations of the Authority.

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Response: Past management which was responsible for such functions is no longer with the Authority.

Item 12-08: Employee Paychecks

Criteria: Same as Item 12-03 above.

Condition: The Authority did not have strong internal controls in place for safeguarding its assets (i.e. cash), and in some instances internal control is virtually non-existent.

Cause/Effect: Due to the weak internal control system, a breach of internal controls could occur. Employee paychecks were being written without supporting documentation and approval.

Recommendation: To increase controls over payroll, all expenses should be documented with the supporting documentation and evidence of approval of payment.

Response: Past management which was responsible for such functions is no longer with the Authority.

COMPLIANCE FINDINGS:

Item 12-09: Security Deposit Account

Criteria: A separate federally insured account is to be maintained for tenant security deposits.

Condition: The Authority does not maintain a separate account for tenant security deposits. However, during the current fiscal year, the Authority began showing a restricted balance equal to the liability in its general ledger.

Effect: There are no restricted funds to sufficiently cover the related liability of \$5,372.

Recommendation: The Authority should maintain a separate restricted account to cover the security deposits.

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Response/Corrective Action Plan: The Authority has been notified and the situation will be corrected.

Item 12-10: Tenant Eligibility and Selection

Criteria: The Authority is required by HUD to comply with certain laws and regulations.

Condition: The Authority has not complied with all HUD requirements.

Cause/Effect: The Authority did not maintain adequate documentation for such items as accepting applications, determining eligibility, maintaining waiting lists, rejecting applicants, and recertifying tenants. The Authority also did not have available a HUD approved Affirmative Fair Housing Marketing Plan or information relating to the Authority's marketing efforts.

Recommendation: All documentation relating to the above items should be maintained in accordance with HUD guidelines.

Response: Past management which was responsible for such functions is no longer with the Authority.

Item 12-11: Payroll Reporting and Compliance

Criteria: The Authority is required to withhold one half social security tax and applicable federal and state income tax from gross wages and timely remit such funds to the United States Treasury, the Oklahoma Tax Commission and the OESC. Reporting payroll activity on IRS forms 941, Oklahoma forms OW-8, OES-3 is required at various periods during the year, monthly, quarterly or annually.

Condition: The Authority had payroll tax balances from previous years.

Cause/Effect: The unpaid balances have left the Authority subject to additional tax liability, penalties, and interest charges by the taxing agencies.

Recommendation: The Authority needs to get in compliance with the federal and state payroll tax requirements.

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Response: Past management which was responsible for such functions is no longer with the Authority.

Item 12-12: Board Meeting Minutes

Criteria: The Authority is required by Oklahoma law to comply with certain laws and regulations.

Condition: Past Authority management did not have strong internal controls in place to document and maintain a complete set of official, Board-approved meeting minutes.

Cause/Effect: Failure to document and maintain a complete set of official, Board-approved meeting minutes could result in misleading or misrepresented conclusions regarding management decisions by public officials, media, law enforcement, and concerned citizens who have a right to know that the Authority has complied with every respect with Oklahoma's Open Meeting Act.

Recommendation: The Authority needs to get in compliance with these requirements.

Response: Past management which was responsible for such functions is no longer with the Authority.

**HOUSING AUTHORITY OF THE CITY OF COMMERCE  
COMMERCE, OKLAHOMA  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
JUNE 30, 2012**

<u>Federal Grantor/ Program Title</u>	<u>Federal CFDA No.</u>	<u>Agency Number</u>	<u>Federal Expenditures</u>
<b>U.S. Department of Housing and Urban Development:</b>			
<b>Direct Programs</b>			
Low Rent Public Housing	14.850	OK063	\$ 50,563
Public Housing Capital Fund Program	14.872	OK063	170,264
Public Housing Capital Fund Program (ARRA)	14.872	OK063	12,123
<b>Total</b>			<b><u>\$ 220,827</u></b>

**HOUSING AUTHORITY OF THE CITY OF COMMERCE  
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NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
JUNE 30, 2012**

**NOTE 1 - GENERAL**

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards of the Housing Authority of the City of Commerce, Oklahoma (the "Housing Authority"). The Housing Authority reporting entity is defined in Note 1 to the Housing Authority's basic financial statements. Federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on the schedule.

**NOTE 2 - BASIS OF ACCOUNTING**

The accompanying Schedule of Expenditures of Federal Awards is present using the accrual basis of accounting, which is described in Note 1 to the Housing Authority's basic financial statements.

**NOTE 3 - RELATIONSHIP TO BASIC FINANCIAL STATEMENTS**

Federal awards revenues are reported in the Housing Authority's basic financial statements as follows:

		<u>Federal Sources</u>
General		\$ 220,827
Total		<u>\$ 220,827</u>

**NOTE 4 - RELATIONSHIP TO FEDERAL FINANCIAL REPORTS**

Amounts reported in the accompanying schedule agree with the amounts reported in the related federal financial reports except for changes made to reflect amounts in accordance with generally accepted accounting principles.

HOUSING AUTHORITY OF THE CITY OF COMMERCE  
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 STATEMENT AND CERTIFICATION OF CAPITAL FUND PROJECT  
 JUNE 30, 2012

The 2007, 2008, 2009, 2009(ARRA), 2010 and 2011 Capital Fund Programs were completed during the fiscal year ending June 30, 2012. These programs were completed with no budget overruns.

The following is a summary of the Capital Fund Program activity for the fiscal year ending June 30, 2012:

2007 Capital Fund Program

OK56P063501-07 Classification	Y-T-D	Project To Date	Budget	Variance
1406 Operations	\$ 35,956	\$ 36,756	\$ 1,500	\$ (35,256)
1410 Administration	-	813	700	(113)
1430 Fees and Costs	-	-	2,500	2,500
1450 Site Improvement	-	3,000	-	(3,000)
1460 Dwelling Structures	-	-	37,475	37,475
1465 Dwelling Equipment	-	1,606	-	(1,606)
Total Capital Grant Cost	<u>\$ 35,956</u>	<u>\$ 42,175</u>	<u>\$ 42,175</u>	<u>\$ -</u>
Advances Received	<u>\$ 35,956</u>	<u>\$ 42,175</u>		

2008 Capital Fund Program

OK56P063501-08 Classification	Y-T-D	Project To Date	Budget	Variance
1406 Operations	\$ -	\$ -	\$ 8,555	\$ 8,555
1408 Management Improvements	-	-	1,500	1,500
1410 Administration	-	291	1,500	1,209
1430 Fees and Costs	2,749	2,749	5,000	2,251
1440 Site Acquisition	-	12,640	-	(12,640)
1450 Site Improvement	-	8,900	-	(8,900)
1460 Dwelling Structures	-	15,348	33,673	18,325
1465 Dwelling Equipment	-	10,301	-	(10,301)
1475 Non-Dwelling Equipment	-	-	-	-
Total Capital Grant Cost	<u>\$ 2,749</u>	<u>\$ 50,228</u>	<u>\$ 50,228</u>	<u>\$ 0</u>
Advances Received	<u>\$ 2,749</u>	<u>\$ 50,228</u>		

HOUSING AUTHORITY OF THE CITY OF COMMERCE  
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 STATEMENT AND CERTIFICATION OF CAPITAL FUND PROJECT  
 JUNE 30, 2012

2009 Capital Fund Program

<u>OK56P063501-09</u>		Project		
<u>Classification</u>	<u>Y-T-D</u>	<u>To Date</u>	<u>Budget</u>	<u>Variance</u>
1406 Operations	\$ -	\$ -	\$ 17,375	\$ 17,375
1408 Management Improvements	-	-	1,500	1,500
1410 Administration	-	-	1,000	1,000
1430 Fees and Costs	2,237	2,237	4,000	1,763
1450 Site Improvement	-	-	10,000	10,000
1460 Dwelling Structures	43,638	43,638	12,000	(31,638)
Total Capital Grant Cost	<u>\$ 45,875</u>	<u>\$ 45,875</u>	<u>\$ 45,875</u>	<u>\$ -</u>
Advances Received	<u>\$ 45,875</u>	<u>\$ 45,875</u>		

2009 ARRA Capital Fund Program

<u>OK56P063501-08</u>		Project		
<u>Classification</u>	<u>Y-T-D</u>	<u>To Date</u>	<u>Budget</u>	<u>Variance</u>
1410 Administration	\$ -	\$ 69	\$ 100	\$ 31
1430 Fees and Costs	1,761	1,761	1,500	(261)
1460 Dwelling Structures	10,362	61,748	61,978	230
Total Capital Grant Cost	<u>\$ 12,123</u>	<u>\$ 63,578</u>	<u>\$ 63,578</u>	<u>\$ (0)</u>
Advances Received	<u>\$ 12,123</u>	<u>\$ 63,578</u>		

2010 Capital Fund Program

<u>OK56P063501-10</u>		Project		
<u>Classification</u>	<u>Y-T-D</u>	<u>To Date</u>	<u>Budget</u>	<u>Variance</u>
1406 Operations	\$ 44,369	\$ 44,369	\$ -	\$ (44,369)
1408 Management Improvements	-	-	9,108	9,108
1410 Administration	-	-	4,554	4,554
1430 Fees and Costs	1,171	1,171	-	(1,171)
1502 CFP Reserved Budget	-	-	31,878	31,878
Total Capital Grant Cost	<u>\$ 45,540</u>	<u>\$ 45,540</u>	<u>\$ 45,540</u>	<u>\$ -</u>
Advances Received	<u>\$ 45,540</u>	<u>\$ 45,540</u>		

2011 Capital Fund Program

<u>OK56P063501-11</u>		Project		
<u>Classification</u>	<u>Y-T-D</u>	<u>To Date</u>	<u>Budget</u>	<u>Variance</u>
1406 Operations	\$ 40,144	\$ 40,144	\$ 40,144	\$ -
Total Capital Grant Cost	<u>\$ 40,144</u>	<u>\$ 40,144</u>	<u>\$ 40,144</u>	<u>\$ -</u>
Advances Received	<u>\$ 40,144</u>	<u>\$ 40,144</u>		