



Agency Report

38

SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

May 4, 1981

CITY MANAGER'S OFFICE
RECEIVED
MAY 6 1981

Housing Authority of the
City of Sacramento
Redevelopment Agency of the
City of Sacramento
Sacramento, California

FILED
SACRAMENTO HOUSING AUTHORITY

Honorable Members in Session:

Date 5-14-81

SUBJECT: Review and Compilation of Financial Statements and
Management Letter, Ernst & Whinney, June 30, 1980

SUMMARY

In a contract dated January 2, 1981 the firm of Ernst & Whinney was engaged to prepare comprehensive financial statements for the Agency and to submit a management letter containing comments and recommendations concerning the Agency's accounting system. These documents have now been received and are attached for review.

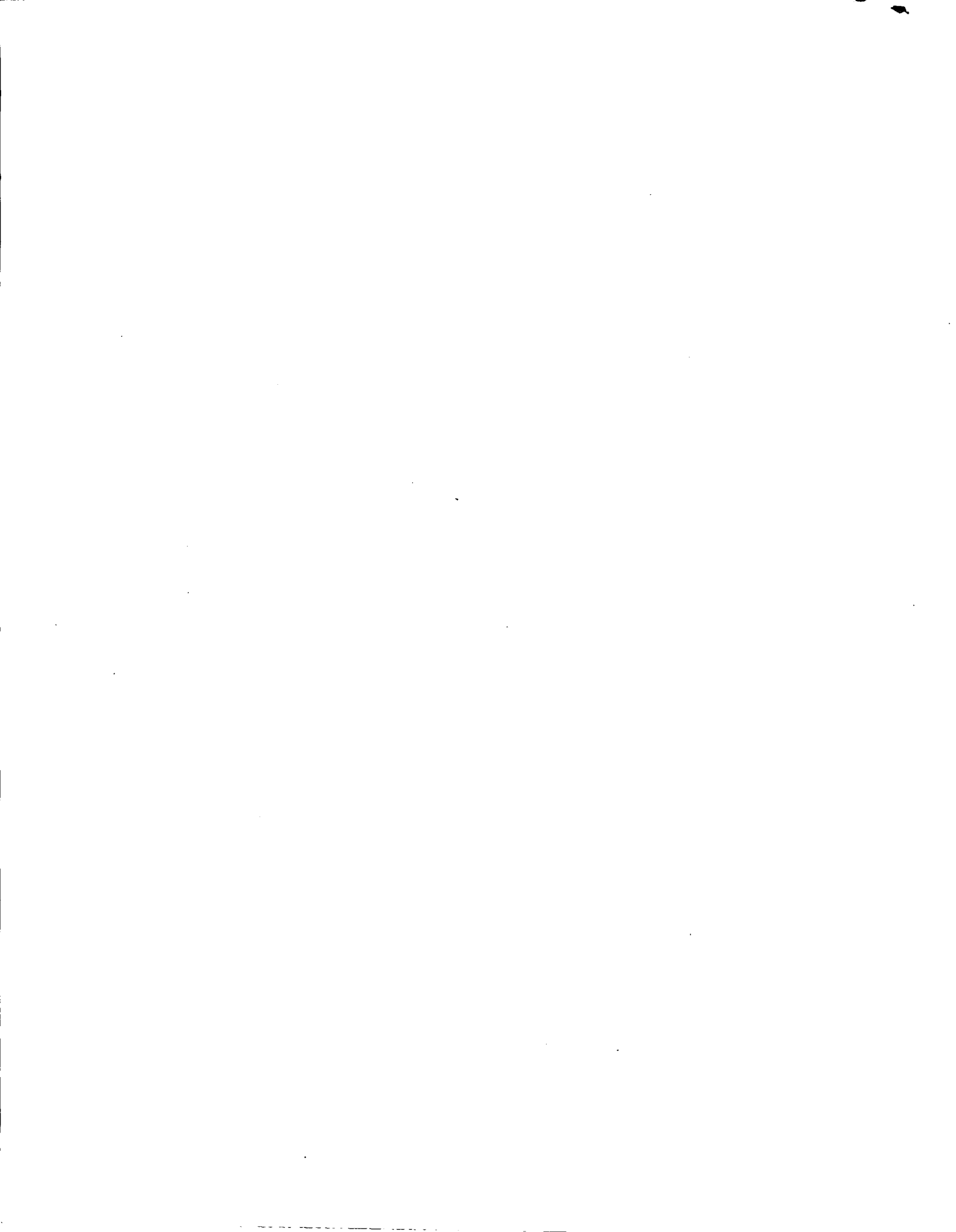
BACKGROUND

In April 1980 the firm of Ernst & Whinney was engaged to perform various audits for the Agency for the next five years. In late 1980, it was recommended by the Interim Executive Director that, in addition to the performance of the various specified audits, Ernst & Whinney should also be engaged to perform a comprehensive review and compilation of all Agency financial statements, including a management letter containing their observations and recommendation. A contract with Ernst & Whinney was subsequently approved by the governing bodies.

In the past, the Sacramento Housing and Redevelopment Agency has had numerous audit examinations of specific programs and projects throughout the year. However, the Agency has never had a comprehensive audit examination for all of the activities administered by the organization at one time.

The objective of an overall review is to provide information concerning the total resources of the organization, the total commitments of the Agency, and the flow of funds to and from the Agency. In addition, the overall review will furnish a valuable base for future comprehensive audits.

5-14-81
All Districts



SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

Housing Authority of the
City of Sacramento
Redevelopment Agency of the
City of Sacramento
May 4, 1981
Page Two

The difference between a "review and compilation" and an audit is that an audit entails a detailed verification and confirmation of account balances. A review and compilation does not confirm or attest to account balances, but compiles summary financial statements from the records of the Agency. However, an accurate picture of the true financial status of the Agency is possible through this approach. The benefits of a comprehensive review by an external audit firm are: (1) Obtaining objective recommendations for improvements of our procedures for recording, classifying, summarizing transactions and accumulating financial information; (2) Analytically testing transactions to determine reasonableness of SHRA's resources received and used; and (3) Preparing overall financial statements to show the overall financial status of the Agency.

The comprehensive financial statements and the management letter have been received and are submitted for your review. Also attached is a copy of staff response to the management letter. The financial statements have been reviewed by staff and meet with approval. Agency staff also generally concurs with the auditor's comments contained in the management letter. Many of the recommendations were, in fact implemented prior to or during the review. Some are currently being implemented, while others can be only partially carried out because of contrary requirements of Agency funding sources. Agency staff will continue to automate and upgrade the Agency's financial systems wherever possible.

VOTE AND RECOMMENDATION OF COMMISSION

At its meeting of May 4, 1981 the Sacramento Housing and Redevelopment Commission adopted a motion recommending acceptance and filing of the Financial Statements, Management Letter and staff response to the Management Letter. The votes were recorded as follows:

AYES:	Coleman, Fisher, Knepprath, Luevano, A. Miller, Walton, B. Miller
NOES:	None
ABSENT:	Serna, Teramoto



SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

Housing Authority of the
City of Sacramento
Redevelopment Agency of the
City of Sacramento
May 4, 1981
Page Three

RECOMMENDATION


The staff recommends acceptance and filing of the Financial Statements, Management Letter, and staff response to the Management Letter.

Respectfully submitted,



WILLIAM H. EDGAR
Interim Executive Director

TRANSMITTAL TO COUNCIL:


WALTER J. SLUPE
City Manager

Contact Person: Terry Wolford



Financial Statements

SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

June 30, 1980

TABLE OF CONTENTS

General Purpose Financial Statements (Unaudited)

Accountants' Compilation Report.	1
Combined Balance Sheet - All Fund Types and Account Groups	2
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - All Governmental Fund Types	4
Combined Statement of Revenues, Expenditures, and Changes in Retained Earnings - All Proprietary Fund Types.	5
Notes to Financial Statements.	6

Combining Financial Statements (Unaudited)

Combining Balance Sheet - All Special Revenue Funds.	17
Combining Balance Sheet - All Capital Project Funds.	18
Combining Balance Sheet - All Enterprise Funds	19
Combining Balance Sheet - All Trust and Agency Funds	20
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - All Special Revenue Funds	21
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - All Capital Projects Funds.	22
Combining Statement of Revenues, Expenditures, and Changes in Retained Earnings - All Proprietary Fund Types.	23

Ernst & Whinney

555 Capitol Mall, Suite 650
Sacramento, California 95814

916/447-3237

Sacramento Housing and
Redevelopment Agency
Sacramento, California

The financial statements, as listed in the accompanying table of contents, of the Sacramento Housing and Redevelopment Agency have been compiled by us.

A compilation is limited to presenting in the form of financial statements information that is the representation of management. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

Ernst & Whinney

Sacramento, California
March 31, 1981

COMBINED BALANCE SHEET - ALL FUND T
AND ACCOUNT GROUPS

SACRAMENTO HOUSING AND REDEVELOPMEN

June 30, 1980

	<u>Account Groups</u>		Total (Memorandum Only)
	General	Long-Term Debt	
ASSETS			
Cash			\$ 1,370,616
Cash with fiscal agent			28,256
Investments--Note B			19,990,488
Investments with fiscal agent--No			415,943
Security and trust deposits			307,301
Accounts receivable:			
Tenants			19,614
Notes and loans			2,929,339
Excess tax credits			37,574
Other			821,302
Due from other funds			5,232,805
Due from other governments			2,083,498
Prepaid expenses			201,120
Cost control			3,912,071
Restricted assets:			
Deposits with fiscal agent for replacements			71,052
Deposits with fiscal agent for debt amortization			12,257
HUD Annual contributions receive			1,890,893
Deposit with City of Sacramento			14,442
Fixed assets--Note C	798		65,708,637
Accumulated depreciation			(220,347)
Supplies inventory			9,203
Deferred charges - collection los			30,862
Amount available in Debt Service		\$ 420,469	420,469
Amount to be provided for retirem of general long-term debt		<u>4,436,065</u>	<u>4,436,065</u>
TOI	<u>798</u>	<u>\$4,856,534</u>	<u>\$109,723,460</u>

COMBINED BALANCE SHEET - ALL FUND
AND ACCOUNT GROUPS (Continued)

SACRAMENTO HOUSING AND REDEVELOPMENT

June 30, 1980

	<u>at Groups</u>	<u>Total</u>
	General Long-Term Debt	(Memorandum Only)
LIABILITIES AND FUND EQUITY		
LIABILITIES		
Accounts payable:		
Construction contracts		\$ 955,288
Other		1,036,900
Due to other funds		4,740,886
Due to other governments		308,505
Security and trust deposits		307,301
Contract retentions		42,230
Performance deposits		12,917
Lease payments payable		25,940
Notes and loans payable--Note D	\$ 125,534	22,102,352
Project notes payable--Note E		4,055,000
Deferred revenues		2,025,933
Mortgages payable--Note F		3,442,925
Matured interest payable		908,102
Revenue bonds payable--Note G	4,731,000	21,697,000
TOTAL LI	<u>4,856,534</u>	<u>61,661,279</u>
FUND EQUITY		
Contributed capital - from City		816,734
Investment in general fixed assg		22,089,798
Retained earnings:		
Reserved for restricted asset		1,974,202
Unreserved - designated for o		8,126,635
Fund balances:		
Reserved for long-term portio		
and loans receivable		1,851,165
Reserved for supplies invento		9,203
Reserved for encumbrances		5,575
Unreserved:		
Designated for rehabilitati		87,657
Designated for replacement		2,827,742
Designated for housing assi		2,436,142
Designated for capital proj		4,799,098
Designated for debt service		420,469
Undesignated		2,617,761
TOTAL FUNg		<u>48,062,181</u>
COMMITMENT--Note I		
TOTAL LIABILI'		
FUNg	<u>\$4,856,534</u>	<u>\$109,723,460</u>

See notes to financial statements.

COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - ALL GOVERNMENTAL
FUNDS

SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

For the Fiscal Year Ended June 30, 1980

REVENUES

Taxes
Intergovernmental revenues:
 Federal
 State
 County
 City
Charges for services:
 Parking rental and lease income
 Project income
Interest
In-kind contributions
Proceeds from sale or lease of land
Miscellaneous revenues
TOTAL REVENUES

EXPENDITURES

Capital project expenditures
Rehabilitation
Relocation
Project expenditures
Housing assistance payments
Leased owner payments
Management and maintenance
General and administrative
Interest
Debt service:
 Principal retirement
 Interest and fiscal charges
Miscellaneous
TOTAL EXPENDITURES

EXCESS REVENUES OVER (UNDER) EXPENDITURES

Fund balances - July 1, 1979

FUND BALANCE - JUNE 30, 1980

See notes to financial statements.

COMBINED STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN RETAINED EARNINGS - ALL PROPRIETARY FUND TYPES

SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

For the Fiscal Year Ended June 30, 1980

OPERATING REVENUES

Rental income		<u>\$ 2,131,912</u>
	TOTAL OPERATING REVENUE	<u>2,131,912</u>

OPERATING EXPENSES

Operations and maintenance	2,054,341	
Administration	682,593	
Utilities	253,893	
Tenant services	60,194	
Depreciation	95,112	
Other	<u>187,885</u>	
	TOTAL OPERATING EXPENSES	<u>3,334,018</u>
	OPERATING LOSS	<u>(1,202,106)</u>

NONOPERATING EXPENSES (REVENUES)

Interest expense	2,008,686	
Operating subsidy - HUD	(921,405)	
Interest	(248,278)	
Other	<u>(157,432)</u>	
	TOTAL NONOPERATING EXPENSES	<u>681,571</u>
	NET LOSS	<u>(1,883,677)</u>

Retained earnings - July 1, 1979	<u>11,984,514</u>
----------------------------------	-------------------

RETAINED EARNINGS - JUNE 30, 1980	<u><u>\$10,100,837</u></u>
-----------------------------------	----------------------------

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

June 30, 1980

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The diverse nature of governmental operations and the necessity of determining legal compliance require accounts to be organized on the basis of funds, each of which is a separate accounting entity. A self-balancing set of accounts is provided for each fund to show its assets, liabilities, reserves, fund equity, revenues, and expenditures. The Agency's financial activities have been accounted for in the following types of funds and groups of accounts.

General Fund: The Agency's Emergency Reserve Fund was established to receive all monies that are not required by law or program regulation to go to a specific fund.

These monies are invested and/or loaned to redevelopment projects to meet temporary operating deficits.

Special Revenue Funds: To account for the proceeds of specific revenue sources, expendable trusts, or capital projects, that are legally restricted to expenditure for specified purposes.

The Special Revenue Funds have been grouped into the following fund groups based on type of activities performed.

Tax Increment: These funds, designated by project area, are designed to account for the collection of incremental tax revenues in a specific project area, and the subsequent expenditures for redevelopment activities in that area.

Community Development: These funds have been established to account for revenues, primarily Community Development Block Grants, and the subsequent uses of these revenues for rehabilitation and restoration of single family homes, historical buildings, and other projects.

NOTES TO FINANCIAL STATEMENTS (Continued)

SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

June 30, 1980

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Community Service: These funds consist of a wide range of projects, which receive revenues from various granting agencies, as well as program revenue.

The Foster Grandparent Program provides a variety of services to elderly and handicapped individuals.

The River Oaks/Dos Rios child development centers provide day-care services to families in this target area.

The Senior Elderly Nutrition Program which is supported by state and county grants provides meals to senior citizens in need.

The Golden Era project which is supported by state grants, and some program revenues, provides a place where senior citizens can sell their handicrafts, which provides extra income to them as well as keeping them active.

Housing: There are a variety of housing assistance projects which have been established under Department of Housing and Urban Development (HUD) and local housing authority programs. Revenues are received from HUD and the State of California, with the basic objective of these programs being to provide suitable housing to lower income and elderly persons.

Other Projects: These funds consist of the following:

The Replacement Housing Fund was established to account for the expenditures incurred in providing "replacement housing" for those displaced in the Project 2A redevelopment area.

It was established after a resolution was passed by the governing agency, whereby the Tax Increment Fund - Project 2A would contribute \$1,000,000 per year for four years to fund the replacement housing activities.

Sacramento Heritage was established from a grant by the City of Sacramento. A home was purchased and restored, and then sold, the proceeds of which were used to acquire another property, which is also being restored.

NOTES TO FINANCIAL STATEMENTS (Continued)

SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

June 30, 1980

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Debt Service Funds: To account for the accumulation of resources for, and the payment of, general long-term debt principal and interest, excluding those accounted for in specific enterprise funds.

Capital Projects Funds: To account for financial resources to be used for the acquisition or construction of major capital facilities.

The Parking Facility Fund records all capital expenditures made for parking facilities.

The fund is also responsible for the operations of the parking facilities, except for federal projects where the facility is operated by the project.

The Del Paso Heights Library Fund accounts for all revenues and expenditures pursuant to a contract between the City of Sacramento and the Redevelopment Agency, whereby the Agency sold long-term notes and constructed the library. The library is leased to the City, and the lease payments provide revenue to the Agency to pay off the notes. At such time the notes are paid off, the library will be deeded to the City.

The Central Kitchen Fund was established to account for revenues which are applied toward the construction of the facilities used by the Senior Elderly Nutrition Program. This project is substantially complete at June 30, 1980.

The Urban Renewal Funds, designated by project area, are designed to account for loans and grants received from HUD, and the subsequent expenditures for redevelopment activities in that area. HUD is currently phasing out these type of projects, and is no longer extending new grants and loans.

The two remaining Urban Renewal projects are substantially complete, and the federal financing is expected to be closed within the next twelve to eighteen months.

Enterprise Funds: To account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

NOTES TO FINANCIAL STATEMENTS (Continued)

SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

June 30, 1980

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Two basic types of housing are included in this group.

Local Section 8: The Agency owns and operates five housing projects which are administered under the HUD Section 8 Housing Assistance Payments program. Under this program the Agency is reimbursed from HUD for the difference between the approved contract rent and the actual rent paid by the low-income families.

Conventional Housing: Under the conventional housing program, the Agency provides housing to lower income families. The major sources of revenue are tenant rents and HUD subsidies. Expenditures consist mainly of the maintenance and operations of these housing projects, servicing of debt, and other tenant services.

Trust and Agency Funds: To account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. These include Expendable and Nonexpendable Trust Funds, Agency Funds, Suspense Funds and Clearing Funds.

The Trust Deposit Fund is used to account for various security and trust deposits held from contractors or other individuals doing redevelopment or rehabilitation work.

The Rehabilitation Escrow Fund was established to account for grant and loan monies held by the Agency in a trustee capacity awaiting the completion of rehabilitation work, at which time the monies are released to the contractor and/or contractors.

The Revolving Fund was established by advances from each of the other funds. Its purpose is to pay expenditures which are common to all funds, such as administrative costs, and perform other activities, such as investing surplus monies.

NOTES TO FINANCIAL STATEMENTS (Continued)

SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

June 30, 1980

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Lease Payment Revolving Fund was established by advances from the Central Leasing funds. Its purpose is to pay expenditures to the owners of the property from which the Agency leases housing units.

General Fixed Asset Account Group: To account for all fixed assets except those relating to specific Enterprise Funds.

General Long-Term Debt Account Group: To account for unmatured general long-term liabilities of the Agency, except those which are accounted for in specific Enterprise Funds.

Following is a summary of significant accounting policies used in preparation of the accompanying financial statements for the funds of the Sacramento Housing and Redevelopment Agency.

Basis of Accounting: Because of the diverse nature of operations, and the necessity of meeting various legal and reporting requirements, the Agency uses various methods of accounting, with emphasis being placed on the needs of the specific fund.

Inventories: Inventories in the Senior Elderly Nutrition fund consist of food stuffs and are stated at cost.

Restricted Assets: Restricted assets in the Enterprise Funds result from revenue bond debt service and mortgage contract requirements.

Fund Equity:

Reserves: Portions of fund equity have been reserved, and represent amounts segregated for some future use, and therefore are not available for further appropriation or expenditure.

Designated fund balance: Portions of unreserved fund equity have been segregated to indicate the Agency's tentative plans for financial resource utilization in a future period. Such designations reflect tentative plans or intent and are clearly distinguished from reserves.

NOTES TO FINANCIAL STATEMENTS (Continued)

SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

June 30, 1980

NOTE B--INVESTMENTS

Investments of the funds are stated at cost, and consist of the following at June 30, 1980:

	<u>Repurchase Agreements</u>	<u>Temporary Certificates of Deposit</u>	<u>Federal Farm Credit Bank</u>	<u>Other</u>	<u>Total</u>
General	\$ 264,181	\$1,105,000	\$ 300,000		\$ 1,669,181
Special Revenue	4,505,871	2,240,000	1,700,000	\$ 289,244	8,735,115
Debt Service (Investments with fiscal agent)				415,943	415,943
Capital Projects	1,809,872	1,799,000	1,600,000		5,208,872
Enterprise	2,165,254	242,000		1,845,144	4,252,398
Trust and Agency	<u>124,922</u>				<u>124,922</u>
	<u>\$8,870,100</u>	<u>\$5,386,000</u>	<u>\$3,600,000</u>	<u>\$2,550,331</u>	<u>\$20,406,431</u>

NOTE C--FIXED ASSETS

Fixed assets are recorded at cost in the Enterprise Funds and the General Fixed Asset group of accounts. Assets in the Local Section 8 fund group are depreciated on a straight-line basis, over their estimated useful lives which range from five to forty years.

A summary of changes in fixed assets follows:

	<u>July 1, 1979</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 1980</u>
Enterprise Funds	\$34,190,886	\$9,717,801	\$289,848	\$43,618,839
Less accumulated depreciation	(125,238)	(95,536)	(427)	(220,347)
	<u>34,065,648</u>	<u>9,622,265</u>	<u>289,421</u>	<u>43,398,492</u>
General Fixed Asset Account Group	<u>14,543,455</u>	<u>7,587,166</u>	<u>40,823</u>	<u>22,089,798</u>
	<u>\$48,609,103</u>	<u>\$17,209,431</u>	<u>\$330,244</u>	<u>\$65,488,290</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

June 30, 1980

NOTE D--NOTES AND LOANS PAYABLE

Loans of Capital Projects Funds are:

Urban Renewal Project Calif R-18 has received loans totaling \$175,820 from the Emergency Reserve Fund, and Urban Renewal Project Calif R-67 has received loans totaling \$310,482 from Tax Increment Fund - Project 4.

The Agency anticipates the loans will be repaid at the respective project closing dates which are expected to be December 31, 1981 for Calif R-18, and June 30, 1981 for Calif R-67.

Notes payable of Enterprise Funds are as follows:

	<u>Due Date</u>	<u>Interest Rate</u>	<u>Amount</u>
SF 391			
Second Series 1980	11-14-80	8.08%	\$10,648,131
Third Series 1980	1-9-81	5.08%	442,570
SF 175			
Second Series 1980	11-14-80	8.08%	6,019,916
Third Series 1980	1-9-81	5.08%	355,643

These notes are secured by HUD annual contributions.

Preliminary loans payable to HUD for \$44,700 and \$35,600 by SF 391 and SF 175, respectively, carry interest rates of 6.625% and are due at the time these projects receive redevelopment monies.

Loans payable accounted for in Trust and Agency Funds total \$3,943,956 and represent rehabilitation loans payable to HUD and various other lenders. These amounts are accounted for in the Rehabilitation Escrow Fund. Individual loans are transferred to the loan servicing agent upon completion of the rehabilitation project.

The note payable accounted for in the General Long-Term Debt Account Group is the Del Paso Heights Library note payable to Bank of America, interest of 4.25%, note due in semi-annual payments of \$11,400 through June 30, 1988, with the balance outstanding at June 30, 1980 being \$125,534.

NOTES TO FINANCIAL STATEMENTS (Continued)

SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

June 30, 1980

NOTE E--PROJECT NOTES PAYABLE

Calif R-18 Project Notes in the amount of \$1,530,000 were issued on June 17, 1980 with an interest rate of 5.06%. Calif R-67 Project Notes in the amount of \$2,525,000 were issued on June 17, 1980, with an interest rate of 5.09%. All notes mature on June 12, 1981.

NOTE F--MORTGAGES PAYABLE

Mortgages payable, all accounted for in Enterprise Funds are as follows:

Local Section 8 - Ping Yuen

8% note payable to the Secretary of Housing and Urban Development, secured by land and building costing \$863,000, and payable from future rents \$ 974,527

Local Section 8 - Kennedy Estates

8.5% note payable to Westland Mortgage Company, secured by land and building costing \$1,103,307, and payable from future rents 1,262,675

Local Section 8 - San Jose/Broadway

7.875% note payable to California Housing Financing Agency, secured by land and building costing \$1,206,282, and payable from future rents 782,225

Local Section 8 - Eight Scattered Sites

7.75% note payable to Westland Mortgage Company, secured by land and buildings costing \$453,827, and payable from future rents 423,498

TOTAL MORTGAGES PAYABLE \$3,442,925

NOTES TO FINANCIAL STATEMENTS (Continued)

SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

June 30, 1980

NOTE G—REVENUE BONDS PAYABLE

The following is a summary of bond transactions of the Agency for the fiscal year ended June 30, 1980:

	<u>Enterprise Funds</u>	<u>General Long-Term Debt</u>	<u>Total (Memorandum Only)</u>
Revenue bonds payable at July 1, 1979	\$17,278,000	\$4,931,000	\$22,209,000
Bonds retired	<u>(312,000)</u>	<u>(200,000)</u>	<u>(512,000)</u>
Revenue bonds payable at June 30, 1980	<u>\$16,966,000</u>	<u>\$4,731,000</u>	<u>\$21,697,000</u>

Bonded debt accounted for in Enterprise Funds consists of the following:

County Owned Conventional Housing - SF 175: 1961 new housing authority bonds; interest of 3.5% payable on June 1 and December 1; principal maturities payable December 1, in annual redemptions from \$25,000 to \$60,000; final payment due December 1, 2001	\$ 910,000
City Owned Conventional Housing - SF 391: First issue new housing authority bonds; interest of 2.125% and principal maturing each December 1 in annual redemptions from \$117,000 to \$151,000; final payment due December 1, 1991	1,536,000
Second issue new housing authority bonds; interest of 5% payable on June 1 and December 1; principal maturities payable December 1, in annual redemptions from \$90,000 to \$420,000; final payment due December 1, 2011	6,900,000
Third issue new housing authority bonds; interest of 5.44% payable on June 1 and December 1; principal maturities payable December 1, in annual redemptions from \$30,000 to \$180,000; final payment due December 1, 2017	2,880,000

NOTES TO FINANCIAL STATEMENTS (Continued)

SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

June 30, 1980

NOTE G--REVENUE BONDS PAYABLE (Continued)

Fourth issue new housing authority bonds; interest of 6% payable on June 1 and December 1; principal maturities payable December 1, in annual redemptions from \$50,000 to \$320,000; final payment due December 1, 2001	<u>4,740,000</u>
	<u>\$16,966,000</u>

Bonded debt accounted for in the General Long-Term Debt Account Group consists of the following:

Tax Increment Fund - Project 3: Redevelopment Agency of the City of Sacramento Tax Allocation Series A Bonds; interest of 3.9% payable on March 1 and September 1; maturities payable September 1, 1993; secured by pledge of tax revenues	<u>\$2,141,000</u>
Tax Increment Fund - Project 4: Redevelopment Agency of the City of Sacramento Lease Revenue Bonds; interest varies from 5% to 6-1/2%; payable on October 1 and April 1; maturities payable April 1, 2005; secured by a lease to the City of Sacramento	<u>2,590,000</u>
	<u>\$4,731,000</u>

NOTE H--EMPLOYEE'S RETIREMENT PLAN

The Agency participates in two employee benefit plans. Most employees are covered within the State of California's Public Employees' Retirement System (PERS). The Agency's total contributions to PERS for the year were \$409,244 from various funds.

Contributions totaling approximately \$14,560 were made to the Continental Insurance Co. to fund accrued benefits for those Redevelopment Agency employees who are covered under this plan.

Information is not available as to the excess, if any, of the actuarially-computed value of vested benefits over the total assets of the retirement funds.

NOTES TO FINANCIAL STATEMENTS (Continued)

SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

June 30, 1980

NOTE I--VACATION AND SICK LEAVE PAY

Agency employees are granted vacation in varying amounts based on length of service. Vacation pay is accrued and fully vested to the extent that at any December 31, any employee can have accumulated up to two times their annual vacation. Upon termination, employees are paid accumulated vacation at full rates.

Sick leave is accumulated at the rate of eight hours per month for all employees, and is fully vested when earned. Employees with more than two years experience receive one-third of their accumulated sick pay upon termination. The amount of earned vacation and sick leave pay at June 30, 1980 approximates \$710,690.

In addition, certain employees are allowed administrative leave. At June 30, 1980, total accumulated and unpaid administrative leave pay was \$5,879.

These amounts are not included in the financial statements.

COMBINING FINANCIAL STATEMENTS (UNAUDITED)

COMBINING BALANCE SHEET - ALL SPECIAL
REVENUE FUNDS

SACRAMENTO HOUSING AND REDEVELOPMENT A

June 30, 1980

ASSETS

Cash
Investments
Security and trust deposits
Accounts receivable:
 Tenants
 Notes and loans
 Other
Due from other funds
Due from other governments
Prepaid expenses
Deposit with City of Sacramento
Supplies inventory
Deferred charges - collection losses

TOTAL ASSE

LIABILITIES

Accounts payable - other
Due to other funds
Due to other governments
Security and trust deposits
Deferred revenues

TOTAL LIABILITI

FUND BALANCES

Reserved for long-term portion of
 notes and loans receivable
Reserved for supplies inventory
Reserved for encumbrances
Unreserved:
 Designated for rehabilitation
 Designated for replacement housing
 Designated for housing assistance
 Undesignated

TOTAL FUND BALANCE

TOTAL LIABILITIES AND FUND BALANCE

COMBINING BALANCE SHEET - ALL CAPITAL
PROJECT FUNDS

SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

June 30, 1980

	<u>Parking Facility Fund</u>	<u>Del Paso Heights Library</u>	<u>Central Kitchen</u>	<u>Urban Renewal</u>	<u>Total</u>
ASSETS					
Cash	\$ 168	\$ 52	\$ 79,255	\$ 259	\$ 79,734
Investments	3,375,904	5,050		1,827,918	5,208,872
Security and trust deposits				111,663	111,663
Accounts receivable:					
Excess tax credits				37,574	37,574
Other	234,622			66,624	301,246
Due from other funds	3,887,618	29			3,887,647
Due from other governments			25,252		25,252
	<u>\$7,498,312</u>	<u>\$5,131</u>	<u>\$104,507</u>	<u>\$2,044,038</u>	<u>\$9,651,988</u>
LIABILITIES					
Accounts payable - other	\$ 56,617		\$ 2,037		\$ 58,654
Due to other funds	24,911				24,911
Due to other governments				\$ 74,997	74,997
Security and trust deposits				111,663	111,663
Contract retentions			23,040		23,040
Notes and loans payable				486,302	486,302
Project notes payable				4,055,000	4,055,000
Deferred revenues				10,314	10,314
Matured interest payable				8,009	8,009
	<u>81,528</u>		<u>25,077</u>	<u>4,746,285</u>	<u>4,852,890</u>
FUND BALANCES					
Designated for capital projects	7,416,784	\$5,131	79,430	(2,702,247)	4,799,098
	<u>7,416,784</u>	<u>5,131</u>	<u>79,430</u>	<u>(2,702,247)</u>	<u>4,799,098</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$7,498,312</u>	<u>\$5,131</u>	<u>\$104,507</u>	<u>\$2,044,038</u>	<u>\$9,651,988</u>

COMBINING BALANCE SHEET - ALL ENTERPRISE FUNDS

SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

June 30, 1980

	Conventional Housing	Local Section 8 Housing	Total
ASSETS			
Cash	\$ 5,333	\$ 3,236	\$ 8,569
Investments	4,146,256	106,142	4,252,398
Security and trust deposits	50,991	15,162	66,153
Accounts receivable:			
Tenants	10,931	3,617	14,548
Other	24,896	3,644	28,540
Due from other funds	290,750		290,750
Due from other governments	395,890		395,890
Prepaid expenses	143,425	19,734	163,159
Restricted assets:			
Deposits with fiscal agent for replacements		71,052	71,052
Deposits with fiscal agent for debt amortization	12,257		12,257
HUD annual contribution receivable	1,890,893		1,890,893
Fixed assets	39,681,643	3,937,196	43,618,839
Accumulated depreciation		(220,347)	(220,347)
TOTAL ASSETS	<u>\$46,653,265</u>	<u>\$3,939,436</u>	<u>\$50,592,701</u>
LIABILITIES			
Accounts payable - other	\$ 597,765	\$ 20,747	\$ 618,512
Due to other funds	37,455	30,717	68,172
Due to other governments	80,765	1,265	82,030
Security and trust deposits	50,991	15,162	66,153
Contract retentions	19,190		19,190
Performance deposits	12,917		12,917
Notes and loans payable	17,546,560		17,546,560
Deferred revenues	6,582		6,582
Mortgages payable		3,442,925	3,442,925
Matured interest payable	846,089		846,089
Revenue bonds payable	16,966,000		16,966,000
TOTAL LIABILITIES	<u>36,164,314</u>	<u>3,510,816</u>	<u>39,675,130</u>
FUND EQUITY			
Contributed capital - from City of Sacramento	90,960	725,774	816,734
Retained earnings:			
Reserved for restricted assets	1,903,150	71,052	1,974,202
Unreserved - designated for operations	8,494,841	(368,206)	8,126,635
TOTAL FUND EQUITY	<u>10,488,951</u>	<u>428,620</u>	<u>10,917,571</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$46,653,265</u>	<u>\$3,939,436</u>	<u>\$50,592,701</u>

COMBINING BALANCE SHEET - ALL TRUST AND
AGENCY FUNDS

SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

June 30, 1980

	Tax Increment Funds	Trust Deposit Fund	Rehabilitation Escrow	Revolving Fund	Lease Payment Revolving Fund	Total
ASSETS						
Cash			\$1,057,070	\$ 3,947	\$ 4,580	\$1,065,597
Investments			50,000	74,922		124,922
Security and trust deposits	\$25,000	\$64,700				89,700
Accounts receivable - other			194,676		26,360	221,036
Due from other funds				126,017		126,017
Cost control			3,912,071			3,912,071
	<u>\$25,000</u>	<u>\$64,700</u>	<u>\$5,213,817</u>	<u>\$204,866</u>	<u>\$30,940</u>	<u>\$5,539,343</u>
LIABILITIES						
Accounts payable:						
Construction contracts			\$ 955,288			\$ 955,288
Other			264,573	\$ 150		264,723
Due to other funds			50,000	174,462	\$ 5,000	229,462
Security and trust deposits	\$25,000	\$64,700				89,700
Lease payments payable					25,940	25,940
Notes and loans payable			3,943,956			3,943,956
Matured interest payable				30,274		30,274
	<u>\$25,000</u>	<u>\$64,700</u>	<u>\$5,213,817</u>	<u>\$204,886</u>	<u>\$30,940</u>	<u>\$5,539,343</u>



COMBINING STATEMENT OF REVENUES, EXPENSES,
CHANGES IN FUND BALANCES - ALL SPECIAL FUNDS

SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

For the Fiscal Year Ended June 30, 1980

REVENUES

Taxes
Intergovernmental revenues:
 Federal
 State
 County
 City
Charges for services:
 Parking rental and lease income
 Project income
Interest
In-kind contributions
Miscellaneous
TOTAL REVENUES

EXPENDITURES

Capital project expenditures
Rehabilitation
Relocation
Project expenditures
Housing assistance payments
Leased owner payments
Management and maintenance
General and administrative
Miscellaneous
TOTAL EXPENDITURES

EXCESS OF REVENUES OVER
(UNDER) EXPENDITURES

OTHER FINANCING SOURCES (USES):

Transfers in
Transfers out
TOTAL OTHER FINANCING
SOURCES (USES)

EXCESS OF REVENUES AND OTHER
SOURCES OVER (UNDER)
EXPENDITURES AND OTHER USES

Fund balances - July 1, 1979

FUND BALANCES - JUNE 30, 1980

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - ALL CAPITAL PROJECT FUNDS

SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

For the Fiscal Year Ended June 30, 1980

	<u>Parking Facility Fund</u>	<u>Del Paso Heights Library</u>	<u>Central Kitchen</u>	<u>Urban Renewal</u>	<u>Total</u>
REVENUES					
Intergovernmental revenues:					
Federal	\$ 671,878			\$ 116,475	\$ 788,353
State			\$ 56,922		56,922
County			42,452		42,452
City			50,000	1,126	51,126
Charges for services- parking rental and lease income	431,435	\$20,900			452,335
Interest	701,372	2,983			704,355
Proceeds from sale or lease of land				395,231	395,231
Miscellaneous			8,048	416,913	424,961
TOTAL REVENUES	<u>1,804,685</u>	<u>23,883</u>	<u>157,422</u>	<u>929,745</u>	<u>2,915,735</u>
EXPENDITURES					
Capital project expenditures	36,364		235,997	322,008	594,369
General and administrative			25,079	154,150	179,229
Interest	3,243			247,759	251,002
Miscellaneous	67,251	22,800	2,356		92,407
TOTAL EXPENDITURES	<u>106,858</u>	<u>22,800</u>	<u>263,432</u>	<u>723,917</u>	<u>1,117,007</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	1,697,827	1,083	(106,010)	205,828	1,798,728
Fund balances - July 1, 1979	<u>5,718,957</u>	<u>4,048</u>	<u>185,440</u>	<u>(2,908,075)</u>	<u>3,000,370</u>
FUND BALANCES - JUNE 30, 1980	<u>\$7,416,784</u>	<u>\$ 5,131</u>	<u>\$ 79,430</u>	<u>\$(2,702,247)</u>	<u>\$4,799,098</u>

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN RETAINED EARNINGS - ALL PROPRIETARY FUND TYPES

SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

For the Fiscal Year Ended June 30, 1980

	<u>Conventional Housing</u>	<u>Local Section 8 Housing</u>	<u>Total</u>
OPERATING REVENUES			
Rental income	\$ 1,554,654	\$ 577,258	\$ 2,131,912
TOTAL OPERATING REVENUES	<u>1,554,654</u>	<u>577,258</u>	<u>2,131,912</u>
OPERATING EXPENSES			
Operations and maintenance	1,860,588	193,753	2,054,341
Administration	610,914	71,679	682,593
Utilities	253,893		253,893
Tenant services	60,194		60,194
Depreciation		95,112	95,112
Other	183,092	4,793	187,885
TOTAL OPERATING EXPENSES	<u>2,968,681</u>	<u>365,337</u>	<u>3,334,018</u>
OPERATING INCOME (LOSS)	<u>(1,414,027)</u>	<u>211,921</u>	<u>(1,202,106)</u>
NONOPERATING EXPENSES (REVENUES)			
Interest expense	1,726,573	282,113	2,008,686
Operating subsidy - HUD	(921,405)		(921,405)
Interest	(235,955)	(12,323)	(248,278)
Other	(151,027)	(6,405)	(157,432)
TOTAL NONOPERATING EXPENSES	<u>418,186</u>	<u>263,385</u>	<u>681,571</u>
NET LOSS	<u>(1,832,213)</u>	<u>(51,464)</u>	<u>(1,883,677)</u>
Retained earnings (deficit) - July 1, 1979	<u>12,230,204</u>	<u>(245,690)</u>	<u>11,984,514</u>
RETAINED EARNINGS (DEFICIT) - JUNE 30, 1980	<u>\$10,397,991</u>	<u>\$(297,154)</u>	<u>\$10,100,837</u>

Ernst & Whinney

555 Capitol Mall, Suite 650
Sacramento, California 95814

916/447-3237

Sacramento Housing and
Redevelopment Agency
Sacramento, California

During the past several months we have been engaged by the Sacramento Housing and Redevelopment Agency to perform audit examinations of various funds and programs administered by the Agency, in accordance with generally accepted auditing standards. In addition to these audit examinations we have recently completed an overall compilation of all Agency operations. As an integral part of our work, we made a study of the accounting procedures and system of internal accounting control employed by the Agency. Our examinations would not necessarily disclose all weaknesses in the system of internal control because they were based on selective tests of accounting records and related data.

Based on the results of our review, we have developed several recommendations for improving controls and procedures which are presented for your review and consideration. Our comments are submitted as constructive suggestions to assist you in strengthening controls and improving operating procedures; they are not intended to reflect on the competence or integrity of any employee.

The present accounting system within the Agency has been developed to comply with grantor accounting procedures. It is primarily a manual operation that accounts for a multitude of funds as individual programs or projects. Normally, each fund will have its own general ledger, cash disbursements register, cash receipts register, general journal, and separate bank account.

This system is the result of an evolutionary process in which the Agency has added a new set of accounting records for each new program or project it is to administer. In effect the accounting system is not one accounting system but rather the sum total of a multitude of individual separate accounting systems. This has resulted in the maintenance of approximately 50 different general ledgers, 50 different cash disbursement registers, and so forth, in addition to the maintenance of over 65 different commercial bank accounts at several banks. Most of this diversity has been mandated by the Agency's funding sources.

The accounting records, as presently maintained, do not provide for the summarization of the Agency's operations on an overall basis which makes financial reporting in accordance with generally accepted governmental accounting principles difficult.

Sacramento Housing and
Redevelopment Agency
Page 2

The Agency's recent management studies and interim recommendations are a significant step in the proper direction. In addition, a redesigning of the accounting system from an overall Agency perspective, which is now underway, should provide a basis to improve efficiency and financial reporting.

We appreciate the opportunity to present these comments and would be glad to discuss them further at your convenience.

Very truly yours,

Ernst + Whinney

GENERAL INTERNAL CONTROL PRACTICES - SEGREGATION OF DUTIES

Internal controls are designed to safeguard assets and help prevent losses from employee dishonesty or error. A fundamental concept in a good system of internal control is the segregation of duties.

The present accounting system is designed to account for and summarize financial information on the basis of individual programs or projects. As an outgrowth of this, some individuals become responsible for a group of projects or programs and handle most of the recordkeeping for those activities, which prevents a proper segregation of duties.

To effectively achieve internal control objectives, the accounting system should be designed so that different people are responsible for the recordkeeping and physical custody of assets and general supervision and authorization of transactions.

We believe that the Agency should consider designing the accounting system so that duties are segregated by function (i.e., cash receipts, payroll), rather than by individual funds.

ACCOUNTING ORGANIZATION

The Agency's continued growth has resulted in increased responsibilities for members of the accounting staff. The distribution of additional responsibility generally has been accomplished on an as needed basis. To achieve an optimum distribution of responsibilities, we recommend that written descriptions of job responsibilities be prepared for all accounting personnel. The establishment of written job descriptions would provide Agency management with a basis for redistributing work loads, evaluating personnel requirements, and judging job performance.

To minimize the disruption of established routines due to employee turnover or absence, the established department policies and procedures should be documented in accounting manuals and memoranda.

AUTOMATION OF ACCOUNTING FUNCTIONS

As mentioned previously, the present accounting records of the Agency are contained in over 50 different manually posted ledgers, and transaction information is recorded in over 50 different corresponding cash receipts, cash disbursements, and general journals. Considering the number of transactions the Agency processes, there is an inordinate amount of time spent recording and posting journal and ledger entries.

We understand that the Agency is presently in the process of automating certain accounting functions. We agree that this is appropriate and further recommend that the Agency continue to explore automated data processing alternatives. We believe that a system designed to handle accounting transactions of all funds in a similar manner would be beneficial.

As discussed in the Agency's recent management study, the goal is to have an automated accounting system which allows the incorporation of budgetary information into the system as well. We concur with this goal and believe that up-to-date accounting information that includes budget data will add to the effectiveness of that information.

CHART OF ACCOUNTS

The development of an automated accounting system will require a standardized chart of accounts.

The Agency presently utilizes two basic groups of accounts, one for housing and one for redevelopment, which are broken down and modified to meet the needs of an individual fund or group of funds. Although this provides good information for compliance reporting, it requires that accounting personnel be familiar with each of the sets of accounts, and adds to the likelihood of clerical errors because of the varying classifications. Also, this makes it difficult to combine account balances for comprehensive financial reporting.

We understand that the Agency is reviewing the current charts of accounts and designing one standardized chart of accounts to be used for all funds. Such a chart should include sufficient accounts to demonstrate compliance with grantee requirements, while allowing summarization into account and fund groupings to assist management and others in the review and evaluation of operating performance on an overall basis. In addition, a set of detailed instructions should be developed to aid the individual staff members in making accounting classifications that are consistent for the Agency as a whole.

COMMERCIAL CHECKING ACCOUNTS

The Agency presently maintains over 65 different commercial bank accounts. This practice of maintaining accounts for each fund adds to the complexity and amount of time spent in the cash disbursement process. The nature of the Agency's operations requires a large number of interfund transactions, each of which presently requires the issuance of a check, and the subsequent recording of the receipt and deposit of the check by the receiving fund.

During our work, we noted that the Agency was quite aware of cash management. Balances in commercial accounts are normally maintained at minimal levels, with all excess monies over those needed for immediate operations being

invested on a timely basis. We commend the Agency on this, but point out that the additional administrative effort involved in determining balances needed in over 65 different accounts, reconciling the accounts on a monthly basis, and maintaining relations with each bank, combined with interest earnings lost on the balances maintained in each of these accounts, decreases the benefits to be obtained from efficient cash management.

By reducing the number of checking accounts, the Agency could improve both the cash disbursement and cash management functions. Normally most governmental units maintain one or two general accounts, and a payroll account. This would lead to the elimination of the numerous cash disbursement journals that are maintained. The disbursements could be coded with fund and account information which would facilitate the posting from a single journal.

DEFINITION OF FINANCIAL REPORTING SCOPE

Over the last several months, we have performed numerous audits of individual funds administered by the Agency, and are submitting this letter after completion of compiled financial statements for the entire Agency. During our audit and compilation work, we noted areas in the Agency's present accounting system on which we have commented throughout this letter. Although the numerous individual reports demonstrate compliance with grantee requirements for individual programs, they do not readily provide needed information to the governing bodies on the overall operations of the Agency.

Should it be determined that comprehensive financial statements would best fit the needs of the Agency, the following items represent areas for improvement which became apparent during our compilation and audit work.

1. The individual funds of the Agency have been established to account for a new program or project as the need arises, and as organized, the funds do not conform to generally accepted governmental fund groups. For example, the tax increment funds, which should be considered special revenue funds also have debt service and fixed assets which need to be separately classified.
2. The bases of accounting used for the recording of revenues and expenditures is not always consistent with generally accepted accounting principles. Certain funds are maintained on a cash basis, some are on a modified cash basis, and others use full accrual. We also noted that sometimes there was inconsistency within an individual fund itself.

To meet generally accepted accounting principles, the modified accrual method of accounting should be used for all governmental funds which include the general, special revenue, debt service, and capital project fund groups. Revenues and expenditures of proprietary funds should be recorded using full accrual basis, and revenues and expenditures of trust and agency funds should be recognized on the basis consistent with the individual fund's accounting measurement objective.

3. Individual funds of the Agency have differing fiscal year ends depending on the funding source. This makes the measurement of operating results and comparison of budget to actual difficult for the Agency as a whole.
4. Presently, the Agency does not maintain financial records which are summarized past the individual fund level. During our compilation, we experienced problems summarizing information because of the lack of a standardized chart of accounts.
5. Because of federal requirements, many of the funds of the redevelopment agency do not close revenue and expenditure accounts into fund balance at year-end. Revenue and expenditure balances as recorded for these funds represent cumulative revenues and expenditures. This does not provide for comparison of operations from period to period.
6. Another requirement of generally accepted accounting principles is that the financial statements provide a budget to actual comparison of revenues and expenditures. Budgets should be organized in such a manner as to allow for budget to actual comparisons of overall Agency operations.
7. Other information needed for generally accepted accounting principles financial reporting was not readily available nor easily attainable. These include items such as contractual commitments, insurance, and contingencies.

CASH DISBURSEMENTS

An effective system of internal accounting control over cash disbursements should insure that disbursements are made only for goods and services authorized and received, and also insure that disbursements are recorded properly as to account, amount, and period.

Segregation of duties is very important with respect to cash disbursements. Presently, several individuals in the accounting department have the duty of writing checks from the various fund checking accounts, as well as having access to the accounting records. Strict responsibilities should be established which segregate the writing of checks from the recording of disbursement information, and access to unissued checks should be restricted to a limited number of personnel.

With respect to the processing of invoices for payment, we recommend that the Agency add certain procedures to strengthen control. First, invoices and receiving reports should be marked "Paid" after payment to prevent duplicate payments. Second, signed checks should be mailed without being returned to the check preparer.

We also noted that journal entry information is included on a piece of paper attached to the supporting documentation or in many cases, will be written on the supporting documentation or check copy.

Many governmental units find the use of a standardized "claim" form beneficial in reducing the likelihood of clerical errors. This form is normally designed so that it will have spaces for the fund name and number, account names and numbers, amounts, budget unit, preparer's initials, and approval, which are presented in an orderly and logical manner and facilitate the efficient and complete recording of the information needed for the accounting entries.

CASH RECEIPTS

In the area of cash receipts, two important internal control objectives are the segregation of duties and independent reconciliation. While the present structure of the Agency's accounting procedures prevents complete adherence to these concepts, we believe that the Agency should consider implementing the following practices in order to improve the existing controls.

Presently, mail receipts are opened by the executive secretary and a log is prepared at that time. This is a good practice, but should be improved by having the totals from this log compared on a daily or weekly basis to total deposits. This should be performed by someone other than the person who prepares the deposits. On a regular basis, the log should also be compared to the cash receipts journal by someone independent of the recording process, such as a senior accountant or the assistant controller.

Currently, checks are often transmitted to the staff members who do the actual posting to the journals and general ledgers. Access to cash receipts should be segregated from the persons responsible for initiating and posting accounting entries.

ACCOUNT DESCRIPTIONS AND CLASSIFICATIONS

During our work we noted several instances of unusual account descriptions and classifications. For example, "contributions to. . ." accounts were classified as assets. Under generally accepted government accounting principles "contributions" either represent a transfer of residual fund equity or an expenditure depending on the nature of the transaction. Other examples of unusual descriptions included "undistributed debits" which actually reflect deposits and "expenditure limitation accounts", which represents a reserve of fund balance.

Accounts receivable for improvement expenditures, administrative charges, and other miscellaneous expenditures incurred in connection with redevelopment projects or properties were recorded. These outflows of cash are expenditures and should be recognized as such. A receivable should not be established until such time as the property or project is sold, and then it should be recorded at the contract sales price.

Improvement in this area will be brought about by the adoption of a standardized chart of accounts, with detailed instructions for account classifications and uses.

INTERFUND ACCOUNTS

The Agency has been unable to reconcile a number of interfund accounts at year-end. The importance of the proper use of these accounts should be stressed to prevent these problems from recurring. We believe consideration should be given to the following:

1. A standard form which clearly outlines the amount and nature for all interfund transactions should be used.
2. Standard interfund charges from the revolving and general funds should be made at a specific time each month.
3. Interfund accounts should be reconciled at month end and the assistant controller should be notified of any unexplained differences.

YEAR-END CLOSING

As discussed in the Management Study Report No. 2, the Agency is planning to move towards annual comprehensive financial reporting, and budgeting from an overall organizational viewpoint. We believe that this will be extremely beneficial in increasing the efficiency of the Agency. For this to be done effectively, we recommend that the Agency adopt a policy of closing the books at each fiscal year-end for all funds within the Agency.

To facilitate effective completion of the annual year-end closing procedures, formal instructions and related accounting practices should be developed. Perhaps they could be included in a separate accounting procedural manual, or as an integral part of an overall accounting manual. The manual should include:

1. The purpose of all closing procedures.
2. Timetables outlining appropriate completion dates of schedules and other information.
3. Sample entries, formats, and schedules.
4. Detail instructions for the preparation of schedules and entries.

If the Agency anticipates that the financial reports will be audited, we suggest that the timetable developed cover the period beginning with the preparation for pre-audit meetings and cover through the period of the posting of any audit adjustments. The overall responsibility for monitoring the closing procedures should be assigned to one individual, such as the assistant controller, and the manual should include a chronological listing of procedures to be performed, a listing of due dates for the items required, and a space to note actual dates completed. This information will facilitate review and timely follow-up by the person responsible for the closing.

INDIRECT COST ALLOCATION

The Agency's present system for allocating indirect costs is a manual operation which distributes actual overhead costs on ratios derived from direct labor charges to individual programs or projects. Although the basic method is that described in the Federal Urban Renewal Handbook, we believe there are several areas for improvement. First, the system should be computerized, thus reducing the likelihood of clerical error. Second, the need to determine cost allocation percentages on a bi-weekly basis should be challenged. Third, the distribution of indirect costs based on direct labor rates does not always produce an allocation that is equitable in relation to the benefits received.

There are several benefits which can be obtained from an effective cost allocation system. Establishing the full costs of providing various services or performing certain functions can provide for objective decision making with respect to the viability of continuing or ceasing to provide that service or function. Cost allocations can be used for maximizing reimbursements from state and federal sources for costs incurred.

Considering the importance and benefits to be obtained from an effectively operating cost allocation system, we believe that the Agency should examine closely the present system to determine the appropriate action to be taken.