

**Office of Community
Investment and Infrastructure**

(Successor to the San Francisco
Redevelopment Agency)

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101-013.13-002
March 29, 2013

Steve Szalay
Local Government Consultant
California Department of Finance
State Capitol Room 1145
Sacramento, CA 95814

Dear Mr. Szalay:

On behalf of the Successor Agency to the San Francisco Redevelopment Agency ("Agency"), I am pleased to submit the attached two reports: 1) an Independent Auditor's Report on verifying the amount of restricted fund balances in the Low and Moderate Income Housing Fund ("LMIHF"), and 2) an Independent Accountant's Report on Applying Agreed-Upon Procedures on San Francisco's Low and Moderate Income Housing Funds. The reports were prepared by Macias Gini & O'Connell LLP, a certified public accounting firm ("MGO").

These reports are submitted in response to several letters that you sent regarding the Agency's LMIHF Due Diligence Review ("DDR"). In the first letter, you directed the Agency to remit \$107 million of the LMIHF to the county auditor-controller because the Department of Finance ("DOF") was unable to verify the exact amount of funds subject to legal restrictions, such as bond proceeds. Letter, S. Szalay to T. Bohee, LMIHF DDR Meet and Confirm Determination (Dec. 14, 2012). Your letter indicated that the Agency's commingling of bond proceeds and other funds made verification difficult in the absence of a reconciliation of records by "outside auditors." In a separate letter also dated on December 14, 2012, you essentially suspended any enforcement action against the Successor Agency pending an additional review to determine "the LMIHF balances that may or may not be available for distribution to the affected taxing entities." Letter, S. Szalay to T. Bohee (Dec. 14, 2012).

Subsequently, you wrote a letter to the Successor Agency in which you questioned whether the Agency's proposal for a supplemental AUP by a third party would "sufficiently identify the restricted balances." Letter, S. Szalay to T. Bohee (Jan. 23, 2013). Specifically, you questioned the Agency's proposal because it "will not express an opinion on the balances nor will it perform any procedures outside of those included in Attachment A. The starting point for MGO begins with what appears to be unaudited information such as the

listing prepared by the City, which we believe to be the same Excel spreadsheet provided to us during the first AUP.” Id. at p. 2.

In response to DOF’s concerns about the LMIHF balance, the Agency and the San Francisco City Controller retained MGO to perform three audits to verify the amounts of funds legally restricted as unspent bond proceeds, tax increment subject to pledge agreements, or local exactions. The audits traced the LMIHF back to January 31, 2012 through audited financials of the Successor Agency and the City and established June 30, 2012 as the starting point for the reviews. The results of these audits are that MGO has expressed an opinion regarding the amount of restricted funds in the LMIHF as of June 30, 2012. In addition, MGO applied supplemental Agreed-Upon Procedures with the audited statements to determine the “unobligated balances available for transfer to taxing entities,” as required under Section 34179.5 of the California Health and Safety Code.

As shown in the Agreed-Upon Procedures Review and associated audits, MGO has identified \$7,857,625 in surplus unrestricted funds that we are prepared to remit to the Controller of the City and County of San Francisco for distribution to taxing entities. Alternatively, these funds could be applied as an offset to the Controller’s distribution of June 1, 2013 property tax increment in support of our Redevelopment Obligation Payment Schedule (ROPS) 13-14A.

Please let us know if this is sufficient to conclude your follow-up review of our LMIHF Due Diligence Review, and how you wish us to handle the \$7,857,625 in identified surplus unrestricted funds.

Sincerely,



Tiffany Bohee
Executive Director