

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

MANAGEMENT AND COMPLIANCE REPORT
PREPARED AS A RESULT OF THE AUDIT OF THE

MINNEAPOLIS PUBLIC HOUSING AUTHORITY
MINNEAPOLIS, MINNESOTA

YEAR ENDED DECEMBER 31, 2010

Description of the Office of the State Auditor

The mission of the Office of the State Auditor is to oversee local government finances for Minnesota taxpayers by helping to ensure financial integrity and accountability in local governmental financial activities.

Through financial, compliance, and special audits, the State Auditor oversees and ensures that local government funds are used for the purposes intended by law and that local governments hold themselves to the highest standards of financial accountability.

The State Auditor performs approximately 160 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits of local governments;

Government Information - collects and analyzes financial information for cities, towns, counties, and special districts;

Legal/Special Investigations - provides legal analysis and counsel to the Office and responds to outside inquiries about Minnesota local government law; as well as investigates allegations of misfeasance, malfeasance, and nonfeasance in local government;

Pension - monitors investment, financial, and actuarial reporting for approximately 730 public pension funds; and

Tax Increment Financing - promotes compliance and accountability in local governments' use of tax increment financing through financial and compliance audits.

The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**MINNEAPOLIS PUBLIC HOUSING AUTHORITY
MINNEAPOLIS, MINNESOTA**

Year Ended December 31, 2010



Management and Compliance Report

**Audit Practice Division
Office of the State Auditor
State of Minnesota**

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MINNEAPOLIS PUBLIC HOUSING AUTHORITY
MINNEAPOLIS, MINNESOTA

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**MINNEAPOLIS PUBLIC HOUSING AUTHORITY
MINNEAPOLIS, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2010**

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses an unqualified opinion on the basic financial statements of the Minneapolis Public Housing Authority (MPHA).
- B. No matters involving internal control over financial reporting were reported in the "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*."
- C. No instances of noncompliance material to the financial statements of the MPHA were disclosed during the audit.
- D. A significant deficiency relating to the audit of a major federal award program is reported in the "Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133." It is not a material weakness.
- E. The Auditor's Report on Compliance for the major federal award programs for the MPHA expresses an unqualified opinion.
- F. A finding relative to a major federal award program for the MPHA was reported as required by Section 510(a) of OMB Circular A-133.
- G. The major programs are:

Moving to Work Demonstration Program	CFDA No. 14.881
Capital Fund Programs Cluster	
Public Housing Capital Fund Competitive Grant - ARRA	CFDA No. 14.884
Formula Capital Fund Stimulus Grant - ARRA	CFDA No. 14.885
- H. The threshold for distinguishing between Types A and B programs was \$3,000,000.
- I. The MPHA was determined to be a low-risk auditee.

II. FINDINGS RELATED TO FINANCIAL STATEMENTS AUDITED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

None.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

PREVIOUSLY REPORTED ITEM NOT RESOLVED

03-3 Moving to Work Demonstration Program - CFDA No. 14.881 (formerly reported as Section 8 Housing Choice Vouchers - Eligibility and Reporting - CFDA No. 14.871)

The U.S. Department of Housing and Urban Development (HUD) Section 8 Housing Choice Vouchers Program requirements include third-party verifications of income, assets, and other information; annual inspection of housing units; and information regarding rent reasonableness. In addition, information on program participants should match between original file documentation and the same information reported to HUD.

Based on a review of 30 Section 8 Housing Choice Vouchers Program participant files, the following items were noted:

Items similar to those identified in the previous year:

- One file reviewed was missing a current application.
- For one file reviewed, the re-examination was not conducted in a timely manner. Re-examinations are required annually.
- One file did not have current income verification information.
- In ten files, deficiencies with the 50058 were noted. One file did not have an annual 50058, in which case the auditor was unable to verify the housing assistance payment (HAP). Three files contained data entry errors, where the tenant's income was calculated correctly in supporting documentation, but was entered incorrectly on the 50058. For six files, the 50058 was not completed in a timely manner following the annual re-examination, ranging from one month overdue to ten months overdue. The data entered and completion of the 50058 initiates the stream of housing assistance payments based on the tenant's current eligibility criteria.

New item identified during the current audit:

- One file did not contain a current HUD Form 9886, *Authorization for the Release of Information*. A HUD Form 9886 is required to be completed annually. Complete and current releases are required prior requesting third-party verifications.

We acknowledge that the MPHA has taken steps to strengthen controls over the Section 8 Housing Choice Vouchers Program. Although there have been significant improvements noted over the prior years, we recommend the MPHA take the following corrective actions:

- Correct files where documentation is missing, incomplete, or incorrect, as noted above. All files should have complete documentation that is reviewed and updated as necessary and appropriate.
- Ensure re-examinations are conducted in a timely manner, since changes in family income and composition may occur that necessitate adjustments in tenant rent and housing assistance payments.
- Ensure that data entered on the 50058 is correct and the 50058 is completed timely to support the housing assistance payment appropriate for the tenant's current eligibility.

Corrective Action Plan:

Contact Person:

*Cheryl Borden, Managing Director of Housing Choice Voucher Program
Rita Ytzen, Senior Supervisor of Housing Choice Voucher Program*

Corrective Action Plan:

- *The following errors identified were the result of failure to process the 2010 annual re-examination for one Housing Choice Voucher Participant:*
 - *the one file reviewed was missing a current application,*
 - *the re-examination for this file was not conducted timely,*
 - *this file did not have current income verification information, and*
 - *this file did not have an annual 50058, in which case the auditor was unable to verify the Housing Assistance Payment (HAP).*

These errors were corrected with the processing of the delayed 2010 annual re-examination with an effective date of March 1, 2011.

➤ *The remaining nine 50058 deficiencies noted were corrected as follows:*

- *The three files where the tenant income was calculated correctly in the tenant paper file, but entered incorrectly on the 50058 have been corrected with no impact to the rent portions.*
- *The six files cited for delay in the creation of the annual 50058 reports resulted in the implementation of a weekly monitoring procedure to track and ensure the timely completion of annual re-examination 50058 reports. Technicians are provided a data report, on a weekly basis, of all due and pending re-examinations. HCV Quality Control Specialist reviews, on a weekly basis, all 50058 annual records to ensure they are processed timely, based upon the annual effective date.*

We have enhanced our process and we have expanded our quality control reviews to create and use software reports, to allow us to more effectively monitor the data we enter into the 50058 records. We will continue our monthly control participant file audits and staff trainings, as well as our clerical audits to analyze that documentation submitted by the family (such as income verifications, deductions, family members, birth dates, race and ethnicity codes, and applications and mandatory documents) are complete, signed, dated and are current. Further, we compare the family submitted documentation to the created 50058 report to verify that the data is correctly entered and reported on the 50058. The accuracy of the 50058 will ensure that we have calculated an appropriate Housing Assistance Payment.

Anticipated Completion Date:

Now in process and ongoing.

PREVIOUSLY REPORTED ITEM RESOLVED

Moving to Work Demonstration Program - CFDA No. 14.881 (formerly reported as Section 8 Housing Choice Vouchers - Eligibility, Reporting, and Special Tests and Provisions (Housing Inspections) - CFDA No. 14.871 (03-3))

The following summarizes prior audit issues and recommendations for the Section 8 Housing Choice Voucher Program based on a review of 30 participant files and corrective action resulting in current year resolution:

Annual Inspections

Nine files had either late or undocumented annual inspections of housing units.

Resolution

For the Section 8 Housing Choice Voucher Program participant files reviewed during the current audit, we noted no instances of late or missing annual inspections of housing units.

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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*

Board of Commissioners
Minneapolis Public Housing Authority

We have audited the basic financial statements of the Minneapolis Public Housing Authority (MPHA) as of and for the year ended December 31, 2010, and have issued our report thereon dated September 27, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the MPHA'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 MPHA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the MPHA's internal control over financial reporting.

A deficiency in internal control over financial reporting 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 over financial reporting such that there is a reasonable possibility that a material misstatement of the MPHA's financial statements will not be prevented, or detected and corrected, on a timely basis.

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. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the MPHA's financial statements are free of material misstatement, we performed tests of its 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 tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Minnesota Legal Compliance

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories.

The results of our tests indicate that for the items tested the MPHA complied with the material terms and conditions of applicable legal provisions.

This report is intended solely for the information and use of the Board of Commissioners, audit committee, management, others within the MPHA, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 27, 2011



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REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Commissioners
Minneapolis Public Housing Authority

Compliance

We have audited the Minneapolis Public Housing Authority's (MPHA) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010. The MPHA's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the MPHA's management. Our responsibility is to express an opinion on the MPHA's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the MPHA's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the MPHA's compliance with those requirements.

In our opinion, the MPHA complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010.

Internal Control Over Compliance

Management of the MPHA is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the MPHA's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the MPHA's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance 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 compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying Schedule of Findings and Questioned Costs as item 03-3. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the MPHA as of and for the year ended December 31, 2010, and have issued our report thereon dated September 27, 2011. Our audit was performed for the purpose of forming an opinion on the MPHA's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. The SEFA is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The SEFA has been subjected to the auditing procedures applied in the

audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the SEFA is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The MPHA's corrective action plan to the federal award finding identified in our audit is included in the accompanying Schedule of Findings and Questioned Costs. We did not audit the MPHA's corrective action plan and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Commissioners, audit committee, management and others within the MPHA, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 27, 2011

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**MINNEAPOLIS PUBLIC HOUSING AUTHORITY
MINNEAPOLIS, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Housing and Urban Development		
Direct Funding		
Section 8 Project-Based Programs Cluster		
N/C S/R Section 8 Program	14.182	\$ 1,020,404
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	14.856	930,324
		<hr/>
Total Section 8 Project-Based Programs Cluster		\$ 1,950,728
Shelter Plus Care	14.238	42,230
Moving to Work Demonstration Program	14.881	82,012,035
Capital Fund Programs Cluster		
Public Housing Capital Fund Competitive Grant - ARRA	14.884	10,351,553
Formula Capital Fund Stimulus Grant - ARRA	14.885	7,708,424
HUD - Veterans Affairs Supportive Housing Program	14.VSH	443,219
Passed Through the City of Minneapolis		
Community Development Block Grants/Entitlement Grants	14.218	454,292
		<hr/>
Total U.S. Department of Housing and Urban Development		\$ 102,962,481
Corporation for National and Community Service		
Direct Funding		
Volunteers in Service to America	94.013	827
		<hr/>
Total Federal Awards		\$ 102,963,308

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**MINNEAPOLIS PUBLIC HOUSING AUTHORITY
MINNEAPOLIS, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2010**

1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by the Minneapolis Public Housing Authority (MPHA). The MPHA's reporting entity is defined in Note 1 to the financial statements.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the MPHA under programs of the federal government for the year ended December 31, 2010. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the MPHA, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the MPHA.

3. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through grant numbers were not assigned by the pass-through entities.

4. Subrecipients

The MPHA did not pass any federal awards through to subrecipients during the year ended December 31, 2010.

5. American Recovery and Reinvestment Act

The American Recovery and Reinvestment Act of 2009 (ARRA) requires recipients to clearly distinguish ARRA funds from non-ARRA funding. In the schedule, ARRA funds are denoted by the addition of ARRA to the program name.