

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

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

MINNEAPOLIS PUBLIC HOUSING AUTHORITY
MINNEAPOLIS, MINNESOTA

YEAR ENDED SEPTEMBER 30, 2004

Description of the Office of the State Auditor

The Office of the State Auditor serves as a watchdog for Minnesota taxpayers by helping to ensure financial integrity, accountability, and cost-effectiveness in local governments throughout the state.

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 250 financial and compliance audits per year and has oversight responsibilities for over 4,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits for 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 over 700 public pension funds; and

Tax Increment Financing, Investment and Finance - 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 Employee's 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 September 30, 2004



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 1

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2004**

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 Compliance and on Internal Control Over Financial Reporting 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. Reportable conditions relating to the audit of the major federal award programs are reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular 133." The reportable conditions are material weaknesses.
- E. The Auditor's Report on Compliance for the major federal award programs for the MPHA expresses an unqualified opinion.
- F. Findings relative to a major federal program for the MPHA were reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major programs are:
- | | |
|---|-----------------|
| Public and Indian Housing Program | |
| Operating Subsidy (Low Rent) | CFDA No. 14.850 |
| Development Projects | CFDA No. 14.850 |
| Section 8 Housing Choice Vouchers Program | CFDA No. 14.871 |
- H. The threshold for distinguishing between Types A and B programs was \$2,667,205.
- I. The MPHA was not 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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

03-1 Low Rent and Section 8 - Special Tests and Provisions (Family Self-Sufficiency) - CFDA Nos. 14.850 and 14.871

The MPHA has family self-sufficiency participants in both the Low Rent and the Section 8 programs. As of September 30, 2004, there were 186 participants.

Based on a review of 15 participant files, the following items were noted:

Amounts of the participants' monthly escrow credits were calculated correctly; but in two files, some other incorrect amount was applied to the participants' accounts.

As of September 30, 2004, two balances maintained on the family self-sufficiency subsidiary ledger should not have been on the ledger as of that date. In one instance, the participant was absorbed by another public housing authority but did not enroll in the program, and the funds were not transferred to the other public housing authority. These funds, amounting to \$272 as of September 30, 2004, should then have been returned to HUD. In the other instance, the participant graduated from the program, which would initiate a close-out of the participant's account. However, because of confusion over correctly identifying the account holder, the account was not closed-out. The amount in escrow for this participant was \$17,923 as of September 30, 2004.

Projecting these errors to the total of all family self-sufficiency escrow balances indicates a potential overstatement in the balances of \$101,952 as of September 30, 2004. While not material to the MPHA's financial statements, the errors are indicative of an area that warrants continuing monitoring efforts by the MPHA.

We recommend family self-sufficiency personnel take the following corrective actions:

Adjust participants' escrow accounts to reflect the correct credits and balances.

Remove from the subsidiary ledger the escrow account balances that should not be on the ledger at year-end.

Review all large escrow account balances maintained on the subsidiary ledger prior to year-end and ascertain that they reflect only those balances of participants eligible to be in the program.

We also recommend the family self-sufficiency coordinators continue internal review processes and quality control inspections of program files.

Corrective Action Plan:

Contact Person:

*Bob Boyd, Director of Special Projects
Cheryl Borden, Section 8 Programs Manager*

Corrective Action Plan:

The two errors found during the audit have been corrected. Currently, all Low Rent and Section 8 accounts are being reviewed internally to verify the accuracy of the escrow balances. We will also re-examine our current procedures to ensure they provide the level of review and controls needed for ensuring the accuracy of escrow balances.

Already in place are procedures that require the FSS Coordinator to review and verify any changes made to the FSS escrow balance monthly and to annually verify that the participants on the sub-ledger are still active. As the auditor stated, one of the errors was caused by confusion in identifying the correct account holder which was caused by more than one account holder having the same name.

Anticipated Completion Date:

The review of the escrow balances should be completed by the end of calendar year 2005. Procedures will be re-examined and updated by September 30, 2005.

03-2 Low Rent - Eligibility, Reporting, and Special Tests and Provisions (Rent Reasonableness) - CFDA No. 14.850

HUD Low Rent requirements include third-party verifications of income, assets, and other information; selection from the waiting list; annual re-examinations; 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 40 Low Rent participant files, the following items were noted:

Six files reviewed did not contain necessary third party verifications. In two of these files, income from the prior year's statement provided by the participants from the Social Security Administration, adjusted for a cost of living increase to arrive at the current year's amount, was used for verification. In two other files, the participants provided only one check stub as verification of income. In one file, an updated bank statement was not obtained to support asset amounts. The remaining file lacked support to verify child support income. Eligibility technicians should use the Tenant Assessment Sub-System (TASS) (superseded by Upfront Income Verification (UIV) in 2005) to verify amounts received from social security. Also, as required by HUD, eligibility technicians should document attempts to independently verify any participant-provided income or asset information before using such information as a form of verification. Ideally, the MPHA should receive verifications directly from the third party.

For two files reviewed, the tenant rent calculated by auditors differed from the amount calculated by the MPHA. In one case, the MPHA's calculation used the participant's social security benefit from the previous year instead of from the current year. Also, that participant's annual pension income was incorrectly included as a monthly amount. The other difference resulted from the MPHA using an incorrect amount for the participant's average monthly income.

For five files reviewed, re-examinations were not conducted in a timely manner. The required annual re-examinations were between two and five weeks late. The MPHA reported to us that the re-examinations were late due to tenants missing scheduled appointments and because of delays experienced in receipt of third party verifications.

Schedule 1
(Continued)

In four files, HUD Form 50058, *Family Report*, reported incorrect data. Listed holders of asset accounts were not correct, and some balances of these accounts were not presented correctly in two of the files. One file incorrectly reported that a participant pays income-based rent when in actuality a flat-rate for rent is being paid. The form in the last file incorrectly reported the participant's social security number. In all instances, the incorrect data had no effect on eligibility or rent determinations.

Nine files either did not contain a Status 214 Citizenship form or were missing family members on the form. All members of a family must be included on the form or have their own attestation that they are either U.S. citizens or non-citizens with eligible immigration status. Anyone unlawfully in the United States is ineligible to participate in the Low Rent Public Housing program.

The corrective actions taken by the MPHA during the past year have lessened the number of errors noted during our testing and, in some cases, resolved them as noted later in this report. We continue to recommend the following:

Adhere to the written policies and procedures for verifications of income and assets and the documentation of efforts to independently obtain third-party verifications.

Correct files where documentation is missing, incomplete, or incorrect as noted above. For future applications, all required documentation should either be obtained at the time of application or be received before applicants can be accepted into the program. At the time of recertification, such documentation should be reviewed and updated as necessary for all files.

Recalculate and correct tenant rent where differences have been identified. Tenants should be reimbursed or otherwise credited for overpayments.

Ensure re-examinations are conducted in a timely manner since changes in family income and composition may occur that necessitate adjustments in rent.

Corrective Action Plan:

Contact Person:

Mary Boler, Assistant Director of Property Management
Kim Hamilton, Supervisor of Leasing & Occupancy

Corrective Action Plan:

As the auditor has stated, we decreased the number of errors regarding Low Rent requirements for third-party verification, annual re-examinations, and other information on program participants from last year. Considerable effort has been made to improve this area of work and this report notes the actions and progress made over the past year in the Previously Reported Items Resolved section of this report.

We will continue to focus on improving in this area by providing on-going staff training to assure adherence to third-party verification requirements and emphasize to staff the importance of accurate data entry on HUD form 50058. To help assure accuracy, we will continue to use the Quality Control Specialist position to perform quality control audits.

We have already changed procedures requiring that all residents complete the 214 Status form during the annual re-examination process and have changed the lease-add-on process to assure that this form along with a copy of the Social Security card are submitted in order to add a minor to the household. In addition, we have changed the Statement of Policies outlining requirements for third-party verification and documentation when staff is unable to obtain third party verification.

We have significantly reduced the number of overdue re-examinations over the past year and are encouraged by this reduction in outstanding re-exams. We also recognize that there will always be residents who don't cooperate in a timely manner and staff will follow through with lease terminations as necessary. When there is a delay in the process due to the tenant not cooperating, we apply back charges to the date any increases should have gone into effect, thus recovering the lost revenue.

We have already corrected any errors identified in the audit.

Anticipated Completion Date:

Staff training will continue on an as needed basis.

The Quality Control Specialist will continue quality control audits in accordance with our internal procedures to ensure that all required documentation is on file for each tenant.

We have already changed procedures requiring that all residents complete the 214 Status form during the annual re-examination process and have changed the lease-add-on process to assure that this form along with a copy of the Social Security card are submitted in order to add a minor to the household.

The Statement of Policies outlining requirements for third party verification and documentation when staff is unable to obtain third party verification is already in place.

All errors identified in the audit have been corrected.

03-3 Section 8 Housing Choice Vouchers - Eligibility, Reporting, and Special Tests and Provisions (Housing Inspections and Rent Reasonableness) - CFDA No. 14.871

HUD Section 8 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 40 Section 8 participant files, the following items were noted:

Three files reviewed were missing the most recent application in its entirety.

Six files reviewed had deficiencies in required third-party verifications for income, assets, or deductions. Of these, one file contained proper verification of a tenant not having income, but the tenant had not signed the required verification of non-income form. In the five other files, verification of information provided by the participant was not entirely possible because such information was either missing or incomplete to some extent.

For five files reviewed, the tenant rent and housing assistance payments calculated by auditors differed from the amounts calculated by the MPHA. The differences resulted from calculation errors, use of incorrect amounts for deductions, and use of outdated information.

Eight files reviewed did not contain verification of the social security numbers of all household members six years old and older.

Three files were either missing a current HUD Form 9886, *Authorization for Release of Information*, or the form was not properly signed and dated. Complete and current releases are required prior to requesting third-party verifications.

Schedule 1
(Continued)

For ten files reviewed, re-examinations were not conducted in a timely manner. Re-examinations are required annually.

In six files, deficiencies with the HUD Form 50058, *Family Report*, were noted. Birth dates or social security numbers were incorrectly reported on these forms in four of the files. These errors would not have had an effect on eligibility or other outcomes. In the other two files, the forms contained information that was not current.

Seven files were either missing family members on the Status 214 Citizenship form or were missing proper support of eligible immigration status. All members of a family must be included on the form or have their own attestation that they are either U.S. citizens or non-citizens with eligible immigration status. Anyone unlawfully in the United States is ineligible to participate in the Section 8 program.

In 12 files reviewed, the annual inspections of housing units were either late or the file contained no documentation indicating that the inspection had been completed. Housing inspections are required annually.

The corrective actions taken by the MPHA during the past year have lessened the number of errors noted during our testing and, in some cases, resolved them as noted later in this report. We continue to recommend the following:

Adhere to the written policies and procedures for verifications of income and assets and the documentation of efforts to independently obtain third-party verifications.

Correct files where documentation is missing, incomplete, or incorrect as noted above. For future applications, all required documentation should either be obtained at the time of application or be received before applicants can be accepted into the program. For all files, at the time of recertification, such documentation should be reviewed and updated as necessary.

Recalculate and correct tenant rent and housing assistance payments where differences have been identified. Tenants should be reimbursed or otherwise credited for overpayments.

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 annual inspections of housing units are completed on time.

Corrective Action Plan:

Contact Person:

Cheryl Borden, Section 8 Programs Manager

Corrective Action Plan:

As the auditor has stated, we decreased the number of errors regarding Section 8 requirements for third-party verification, annual re-examinations and inspection of units, and other information on program participants from last year. Considerable effort has been made to improve this area of work and this report notes the actions and progress made over the past year in the Previously Reported Items Resolved section of this report.

Last year we implemented a checklist that staff refer to in order to review whether all HUD required documentation is in place. This action has decreased the number of errors. We will continue to utilize this checklist.

Last year, we also created a new position, Quality Control Specialist, to perform audits of files to ensure timely processing and proper documentation. During the year, we expanded this position's review and believe that over time, further improvements on third-party verification, timely re-examinations and inspections, and other documentation improvements will become evident in our audit.

We have also changed the reporting relationship of the Section 8 Housing Inspectors. The inspectors are now reporting to the Assistant Section 8 Programs Manager who has put in place procedures to help monitor and track inspections.

All errors identified in the audit have been corrected.

Anticipated Completion Date:

Staff training will continue on an as needed basis as well as the use of the documentation checklist to assist staff in obtaining all required documentation.

The Quality Control Specialist will continue quality control audits and has already expanded to his role to include inspections and HUD information systems reporting.

A new reporting relationship for the Section 8 housing inspectors is already in place as well as new procedures to ensure timely inspections have been completed.

All errors identified in the audit have been corrected.

PREVIOUSLY REPORTED ITEMS RESOLVED

Low Rent - Eligibility, Reporting, and Special Tests and Provisions (Rent Reasonableness) - CFDA No. 14.850 (03-2)

The following summarizes prior audit issues and recommendations for the Low Rent Program and corrective actions resulting in current year resolution:

Policies, Procedures, and Training

We recommended the MPHA adopt written policies and procedures meeting HUD requirements for third-party verifications of income and assets specifically addressing the documentation of efforts to independently obtain third-party verifications and provide staff with training relevant to the additional policies and procedures.

Resolution

On June 23, 2004, the MPHA's Board of Commissioners approved changes to the MPHA's Statement of Policies that reflect HUD's hierarchy of income and asset verifications. Eligibility technicians received training and have been using the new policies and procedures.

Quality Control

We recommended the MPHA strengthen the internal quality control system and have quality control checks and reviews performed by knowledgeable and qualified MPHA staff.

Resolution

The MPHA added quality control staff.

Social Security Numbers

Nine files reviewed did not contain verification or documentation of the social security numbers of household members six years old and older.

Resolution

All Low Rent participant files reviewed during the current audit evidenced the verification or documentation of the social security numbers of household members six years old and older.

Release of Information Forms

In one file, HUD Form 9886, *Authorization for Release of Information*, did not have the signature page included.

Resolution

The HUD Form 9886, *Authorization for Release of Information*, was intact in all Low Rent participant files we reviewed during the current audit.

Section 8 Housing Choice Vouchers - Eligibility, Reporting, and Special Tests and Provisions (Housing Inspections and Rent Reasonableness) - CFDA No. 14.871 (03-3)

The following summarizes prior year audit issues and recommendations for the Section 8 program and corrective actions resulting in current year resolution:

Policies, Procedures, and Training

We recommended the MPHA adopt written policies and procedures meeting HUD requirements for third-party verifications of income and assets specifically addressing the documentation of efforts to independently obtain third-party verifications, and provide staff with training relevant to the additional policies and procedures.

Resolution

On June 23, 2004, the MPHA's Board of Commissioners approved changes to the MPHA's Statement of Policies that reflect HUD's hierarchy of income and asset verifications. Eligibility technicians received training and have been using the new policies and procedures.

Processing and Documentation Checklist

We recommended the MPHA improve the clerical accuracy of calculations performed by staff and minimize the occurrences of missing, incomplete, or incorrect documentation.

Resolution

A checklist has been developed to assist eligibility technicians with compliance with policies and procedures, processing, and documentation requirements.

Quality Control

We recommended the MPHA strengthen the internal quality control system and have quality control checks and reviews performed by knowledgeable and qualified MPHA staff.

Resolution

Quality control audits of randomly selected files are being performed by Section 8 staff. A new Quality Control Specialist audits applicant files and files being recertified.

Housing Assistance Payment (HAP) Contracts

In two files reviewed, the Housing Assistance Payment (HAP) contracts were not signed.

Resolution

The HAP contracts were signed in all Section 8 participant files reviewed during the current audit.

IV. OTHER FINDINGS AND RECOMMENDATIONS

MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEMS RESOLVED

Deposits in Excess of Coverage (03-4)

Depository balances at a local bank exceeded the amount of Federal Deposit Insurance Corporation (FDIC) coverage and collateral pledged several times during the year ended September 30, 2003.

Resolution

We noted no instances of deposits in excess of FDIC coverage and collateral for the year ended September 30, 2004.

Disbursement Documentation - Public Purpose (03-5)

The MPHA did not have a formal, written policy concerning the use of credit cards in the MPHA's name and used by staff. Documentation for several vouchers issued to pay balances on these credit cards consisted only of the voucher, the check request form, and the credit card statement. We recommended the MPHA create and formally adopt written policies concerning the use of credit cards in the MPHA's name and used by staff. We also recommended that all expenditures be properly supported, serve a public purpose, and that Internal Revenue Service rules be considered.

Resolution

The MPHA created a credit card policy and implemented it on March 4, 2004. Our testing related to the payment of balances on the credit cards concluded that the credit cards were used in accordance with the MPHA's policies.



PATRICIA ANDERSON
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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING 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 financial statements of the Minneapolis Public Housing Authority (MPHA) as of and for the year ended September 30, 2004, and have issued our report thereon dated March 15, 2005. 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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 Local Government*, 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 Local Government* 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, except that we did not test for compliance in public indebtedness and claims and disbursements because they are not applicable to the MPHA.

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 and management and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: March 15, 2005



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PATRICIA ANDERSON
STATE AUDITOR

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Commissioners
Minneapolis Public Housing Authority

Compliance

We have audited the compliance of the Minneapolis Public Housing Authority (MPHA) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2004. 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 on the MPHA's compliance with those requirements.

In our opinion, the MPHA complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2004.

Internal Control Over Compliance

The 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 in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the MPHA's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 03-1, 03-2, and 03-3.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable conditions listed above to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the MPHA as of and for the year ended September 30, 2004, and have issued our report thereon dated March 15, 2005. Our audit was performed for the purpose of forming an opinion on the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Commissioners, management, 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/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: March 15, 2005

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**MINNEAPOLIS PUBLIC HOUSING AUTHORITY
MINNEAPOLIS, MINNESOTA**

Schedule 2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2004**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Housing and Urban Development		
Direct Funding		
Public and Indian Housing Program		
Operating Subsidy (Low Rent)	14.850	\$ 14,676,798
Development Projects	14.850	178,844
Total CFDA #14.850		\$ 14,855,642
Section 8 Project-Based Programs		
N/C S/R Section 8 Program	14.182	\$ 654,563
Section 8 Moderate Rehabilitation	14.856	755,421
Total Section 8 Project-Based Cluster		\$ 1,409,984
Section 8 Housing Choice Vouchers Program	14.871	\$ 57,325,266
Revitalization of Severely Distressed Public Housing	14.866	\$ 875,735
Resident Opportunity and Supportive Services	14.870	\$ 341,586
Public Housing Capital Fund Program		
Replacement Housing Factor FFY 2001	14.872	\$ 323,884
Replacement Housing Factor FFY 2002	14.872	340,755
Capital Fund FFY 2000	14.872	14,728
Capital Fund FFY 2001	14.872	2,604,885
Capital Fund FFY 2002	14.872	6,241,023
Capital Fund FFY 2003	14.872	4,218,840
Total CFDA #14.872		\$ 13,744,115
Moving to Work Technical Assistance Grant #MTWTGMN0021	14.unknown	\$ 13,575
Passed Through the City of Minneapolis		
Community Development Block Grant (CDBG)		
CDBG-Funded Low-Rent Housing Program	14.218	\$ 157,391
Resident Participation Program	14.218	69,841
Project Self-Sufficiency	14.218	2,447
Mobility Counseling	14.218	67,130
Total CFDA #14.218		\$ 296,809
Total U.S. Department of Housing and Urban Development		\$ 88,862,712

**MINNEAPOLIS PUBLIC HOUSING AUTHORITY
MINNEAPOLIS, MINNESOTA**

**Schedule 2
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2004**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Justice		
Passed Through Minnesota Department of Public Safety Byrne Formula Grant Program	16.579	<u>\$ 42,155</u>
Corporation for National and Community Service		
Direct Funding Volunteers in Service to America	94.013	<u>\$ 1,976</u>
Total Federal Awards		<u><u>\$ 88,906,843</u></u>

Notes to Schedule of Expenditures of Federal Awards

1. The Schedule of Expenditures of Federal Awards presents the activity of federal award programs expended by the Minneapolis Public Housing Authority. The Authority's reporting entity is defined in Note 1 to the financial statements.
2. The expenditures on this schedule are on the accrual basis of accounting.
3. For the year ended September 30, 2004, CFDA No. 16.579 was passed through to a subrecipient.