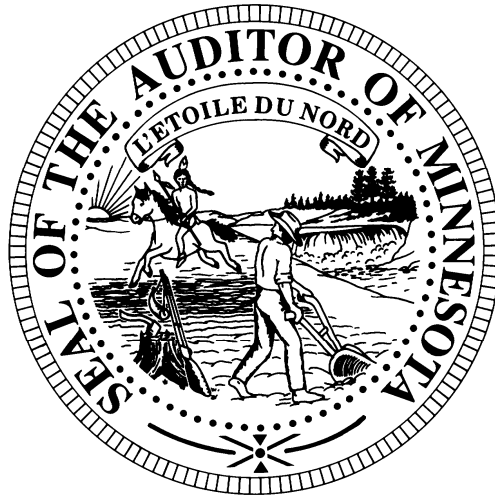


STATE OF MINNESOTA

Office of the State Auditor



**Rebecca Otto
State Auditor**

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

**HOUSING AND REDEVELOPMENT
AUTHORITY OF THE CITY OF SAINT PAUL
SAINT PAUL, MINNESOTA
(A COMPONENT UNIT OF THE CITY OF SAINT PAUL)**

YEAR ENDED DECEMBER 31, 2007

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.

Office of the State Auditor
525 Park Street, Suite 500
Saint Paul, Minnesota 55103
(651) 296-2551
state.auditor@state.mn.us
www.auditor.state.mn.us

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**HOUSING AND REDEVELOPMENT
AUTHORITY OF THE CITY OF SAINT PAUL
SAINT PAUL, MINNESOTA
(A COMPONENT UNIT OF THE
CITY OF SAINT PAUL)**

Year Ended December 31, 2007



Management and Compliance Report

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

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**HOUSING AND REDEVELOPMENT
AUTHORITY OF THE CITY OF SAINT PAUL
SAINT PAUL, MINNESOTA**

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

INTERNAL CONTROL

ITEMS ARISING THIS YEAR

07-1 Notes and Loans Receivable

During our audit procedure confirming the notes and loans receivable balance, we received five confirmations with a discrepancy between what the borrowers stated as their principal balance at November 30, 2007, and the balance that the HRA had recorded on the Nortridge System as of the same date. According to the Nortridge System, the cumulative principal balance of these five confirmations was \$2,914,926, while the borrowers reported principal balances totaling \$2,148,695, a difference of \$766,231. In accordance with the stated terms and conditions, the loan principals had been either partially or completely forgiven. The loan officers/project managers were responsible for communicating with the proper accounting personnel to adjust the loan balances to ensure that the Nortridge System reflected the proper receivable balances outstanding. However, due to a lack of communication or a communication breakdown, this information was not properly received, and the Nortridge System was not accordingly adjusted.

The discrepancies between the borrowers' and the HRA's records that existed as of November 30 potentially could have carried over indefinitely beyond the date of the financial statements. A material audit adjustment was made, as identified in finding 07-2, to correct the overstated loans receivable for the year-end December 31, 2007, financial statements.

We recommend that the HRA review internal controls currently in place, especially relating to communication, and then design and implement procedures to improve internal controls to timely detect and prevent inaccuracies in the Nortridge System and misstatements in the financial statements.

Client's Response:

In less than a four-month span from December 2007 through March 2008, the department's three senior accounting staff members retired. Retirees included Planning and Economic Development's (PED) two supervisory accountants, and our operations and parking accountant. Three new staff learning PED's business and accounting

practices, coupled with a new, earlier timeframe for preparing subsequent year budgets for the Mayor and City Council, has made preparing for the 2007 audit particularly challenging. In addition, GASB issuance of several new accounting standards has significantly increased complexity of financial statements, thus putting more pressure on our new staff. While our operations budget will not provide for an increase in accounting staff to deal with these and other accounting demands, PED remains committed to working diligently to review financial statements prior to the audit.

By July 31, 2008, we will implement a new loan review servicing system to ensure Nortridge loan balances are correct. This new procedure will include cross-checks among the Loan Servicing Group, Project Managers, the Nortridge Loan Administrator, and HRA's lead accountant. (All other loans files are handled annually by HRA Loan Servicing for such items as insurance and other administrative requirements. Each Project Manager also conducts an annual loan portfolio review.)

Finally, a reminder directive from the PED Director's Office will be communicated to all PED staff requiring a prompt response by all PED staff to any/all requests from the State Auditor. Team Leaders will ensure compliance with this directive as well.

07-2 Audit Adjustments

A control deficiency 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 misstatements of the financial statements on a timely basis. Statement on Auditing Standards No. 112 states that one control deficiency that shall be regarded as at least a significant deficiency is identification by the auditor of a material misstatement in the financial statements that was not initially identified by the entity's internal controls, even if management subsequently corrects the misstatement.

During our audit, we identified the following material adjustment:

- Notes and loans receivable, net of allowance, decreased by \$189,811, and the related operating expenses were increased by the same amount in the HRA Loan Enterprise Fund.

The proposed audit adjustment was reviewed and approved by the appropriate staff and is reflected in the financial statements. However, by definition, independent external auditors cannot be considered part of the HRA's internal control.

We recommend the HRA strengthen and monitor the internal controls related to notes and loans receivable to improve the detection of misstatements in the financial statements.

Client's Response:

Implementation of internal controls related to the cause of Finding 07-1 (i.e., new loan review servicing system) will correct the factors which resulted in Finding 07-2, audit adjustments.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.



REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

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*

Commissioners of the Housing and Redevelopment
Authority of the City of Saint Paul
Saint Paul, Minnesota

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the Housing and Redevelopment Authority (HRA) of the City of Saint Paul, a component unit of the City of Saint Paul, as of and for the year ended December 31, 2007, which collectively comprise the HRA's basic financial statements, and have issued our report thereon dated June 26, 2008. 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 HRA's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the HRA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the HRA's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the HRA's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the HRA's financial statements that is more than inconsequential will not be prevented or detected by the HRA's internal control. We considered the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 07-1 and 07-2 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the HRA's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, both of the significant deficiencies described above are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the HRA'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 seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, tax increment financing, and miscellaneous provisions. The listed categories were tested in conjunction with the audit of the financial statements of the City of Saint Paul.

The HRA's written responses to the material weaknesses identified in our audit have been included in the Schedule of Findings and Questioned Costs. We did not audit the HRA's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the HRA's Board, management, others within the HRA, 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

June 26, 2008

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

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

Commissioners of the Housing and Redevelopment
Authority of the City of Saint Paul
Saint Paul, Minnesota

Compliance

We have audited the compliance of the Housing and Redevelopment Authority (HRA) of the City of Saint Paul, a component unit of the City of Saint Paul, 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 its major federal program for the year ended December 31, 2007. The HRA's major federal program is 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 its major federal program is the responsibility of the HRA's management. Our responsibility is to express an opinion on the HRA'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 HRA'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 HRA's compliance with those requirements.

In our opinion, the HRA complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2007.

Internal Control Over Compliance

The management of the HRA 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 HRA'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, 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 HRA's internal control over compliance.

A control deficiency in internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the HRA's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the HRA's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the HRA's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the HRA of the City of Saint Paul as of and for the year ended December 31, 2007, which collectively comprise the HRA's basic financial statements, and have issued our report thereon dated June 26, 2008. Our audit was performed for the purpose of forming opinions on the HRA's 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 HRA's Board, management, others within the HRA, 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

June 26, 2008

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**HOUSING AND REDEVELOPMENT
AUTHORITY OF THE CITY OF SAINT PAUL
SAINT PAUL, MINNESOTA**

Schedule 2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Housing and Urban Development		
Direct Grants		
Housing Counseling Assistance Grant Program	14.169	\$ 51,746
HOME Investment Partnerships Program	14.239	901,987
HOME Investment Partnerships Program		
American Dream Downpayment Initiative Program	14.239	56,000
Passed Through Ramsey County		
Lead-Based Paint Hazard Control in Privately-Owned Housing	14.900	3,205
Total U.S. Department of Housing and Urban Development		\$ 1,012,938
U.S. Department of Transportation		
Direct Grants		
Highway Planning and Construction		
West End Multi-Modal Hub	20.205	552,175
Total Federal Awards		\$ 1,565,113

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 Housing and Redevelopment Authority (HRA) of the City of Saint Paul, a blended component unit of the City of Saint Paul. The HRA's reporting entity is defined in Note 1 to the basic financial statements.
2. The expenditures on this schedule are on the basis of accounting used by the individual funds of the HRA. Governmental funds use the modified accrual basis of accounting. Proprietary funds use the accrual basis.
3. During 2007, \$330,732 of CFDA #14.239 was passed through to subrecipients.
4. Pass-through grant numbers were not assigned by the pass-through entities.