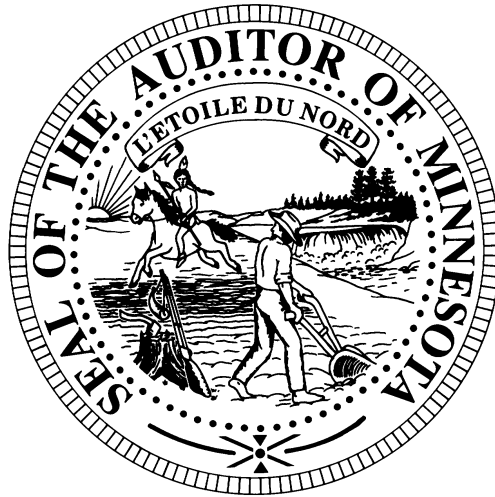


# STATE OF MINNESOTA

## Office of the State Auditor



**Rebecca Otto**  
**State Auditor**

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MANAGEMENT AND COMPLIANCE REPORT

**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, 2014

## **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 150 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 700 public pension funds; and

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

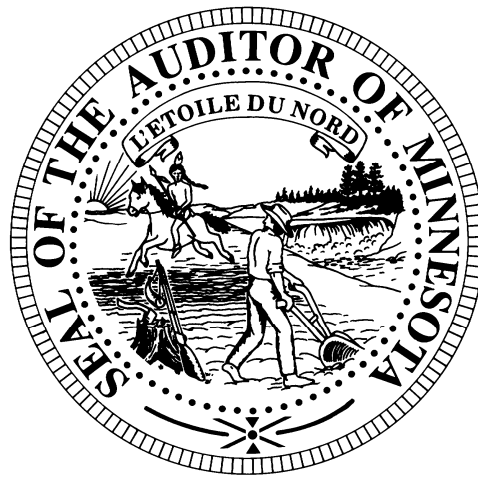
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**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, 2014**



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

SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
FOR THE YEAR ENDED DECEMBER 31, 2014

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding 2011-002

Audit Adjustments

**Criteria:** 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 of the financial statements on a timely basis. Auditing standards define a material weakness as a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

**Condition:** During our audit, we identified a material adjustment that resulted in a significant change to the HRA's financial statements.

**Context:** The inability to detect material misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented. This adjustment was found in the audit; however, independent external auditors cannot be considered part of the HRA's internal control.

**Effect:** The following audit adjustment was necessary:

- Unearned revenue was increased and unrestricted net position was decreased by \$2,092,719 in the HRA Loan Enterprise Fund.

The adjustment was reviewed and approved by the appropriate HRA staff and is reflected in the financial statements.

**Cause:** The City of Saint Paul and the HRA implemented the INFOR financial management system in 2014 and underwent a major fund structure change when the City and HRA implemented the new INFOR system. The City of Saint Paul's Office of Financial Services and Planning and Economic Development Department also experienced turnover in personnel key to the financial statement closing and reporting process. When preparing the fund financial statements as of and for the year ended December 31, 2014, the fund preparer made an adjustment to remove the unearned revenue previously reported in a special revenue fund from the beginning net position. This unearned revenue was related to grants received by the HRA that have specified restrictions; thus, the balance as of December 31, 2014, should still be reported as unearned revenue.

**Recommendation:** We recommend the HRA review its policies and procedures for the preparation of its financial statements to ensure that the financial information prepared by the accounting staff is accurately presented in the HRA financial statements in accordance with generally accepted accounting principles.

Client's Response:

*Unearned revenue previously reported in the HRA Federal and State Programs Special Revenue Fund is now being reported in the HRA Loan Enterprise Fund under the new INFOR fund structure as of January 1, 2014. To ensure that the HRA unearned revenue and financial information is accurately presented in the financial statements, financial information will be reviewed before the HRA Comprehensive Annual Financial Report (CAFR) is submitted as final.*

ITEMS ARISING THIS YEAR

Finding 2014-001

Financial Statements Preparation

**Criteria:** Management is responsible for preparing the HRA's Comprehensive Annual Financial Report (CAFR) in accordance with generally accepted accounting principles (GAAP). Preparation of the CAFR in accordance with GAAP requires internal control over both: (1) recording, processing, and summarizing accounting data (that is, maintaining internal books and records); and (2) preparing and reporting appropriate government-wide and fund financial statements, including the related notes to the financial statements.

**Condition:** Financial information necessary for the preparation of the CAFR was unable to be gathered, processed, and summarized in the time, form, and manner that would allow the HRA's CAFR to be prepared and submitted to oversight agencies and the City of Saint Paul by various required reporting deadlines.



**Context:** The HRA is a blended component unit of the City of Saint Paul. Portions of the information included in the HRA's CAFR are processed and prepared by the City of Saint Paul's Office of Financial Services. The Office of Financial Services (OFS) also processes and prepares additional information included in the City of Saint Paul's CAFR. Financial information is to be provided to the HRA in the time, form, and manner to allow staff to adequately review it, submit the information for audit, and to finalize the CAFR in order for various reporting deadlines to be met.

**Effect:** Delays in processing and preparing the information needed for the HRA and the City of Saint Paul CAFRs resulted in missing the GFOA's June 30 deadline for the HRA and the City, the Single Audit September 30 deadline for the City, and the Office of the State Auditor - Government Information Division reporting deadline required for the City to receive local government aid. Significant reporting delays could be reason for the GFOA to deny awarding the City of Saint Paul and the HRA Certificates of Achievement for Excellence in Financial Reporting, increase the risk that the City loses federal funding, and increase the risk that the City of Saint Paul loses local government aid crucial to operations.

**Cause:** The City of Saint Paul and the HRA implemented the INFOR financial management system during 2014. Implementation of the INFOR system caused significant delays and difficulties for both the City of Saint Paul and the HRA to record and process accounting data in an efficient and timely manner. The City of Saint Paul's Office of Financial Services and Planning and Economic Development (PED) also experienced turnover in personnel key to the financial statement closing and reporting process, limiting their ability to gather, process, and summarize information needed for both the HRA and the City of Saint Paul's CAFRs.

**Recommendation:** We recommend recording, processing, and summarizing of accounting data related to the new financial management system be timely to ensure that both the HRA and the City of Saint Paul will be able to issue future reports by required reporting deadlines. The Saint Paul City Attorney's Office has begun research on whether or not it is imperative for the HRA to issue an annual financial report or CAFR separate from the City's CAFR. We advise the HRA to continue to pursue the option of including the additional HRA detail within the City's CAFR as a substitute of preparing a separate HRA CAFR.

Client's Response:

*OFS and PED have hired experienced financial professionals and they are becoming proficient with the INFOR financial management system. Significant progress has been made in 2015 with posting transactions, balancing accounts, reconciling cash, and reporting accounts payable and accounts receivable by department and fund. Additional reporting has been created that will allow the City and HRA to report the results of operations by company, department, and fund. PED-Accounting will continue to work with OFS-Accounting to ensure adequate and timely completion of the HRA CAFR and to improve the financial reporting in the INFOR finance system. PED-Accounting will be*

*meeting with OFS and the Saint Paul Regional Water Services on December 3, 2015 to review the successes and obstacles encountered with the preparation of the 2014 financial statements and to plan and identify additional resources required to complete the 2015 financial statements and to meet the June 30 deadline for submission to the Government Finance Officers Association of the United States and Canada (GFOA), the Single Audit September 30 deadline, and the reporting to the Office of the State Auditor.*

*If the HRA pursues the option of including the HRA detail within the City's CAFR as a substitute for preparing a separate HRA CAFR, PED-Accounting will work with OFS-Accounting to accomplish this.*

Finding 2014-002

### Prior Period Adjustment

**Criteria:** 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 of the financial statements on a timely basis. One indication of a weakness in internal control is restatement of previously issued financial statements to reflect the correction of misstatements due to error.

**Condition:** When reviewing the outstanding debt reported by the HRA, staff determined that the Shepard Davern Rental Housing Tax Increment Note, Series 2006, was not a liability of the HRA, which had been previously reported as such.

**Context:** The need for prior period adjustments can raise doubts as to the reliability of the HRA's financial information being presented.

**Effect:** The January 1, 2014, net position for the Governmental Activities was restated (increased) by \$3,819,387 as a result of this error.

**Cause:** An error in interpreting the Tax Increment Note documents resulted in the HRA reporting debt that it is not liable for.

**Recommendation:** We recommend the HRA review its policies and procedures for the preparation of its financial statements to ensure that all amounts are properly reported in the financial statements.

### Client's Response:

*To ensure that the HRA long-term debt is accurately presented in the financial statements, long-term debt will be reviewed when it is issued to appropriately classify it. Prior to submission of the final HRA CAFR, financial information including outstanding long-term debt for the HRA including bonds, notes and pay-as-you-go notes will also be reviewed and reconciled to verify that financial information is appropriately classified.*

## PREVIOUSLY REPORTED ITEM RESOLVED

### **Monitoring Internal Controls (2012-001)**

Management had not yet formalized its assessment of risks in its review of internal controls, nor has it documented the significant internal controls, performed monitoring of those controls on a regular basis, or documented the monitoring activity.

### **Resolution**

During the implementation of the INFOR financial management system during 2014, management performed significant assessments of risks and internal controls. Modifications were made to the system where it was determined that original procedures were not adequately designed.

## **II. OTHER FINDING AND RECOMMENDATION**

### PREVIOUSLY REPORTED ITEM

### **Reporting (CFDA No. 14.239) (2013-001)**

There were no policies or procedures in place to ensure the HRA was reporting its first-tier subawards associated with federal grants and contracts in the Central Contractor Registration System (CCR) and the FFATA Subaward Reporting System (FSRS).

### **Status**

On September 24, 2014, the Board of Commissioners of the Housing and Redevelopment Authority of the City of Saint Paul, Minnesota, approved Resolution 14-1645 that transferred the responsibility of the HOME Investment Partnerships Program (CFDA No. 14.239) federal award to the City of Saint Paul effective January 1, 2014. This finding is unresolved as of December 31, 2014, and is reported as item 2013-004 in the Schedule of Findings and Questioned Costs contained in our Management and Compliance Report issued for the City of Saint Paul for the year ended December 31, 2014.

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REBECCA OTTO  
STATE AUDITOR

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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***

### Independent Auditor's Report

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

We have audited, 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, 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, Minnesota, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the HRA's basic financial statements, and have issued our report thereon dated November 25, 2015. Our report includes a reference to other auditors who audited the financial statements of the Penfield Apartments, as described in our report on the HRA's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the HRA's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Recommendations, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and an item that we consider to be a significant deficiency.

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 HRA's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Recommendations as items 2011-002 and 2014-002 to be material weaknesses.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Recommendations as item 2014-001 to be a significant deficiency.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the HRA's financial statements are free from 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**

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested in connection with the audit of the HRA's financial statements: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories. Except for tax increment financing, which was tested in conjunction with our audit of the financial statements of the HRA, the other listed categories were tested in conjunction with our audit of the financial statements of the City of Saint Paul.

In connection with our audit, nothing came to our attention that caused us to believe that the HRA failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the HRA's noncompliance with the above referenced provisions.

### **HRA's Response to Findings**

The HRA's responses to the internal control findings identified in our audit have been included in the Schedule of Findings and Recommendations. The HRA's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting, compliance, and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions* and the results of that testing, and not to provide an opinion on the effectiveness of the HRA's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the HRA's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

November 25, 2015