

# STATE OF MINNESOTA

## Office of the State Auditor



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

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

**MINNEAPOLIS PUBLIC HOUSING AUTHORITY**  
**MINNEAPOLIS, MINNESOTA**

YEAR ENDED DECEMBER 31, 2011

## **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, 2011**



**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, 2011**

**I. SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

Type of auditor's report issued: **Unqualified**

Internal control over financial reporting:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **No**

Noncompliance material to the financial statements noted? **No**

**Federal Awards**

Internal control over major programs:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **Yes**

Type of auditor's report issued on compliance for major programs: **Unqualified**

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? **Yes**

The major programs are:

Moving to Work Demonstration Program	CFDA #14.881
Capital Fund Programs Cluster	
Public Housing Capital Fund Competitive Grant - ARRA	CFDA #14.884
Formula Capital Fund Stimulus Grant - ARRA	CFDA #14.885

The threshold for distinguishing between Types A and B programs was \$3,000,000.

MPHA qualified as low-risk auditee? **Yes**

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

None.

## III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

### ITEMS ARISING THIS YEAR

#### 11-1 Eligibility

**Program:** Moving to Work Demonstration Program (CFDA No. 14.881)

**Criteria:** Per 24 C.F.R. § 960.257 (2011) re-examinations of eligibility are required to be completed at least annually. The Department of Housing and Urban Development (HUD) publishes the *Public Housing Occupancy Guidebook*, which describes recertification requirements in Chapter 12, Annual Reexaminations of Income and Family Circumstances. The Guidebook states the housing authority must begin the re-examination process timely so as to ensure rents can be adjusted at the beginning of each twelve month lease term.

**Condition:** We reviewed a sample of 25 Public Housing participant files and noted the following:

- For two of the case files tested, the annual re-examination was not conducted in a timely manner. One re-examination was three months late, and the other was six weeks late.

**Questioned Costs:** None.

**Context:** MPHA policy is to re-examine all tenants of a specific high rise building in accordance with that particular building's re-examination dates.

**Effect:** Noncompliance with federal requirements. Failure to complete re-examinations timely could result in the extension of benefits to ineligible individuals.

**Cause:** In accordance with policy, the MPHA examines individuals following preset high rise building re-examination dates. In both instances noted, tenants were examined following this schedule. However, due to other circumstances, such as a new admission to the program or tenant relocation, the effective dates of the most recent re-examinations were not aligned with the specific high rise building schedule. This resulted in late re-examinations.



**Recommendation:** We recommend the MPHA establish policies and procedures to implement a transitory, yet complete, examination to cover the period between the expiration date of the annual re-examination and the date the tenant will be re-examined in accordance with MPHA high rise building re-examination policies.

Corrective Action Plan:

Name of Contact Persons Responsible for Corrective Action:

*Mary Boler, Managing Director of LIPH  
Kim Hamilton, Supervisor of Leasing and Occupancy*

Corrective Action Planned:

*MPHA strives to complete all re-examinations on time. There are instances where a resident moves in or transfers to a new unit and a re-examination is required. For highrise units, re-examinations are done by building, not on the anniversary date of the move-in. This issue has come to the forefront as MPHA is in the process of major systems' improvements in the buildings which require units to be vacant and numerous tenant transfers.*

*MPHA has changed the transfer and move-in paperwork to assure that based on the re-examination date at the building where a tenant moves, the proper staff are notified of the requirement, and the re-examination is completed in a timely manner.*

Anticipated Completion Date:

*Staff training will continue on an as-needed basis, and the Supervisor of Leasing and Occupancy will review a sample of files to assure staff is following this requirement.*

11-2 Reporting

**Programs:** Moving to Work Demonstration Program (CFDA No. 14.881) and Capital Fund Programs Cluster: Public Housing Capital Fund Competitive Grant - ARRA (CFDA No. 14.884) and Formula Capital Fund Stimulus Grant - ARRA (CFDA No. 14.885)

**Criteria:** OMB Circular A-133 § .300(b) states that the auditee shall maintain internal control over federal programs that provides reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its programs.

**Condition:** We obtained an understanding of the controls in place for the indicated programs through inquiries of MPHA staff. During these discussions, we found that there are no established policies and procedures in place to provide for a review of HUD 60002, *Section 3 Summary Report, Economic Opportunities for Low- and Very-Low Income Persons*, by someone other than the preparer prior to submission of reports. A review by a supervisor or other individual familiar with the program requirements helps to ensure the data reported is accurate and complete.

**Questioned Costs:** None.

**Context:** Because of the lack of a formal review process for the HUD 60002 reports for these grants, we performed a more detailed examination of the reports to ensure the data reported was accurate and complete. No material exceptions were noted.

**Effect:** The lack of a formal review process increases the risk that errors or omissions may occur and not be detected prior to report submission.

**Cause:** For the HUD 60002 reports tested, policies and procedures requiring reviews of reports prior to submission were not in place.

**Recommendation:** We recommend the MPHA establish and implement policies and procedures to provide reasonable assurance that federal reports are subject to review by someone other than the preparer prior to submission.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

*Larry Bruckner, Acting Manager MPHA Procurement Department*

Corrective Action Planned:

*MPHA Procurement staff have been advised that all reports are to be reviewed by MPHA management prior to submission. Staff was also advised that adequate time for review by MPHA management must be allowed prior to the submission date. The Manager of Procurement must personally review all reports in a timely and analytical manner prior to submission.*

Anticipated Completion Date:

*August 28, 2012*

PREVIOUSLY REPORTED ITEM RESOLVED

**Eligibility and Reporting - Moving to Work Demonstration Program (CFDA No. 14.881) (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:

**Application**

One file was missing a current application.

**Resolution**

For the Section 8 Housing Choice Voucher Program participant files reviewed during the current audit, we noted no instances of missing applications.

**Re-examination**

For one file reviewed, the re-examination was not conducted in a timely manner. Re-examinations are required annually.

**Resolution**

For the Section 8 Housing Choice Voucher Program participant files reviewed during the current audit, we noted no instances of late re-examinations.

**Income Verification**

One file did not have current income verification information.

**Resolution**

For the Section 8 Housing Choice Voucher Program participant files reviewed during the current audit, we noted no instances of missing income verification information.

**50058 Deficiencies**

Ten files had deficiencies in the 50058. One file was missing an annual 50058, and three files contained data entry errors. For six of the files, the annual 50058 was not completed timely following an annual exam.

**Resolution**

For the Section 8 Housing Choice Voucher Program participant files reviewed during the current audit, we noted no instances of deficiencies in the 50058.

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REBECCA OTTO  
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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, 2011, and have issued our report thereon dated September 21, 2012. 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

Management of the MPHA is responsible for establishing and maintaining effective 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 21, 2012



REBECCA OTTO  
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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, 2011. 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 compliance 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, 2011. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and is described in the accompanying Schedule of Findings and Questioned Costs as item 11-1.

### 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 the 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 certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying Schedule of Findings and Questioned Costs as items 11-1 and 11-2. 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, 2011, and have issued our report thereon dated September 21, 2012. 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 plans to the federal award findings identified in our audit are included in the accompanying Schedule of Findings and Questioned Costs. We did not audit the MPHA's corrective action plans and, accordingly, we express no opinion on them.

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 21, 2012

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**MINNEAPOLIS PUBLIC HOUSING AUTHORITY  
MINNEAPOLIS, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Housing and Urban Development</b>		
Direct Funding		
Section 8 Project-Based Cluster		
N/C S/R Section 8 Program	14.182	\$ 1,034,033
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	14.856	<u>965,331</u>
<b>Total Section 8 Project-Based Cluster</b>		<b>\$ 1,999,364</b>
Shelter Plus Care	14.238	74,595
Moving to Work Demonstration Program	14.881	83,903,870
Capital Fund Programs Cluster		
Public Housing Capital Fund Competitive Grant - ARRA	14.884	21,199,910
Formula Capital Fund Stimulus Grant - ARRA	14.885	107,564
Section 8 Housing Choice Vouchers	14.871	699,809
Passed Through the City of Minneapolis		
Community Development Block Grants/Entitlement Grants	14.218	<u>143,289</u>
<b>Total U.S. Department of Housing and Urban Development</b>		<b><u>\$ 108,128,401</u></b>

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**MINNEAPOLIS PUBLIC HOUSING AUTHORITY  
MINNEAPOLIS, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

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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, 2011. 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 agencies.

4. Clusters

Clusters of programs are groupings of closely related programs that share common compliance requirements. Total expenditures by cluster are:

Capital Fund Programs Cluster	\$ 21,307,474
Section 8 Project-Based Cluster	1,999,364

5. Subrecipients

The MPHA did not pass any federal awards through to subrecipients during the year ended December 31, 2011.

**MINNEAPOLIS PUBLIC HOUSING AUTHORITY  
MINNEAPOLIS, MINNESOTA**

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6. 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.