

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

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, 2017

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 650 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, 2017



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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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, 2017, and the related notes to the financial statements, which collectively comprise the HRA's basic financial statements, and have issued our report thereon dated June 8, 2018.

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 a deficiency in internal control over financial reporting that we consider to be a material weakness.

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. 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 2017-001 to be a material weakness.

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 Cities*, 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; however, they 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 Cities*. 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 Finding

The HRA's response to the internal control finding identified in our audit is described in the Corrective Action Plan. The HRA's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 Cities* 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

June 8, 2018

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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, 2017**

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

INTERNAL CONTROL

ITEM ARISING THIS YEAR

Finding Number 2017-001

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. Auditing standards identify one indication of a material weakness in internal control to be the restatement of previously issued financial statements to reflect the correction of a material misstatement due to error.

Condition: A prior period adjustment was identified that resulted in a significant change to the HRA's financial statements. The December 31, 2016, deferred inflows of resources was overstated and fund balance was understated in the HRA Development Capital Projects Fund as a result of recognizing the value of land held for resale within unavailable revenue rather than reporting the asset as a component of fund balance and classifying it accordingly. The prior period adjustment to restate the HRA's financial statements was reviewed and approved by management and is reflected in the financial statements.

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, 2017, fund balance in the HRA Development Capital Projects Fund was restated (increased) by \$832,533.

Cause: The HRA reported the land held for resale activity incorrectly in the financial statements.

Recommendation: We recommend staff review the HRA's financial statement closing procedures to ensure there is accurate and complete information to fairly present the HRA's financial statements in accordance with generally accepted accounting principles.

View of Responsible Official: Concur

II. PREVIOUSLY REPORTED ITEM RESOLVED

2016-001 Audit Adjustment



CITY OF SAINT PAUL
Melvin Carter, Mayor

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Telephone: 651-266-6565

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

**CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED DECEMBER 31, 2017**

Finding Number: 2017-001
Finding Title: Prior Period Adjustment

Name of Contact Person Responsible for Corrective Action:

Rhonda Gillquist, Lead Accountant

Corrective Action Planned:

Government Accounting Standards Board (GASB) Statement 65 was effective beginning for the HRA's fiscal year 2013 which changed the reporting of deferred revenue and replaced it with deferred inflows. For fiscal years 2013 through 2016, the HRA continued to report the asset value for land held for resale as deferred inflows in the governmental funds. Once GASB Statement 65 was put into practice and more knowledge was obtained regarding the use of deferred inflows, it was determined that the asset value for land held for resale inventory should not be reported as deferred inflow. The HRA needed to restate the 2017 beginning fund balance in the governmental funds to reclassify deferred inflows related to land held for resale to the appropriate fund balance classification. To ensure that the deferred inflows are accurately presented in the HRA financial statements, the deferred inflows will be reviewed before the HRA financial statements are submitted as final.

Anticipated Completion Date:

December 31, 2018

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CITY OF SAINT PAUL
Melvin Carter, Mayor

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

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2017**

Finding Number: 2016-001
Finding Title: Audit Adjustment

Summary of Condition: A material adjustment was noted that resulted in a significant change to the HRA's financial statements. In the HRA Development Capital Projects Fund, due to other governments was decreased and other financing sources--advances issued was increased by \$9,360,000. This adjustment also affected the governmental activities in the government-wide financial statements.

Summary of Corrective Action Previously Reported: To ensure that the HRA's advances are accurately represented in the HRA financial statements, the advances will be reviewed before the HRA Comprehensive Annual Financial Report (CAFR) is submitted as final.

Status: Fully Corrected. Corrective action was taken.

Was corrective action taken significantly different than the action previously reported?

Yes _____ No X