

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

MINNEAPOLIS PUBLIC HOUSING AUTHORITY
MINNEAPOLIS, MINNESOTA

15-MONTH PERIOD ENDED
DECEMBER 31, 2009

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

This document can be made available in alternative formats upon request. Call 651-296-2551 [voice] or 1-800-627-3529 [relay service] for assistance; or visit the Office of the State Auditor's web site: www.auditor.state.mn.us.

**MINNEAPOLIS PUBLIC HOUSING AUTHORITY
MINNEAPOLIS, MINNESOTA**

15-Month Period Ended December 31, 2009



Management and Compliance Report

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

This page was left blank intentionally.

MINNEAPOLIS PUBLIC HOUSING AUTHORITY
MINNEAPOLIS, MINNESOTA

TABLE OF CONTENTS

	<u>Reference</u>	<u>Page</u>
Schedule of Findings and Questioned Costs	Schedule 1	
I. Summary of Auditor's Results		1
II. Findings Related to Financial Statements Audited in Accordance with <i>Government Auditing Standards</i>		2
III. Findings and Questioned Costs for Federal Award Programs		2
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		7
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133		9
Schedule of Expenditures of Federal Awards	Schedule 2	12
Notes to the Schedule of Expenditures of Federal Awards		13

This page was left blank intentionally.

**MINNEAPOLIS PUBLIC HOUSING AUTHORITY
MINNEAPOLIS, MINNESOTA**

Schedule 1

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE 15-MONTH PERIOD ENDED DECEMBER 31, 2009**

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 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*."
- C. No instances of noncompliance material to the financial statements of the MPHA were disclosed during the audit.
- D. A significant deficiency relating to the audit of a major federal award program is reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133." The significant deficiency is not a material weakness.
- E. The Auditor's Report on Compliance for the major federal award programs for the MPHA expresses an unqualified opinion.
- F. A finding relative to a major federal award program for the MPHA was reported as required by Section 510(a) of OMB Circular A-133.
- G. The major programs are:

Moving to Work Demonstration Program	CFDA No. 14.881
Formula Capital Fund Stimulus Grant - ARRA	CFDA No. 14.885
- H. The threshold for distinguishing between Types A and B programs was \$3,000,000.
- 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 ITEM NOT RESOLVED

03-3 Moving to Work Demonstration Program - CFDA No. 14.881 (formerly reported as Section 8 Housing Choice Vouchers - Eligibility, Reporting, and Special Tests and Provisions (Housing Inspections) - CFDA No. 14.871)

The U.S. Department of Housing and Urban Development (HUD) Section 8 Housing Choice Vouchers Program 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 Housing Choice Vouchers Program participant files, the following items were noted:

Items similar to those identified in the previous year:

- One file reviewed was missing the signature and date on the current application.
- For six files reviewed, re-examinations were not conducted in a timely manner. Re-examinations are required annually.
- In seven files, deficiencies with the 50058 were noted. Four of the errors also caused the tenant rent and housing assistance payments (HAP) calculated by the auditor to differ from the amount calculated by the MPHA. The differences were the result of calculation errors, use of incorrect amounts for deductions, or outdated information. One file had an incorrect income calculation, and another had the wrong payment standard. A third file contained an unsupported child care expense allowance. The fourth file

credited an individual for student status when the individual was not enrolled (either in high school or an institution of higher learning). The fifth file was incorrect due to an income calculation error. A sixth file listed race and ethnicity codes which did not match the application information and the photo ID. A seventh file contained a procedural calculation error where the income was recorded net of medical expenses rather than at gross. The seventh error was an inconsistency between assets reported on the 50058 and those listed on the application, but did not alter the results of the HAP calculation on the 50058.

- In nine 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. Of these files, five were within the two months overdue that HUD would accept on the PIC calculation, and one was over two months but less than six months late. For the remaining three files, inspections were performed in 2009, but had not been in 2008. Therefore, we could not conclude that the inspections had been performed on a timely basis.

New item identified during the current audit:

- Two files reviewed had deficiencies in required third-party verifications. For one file reviewed, the student verification form stated that the individual over 18 years of age was not enrolled (either in high school or an institution of higher learning), but the student deduction was still being claimed. The other instance was an allowance given to the family for \$7,800 in child care costs that did not appear on the application, and the file had no current year support for the allowance.

We acknowledge that the MPHA has taken steps to strengthen controls over the Section 8 Housing Choice Vouchers Program. Although there have been significant improvements noted over the prior years, we recommend the MPHA take the following corrective actions:

- Correct files where documentation is missing, incomplete, or incorrect, as noted above. All files should have complete documentation that is reviewed and updated as necessary and appropriate.
- 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, Managing Director of Housing Choice Voucher Program
Rita Ytzen, Senior Supervisor of Housing Choice Voucher Program*

Corrective Action Plan:

- *The file containing the missing signature and date on the re-examination application has been corrected with the February 2010 annual reexamination.*
- *Regarding the four files identified as having calculation errors, all four have been corrected; none of the corrections resulted in a reimbursement to the family.*
- *To ensure re-examinations are conducted in a timely manner, we revised our Annual Reexamination Procedure in early 2009. Supervisory Staff now schedules all annual recertification appointments 120 days prior to the participants' effective date, through the use of our software Event Task Manager Module.*
- *To ensure annual inspections of housing units are completed on time, we continue to use our recently upgraded HQS automated scheduling program, which has begun to demonstrate effectiveness. The scheduling program is designed to filter inspections, by date, and is used by the Inspections Supervisor to confirm that units are scheduled for inspection within 364 days of the previously completed annual inspection.*

Schedule 1
(Continued)

- *By the start of our new 2011 fiscal year, MPHA will hire two (2) Quality Assurance Technicians to perform 100 percent participant file audits to ensure that all files contain required applications, forms and mandatory documents and that all file documents are properly dated, signed and free of clerical errors. Further, Quality Assurance Technicians, under the guidance of the Quality Control and Technical Specialist, will examine the 50058 processes for each participant's occupancy cycle including intake, lease up, annual activities, and interim activities.*

- *The Section 8 Quality Control Specialist will continue to randomly review files for quality assurance and monitor our staff's submissions of HUD form 50058 to review them for errors before submitting. These reviews identify missing and/or late re-examinations and annual HQS inspections, inaccurate rent calculations, and proper documentation on program participants.*

Anticipated Completion Date:

All software enhancements and revised procedures were implemented in 2010.

We anticipate the hiring of the two Quality Assurance Technicians by January, 2011.

The Quality Control Specialist will continue quality control audits including inspections and HUD information systems reporting.

PREVIOUSLY REPORTED ITEM RESOLVED

Moving to Work Demonstration Program - CFDA No. 14.881 (formerly reported as Section 8 Housing Choice Vouchers - Eligibility, Reporting, and Special Tests and Provisions (Housing Inspections) - CFDA No. 14.871 (03-3))

The following summarizes prior audit issues and recommendations for the Section 8 Housing Choice Voucher Program based on a review of 40 participant files and corrective action resulting in current year resolution:

Status 214 Citizenship Form

Four files were either missing or had incorrectly completed Status 214 Citizenship forms.

Resolution

For the Section 8 Housing Choice Voucher Program participant files reviewed during the current audit, we noted no instances of files with missing or incorrectly completed Status 214 Citizenship forms.

HUD Form 9886

Three files were either missing a current HUD Form 9886, *Authorization for Release of Information*, or the form was not properly signed and dated.

Resolution

During our review of Section 8 Housing Choice Voucher Program files, we noted no instances of missing or improperly completed HUD Form 9886.

Social Security Numbers

Two files reviewed did not contain verification of Social Security numbers of all household members six years and older.

Resolution

We noted no missing verifications of Social Security numbers during our audit of the Section 8 Housing Choice Voucher Program.

Housing Assistance Payment (HAP) Contracts

A HAP contract with the landlord was not signed.

Resolution

For the Section 8 Housing Choice Voucher Program participant files reviewed for the current audit, each contained a current and complete HAP contract.



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*

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 15-month period ended December 31, 2009, and have issued our report thereon dated September 21, 2010. 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 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 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, 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, 2010



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

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 15-month period ended December 31, 2009. 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 15-month period ended December 31, 2009.

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 in order to determine our 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, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying Schedule of Findings and Questioned Costs as item 03-3. 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 15-month period ended December 31, 2009, and have issued our report thereon dated September 21, 2010. 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 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.

The MPHA's corrective action plan to the federal award finding identified in our audit is included in the accompanying Schedule of Findings and Questioned Costs. We did not audit the MPHA's corrective action plan and, accordingly, we express no opinion on it.

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

September 21, 2010

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

This page was left blank intentionally.

**MINNEAPOLIS PUBLIC HOUSING AUTHORITY
MINNEAPOLIS, MINNESOTA**

Schedule 2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE 15-MONTH PERIOD ENDED DECEMBER 31, 2009**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Housing and Urban Development		
Direct Funding		
Section 8 Project-Based Programs Cluster		
N/C S/R Section 8 Program	14.182	\$ 1,113,613
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	14.856	<u>1,103,431</u>
Total Section 8 Project-Based Programs Cluster		<u>\$ 2,217,044</u>
Shelter Plus Care	14.238	<u>\$ 18,405</u>
Moving to Work Demonstration Program	14.881	<u>\$ 100,235,249</u>
Formula Capital Fund Stimulus Grant - ARRA	14.885	<u>\$ 10,436,484</u>
HUD - Veterans Affairs Supportive Housing Program	14.VSH	<u>\$ 70,441</u>
Passed Through the City of Minneapolis		
Community Development Block Grants/Entitlement Grants	14.218	<u>\$ 349,079</u>
Total U.S. Department of Housing and Urban Development		<u>\$ 113,326,702</u>
Corporation for National and Community Service		
Direct Funding		
Volunteers in Service to America	94.013	<u>\$ 10,189</u>
U.S. Department of Homeland Security		
Passed Through the U.S. Department of Housing and Urban Development		
Disaster Housing Assistance Grant	97.109	<u>\$ 24,674</u>
Total Federal Awards		<u><u>\$ 113,361,565</u></u>

This page was left blank intentionally.

**MINNEAPOLIS PUBLIC HOUSING AUTHORITY
MINNEAPOLIS, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE 15-MONTH PERIOD ENDED DECEMBER 31, 2009**

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 15-month period ended December 31, 2009. 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. Change in Fiscal Year-End

During 2009, the MPHA changed its fiscal year-end from September 30 to December 31. The accompanying Schedule of Expenditures of Federal Awards presents the federal grant activity of the MPHA under programs of the federal government for the 15-month period ended December 31, 2009. The change in fiscal year-end must be considered when comparing the accompanying Schedule of Expenditures of Federal Awards with those of prior reports.

4. 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 entities.

**MINNEAPOLIS PUBLIC HOUSING AUTHORITY
MINNEAPOLIS, MINNESOTA**

5. Subrecipients

The MPHA did not pass any federal awards through to subrecipients during the 15-month period ended December 31, 2009.

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.