



MINNESOTA OFFICE OF THE STATE AUDITOR

**THE HOUSING AND REDEVELOPMENT
AUTHORITY OF ST. CLOUD
ST. CLOUD, MINNESOTA
YEAR ENDED JUNE 30, 1997**

**JUDITH H. DUTCHER
STATE AUDITOR**

THE HOUSING AND REDEVELOPMENT AUTHORITY OF ST. CLOUD
ST. CLOUD, MINNESOTA

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 1997

**THE HOUSING AND REDEVELOPMENT AUTHORITY OF ST. CLOUD
ST. CLOUD, MINNESOTA**

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THE HOUSING AND REDEVELOPMENT AUTHORITY OF ST. CLOUD
ST. CLOUD, MINNESOTA

Schedule 3

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1997

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses a qualified opinion on the general purpose financial statements of the Housing and Redevelopment Authority of St. Cloud (HRA), because it is the HRA's policy is to prepare its Public Housing Enterprise Fund financial statements on the basis of accounting practices prescribed or permitted by the U.S. Department of Housing and Urban Development. These practices differ in some respects from generally accepted accounting principles. Accordingly, the Public Housing Enterprise Fund financial statements are not intended to present the financial position, results of operations, and cash flows in conformity with generally accepted accounting principles.
- B. Reportable conditions in internal control were disclosed by the audit of the financial statements of the HRA and are reported in the "Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*." Two of the reportable conditions are material weaknesses.
- C. No instances of noncompliance material to the financial statements of the HRA were disclosed during the audit.
- D. A reportable condition relating to the audit of the major federal award programs 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 reportable condition is a material weakness.
- E. The Auditor's Report on Compliance for the major federal award programs for the HRA expresses an unqualified opinion.
- F. Findings relative to the major federal award programs for the HRA were disclosed during the audit.

G. The major programs are:

Section 8 New Construction - CFDA #14.182
Community Development Block Grant - CFDA #14.218
Section 8 Rental Certificate Program - CFDA #14.857
Comprehensive Grant Program - CFDA #14.859

H. The threshold for distinguishing between Types A and B programs was \$300,000.

I. The HRA was not determined to be a low-risk auditee.

II. FINANCIAL STATEMENT AUDIT--INTERNAL CONTROLS

PREVIOUSLY REPORTED ITEM NOT RESOLVED

96-1 Lack of Segregation of the Accounting Functions

Due to the limited number of accounting personnel within the HRA, segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible. This is not unusual in operations the size of the HRA; however, the HRA's management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an accounting point of view.

Control procedures which the HRA should consider include:

- management determining that employees under its direct supervision are submitting financial reports currently,
- management determining that financial records are maintained currently, and
- management reviewing financial reports to the Board and other governmental units for reasonableness and to ascertain that they agree with the accounting records.

We recommend that HRA management be aware of the lack of segregation of the accounting functions and, if possible, implement oversight procedures to ensure that the internal control structure policies and procedures are being implemented by staff.

Client's Response:

Management is aware of the lack of segregation of the accounting functions. The lack of segregation of duties is directly related to the size of the agency. Department managers receive monthly financial information relating to their programs and reviews information for accuracy and timeliness of reporting. They are working with the Director of Accounting to ensure that financial reporting forms agree to accounting system. In addition all staff duties will be reviewed, and segregation of duties will be established to the agency's fullest ability.

ITEMS ARISING THIS YEAR

97-1 Cancellation of Supporting Documentation for Paid Claims

During the year ended June 30, 1997, disbursements for both the St. Cloud HRA and the Stearns County HRA were run under one system. As such, our testing of the disbursements system covered both entities. During our testing, we noted that the supporting documentation for one of the 25 general disbursements and seven of the 15 travel disbursements selected for testing was not adequately canceled. Five of these eight claims were charged to the St. Cloud HRA. Supporting documentation should be canceled to prevent further use or possible resubmission.

We recommend that the HRA cancel all supporting documentation for claims at the time the claim is paid. This may be accomplished by stamping "Paid" on each page of the supporting documentation.

Client's Response:

Procedures are in place to stamp "PAID" on supporting documentation. These procedures have been discussed with accounting personnel and will be strictly implemented.

97-2 Policies and Procedures Manual

The St. Cloud HRA has adopted the following policies over the years: investment; property disposition; real property acquisition; code of professional conduct and ethics; procurement; and personnel. We feel the HRA needs additional policies and procedures. Some of the areas that should be addressed include: cash receipts and disbursements; journal entries; capitalization of assets; electronic data processing; risk management; electronic funds transfers; debt issuance; cost allocation; interest allocation; and write-off of uncollectible receivables.

We recommend that the HRA adopt additional operating policies and procedures. These policies should be organized into a single manual for ease in determining if the HRA's actions are in compliance with its policies.

Client's Response:

The operating policies will be reviewed and an "Operating Policy" and/or "Accounting Policies and Procedures" manual will be created. Policies and procedures for areas listed will be written and approved as quickly as time allows.

97-3 Bank Reconciliations

During the year ended June 30, 1997, the HRA accountant would attempt to reconcile the HRA's cash balance to the bank statement on a monthly basis. In reviewing these reconciliations, we found that some of these bank reconciliations were never completed. For those that were completed, the supporting documentation provided for some of the reconciling items was inadequate and a "plug" journal entry was needed to get the book balance to agree with the bank balance. These "plug" entries represent unidentifiable differences between the HRA's book balance and the bank balance. These types of differences should be fully investigated and reconciled.

We recommend that the HRA reconcile its cash balance to the bank statements on a monthly basis. Reconciling items should be fully explained and have adequate supporting documentation. A "plug" figure should not be needed to balance the account.

Client's Response:

Reconciliation for both cash and investments will be done on a monthly basis. Supporting documentation will be attached to all journal entries and a "plug" will not be made.

97-4 Backup Documentation for Journal Entries

During the course of our audit, we found it necessary to examine numerous journal entries and found that some of these entries were not supported by adequate documentation. This made it extremely difficult and time-consuming to determine if the reasons for the journal entries, as well as the amounts, were proper.

We recommend that documentation supporting the amounts of and reasons for journal entries be filed with all journal entry forms.

Client's Response:

A reason will be written for all journal entries and supporting documentation will be attached to the journal voucher.

97-5 Payroll Hold-Back Period

The HRA is operating its payroll system without a hold-back period. The last day of the pay period is the same day that the employees are paid. Operating a payroll system without a sufficient hold-back period prohibits the payroll clerk from properly verifying actual hours worked before employees are paid for those hours. This may lead to potential losses of HRA funds and abuses of the system.

In order to properly process payroll, the payroll clerk should obtain actual time records from employees one to three days in advance. This requires employees to submit approved records of actual hours worked, instead of estimated hours worked.

We recommend the HRA adopt a policy that would require a one- to three-day hold-back period. This would provide sufficient time for the payroll clerk to verify actual hours worked and would enhance controls over the payroll system.

Client's Response:

A payroll hold back period has been established and implemented.

97-6 Cellular Phone Bills

It was brought to our attention during the audit that the cellular phone bills for the former Executive Director were paid without an itemized statement. The HRA accounting department was unable to determine if there were any personal phone calls paid by the HRA.

Upon further examination, we found that two cellular phone companies are paid each month, Cellular 2000 (one phone) and AT&T Wireless (six phones). The phone through Cellular 2000 is owned by the employee but the bill comes directly to the HRA. This employee reviews the bill, marks all personal calls, and reimburses the HRA for them. All other cellular phones are the property of the HRA and are serviced through AT&T Wireless. Upon review of the AT&T Wireless bills paid throughout the year, we noted that only a summary page of the bill was received, making it impossible to determine if personal calls were included. Amounts paid to Cellular 2000 and AT&T Wireless totaled \$511 and \$3,925, respectively. We noted no employee reimbursements for phone bills paid to AT&T Wireless. A spokesperson for AT&T Wireless indicated that a customer can receive monthly itemized statements at no additional cost.

We recommend that the HRA request itemized phone bills from its cellular phone vendors.

The HRA does not have authority to guarantee payment of the personal phone bills of its employees, nor does the HRA have authority to act as a collection agency for a cellular phone company. We recommend that the HRA discontinue receiving Cellular 2000 bills. Bills for the use of cellular phones owned by its employees should go directly to the employees. Once paid by the employees, that portion of the bill that is related to HRA business could be submitted, with verification, as a claim.

Client's Response:

Bills for the use of cellular phones owned by employees will be paid by employees. It will be the employees responsibility to submit supporting documentation (Example: monthly itemization) to be reimbursed for HRA related business calls.

97-7 Fixed Assets

During our audit of the HRA's fixed asset system, we noted the following areas of concern:

A. General Fixed Assets

The HRA groups its general fixed assets into four broad categories for financial reporting purposes: land and land improvements; buildings; furniture and fixtures; and construction in progress. The ending totals for the furniture and fixtures and construction in progress categories are supported by detail in the HRA's fixed assets system. Prior to year-end June 30, 1997, land and land improvements and buildings owned by the HRA were not reported in its financial statements. Seven parcels of land and a parking lot owned by the HRA with historical costs totaling \$698,742, and two buildings owned by the HRA with historical costs totaling \$137,180 were added to the HRA's General Fixed Assets Account Group.

B. Enterprise Fund Fixed Assets

- The HRA groups its enterprise fund fixed assets into four broad categories for financial reporting purposes: land and land improvements, buildings, furniture and fixtures, and equipment. The HRA keeps detailed listings of the furniture and fixtures category, but we were unable to reconcile the ending balance reported in the financial statements to the listings. The land and land improvements, buildings, and equipment categories do not have detailed listings supporting the ending balances in the financial statements. For financial reporting purposes, the June 30, 1996, balance, plus additions, less deletions, was reported as the balance for June 30, 1997.
- The HRA owns and operates two parking ramps. Prior to year-end June 30, 1997, these parking ramps were not reported as fixed assets in the HRA's financial statements. Adjustments were made to the Paramount Parking Ramp Enterprise Fund to increase fixed assets by \$1,999,000, and accumulated depreciation by \$399,800, and to the Grand Central Parking Ramp Enterprise Fund to increase fixed assets by \$2,054,566 and accumulated depreciation by \$321,849.

We recommend the HRA develop formal policies and procedures for creating and maintaining a centralized fixed asset system. These policies and procedures should include a capitalization policy and should establish an ongoing system for identifying acquisitions and disposals of fixed assets. Additions, deletions, and changes should be reported to one individual given the responsibility and authority to maintain and summarize this information throughout the year on a timely basis.

To maintain adequate accountability, we also recommend the HRA conduct a periodic physical inventory of fixed assets and adjust the records accordingly. To aid in tracking its fixed assets, the HRA could affix pre-numbered identification tags to materially significant assets, and develop procedures to tag new assets as they are acquired.

Client's Response:

Obtaining fixed asset software will be investigated and a fixed asset policy and system will be developed. As a temporary internal control a transaction detail report will be reviewed to look for "capital type" transactions and to ensure that such transactions have been properly capitalized. In addition, an annual physical count will be conducted.

Enterprise fund fixed assets will be reconciled between detailed listing and amount reported in the financial statement.

III. MAJOR FEDERAL AWARD PROGRAMS--COMPLIANCE

ITEM ARISING THIS YEAR

97-8 **Public and Indian Housing Program - CFDA #14.850**

During our review of the Public Housing reports for the year ended June 30, 1997, we noted the following:

- According to the Department of Housing and Urban Development (HUD), only public housing operating activity is to be included on the HUD reports. The fixed asset amount reported on line 37 of the "Balance Sheet for Section 8 and Public Housing" (HUD report 52595) for the year ended June 30, 1996, agrees with the HRA's general ledger, but includes

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(Continued)

both operating and development activity. The increase in fixed assets for the year ended June 30, 1997, is all attributable to development activity, so it was not added to this year's fixed asset total for the HUD reports. However, since the prior year balance includes fixed assets for both operating and development activity, it should be adjusted to comply with HUD reporting requirements.

- We could not determine if the beginning unreserved surplus balance reported on line 17 of the "Statement of Income and Expense and Changes in Accumulated Surplus or Deficit from Operations" (HUD report #52596) for the year ended June 30, 1997, was correct. This unreserved surplus balance was taken from line 87 of the June 30, 1996, "Balance Sheet for Section 8 and Public Housing Report," but it does not agree with the unreserved surplus balance reported on line 24 of the June 30, 1996, "Statement of Income and Expenses and Changes in Accumulated Surplus or Deficit from Operations," nor does it agree with the general ledger.
- On line 10 of the "Statement of Income and Expense and Changes in Accumulated Surplus or Deficit from Operations" for the year ended June 30, 1997, an unidentified adjustment of \$8,923 was needed to balance the reports.
- The operating reserve, in the amount of \$580,210, reported on line 36 of the "Statement of Income and Expense and Changes in Accumulated Surplus or Deficit from Operations" for the year ended June 30, 1997, does not balance to anything. This amount has been reported in past financial statements as an operating reserve for leased public housing but, when asked, HRA personnel did not know where the amount came from or why it continues to be reported as such.

We recommend that the HRA work with HUD to determine how to properly report its public housing operations.

Client's Response:

The Accounting Director is working with HUD financial advisors to resolve and determine the proper reporting of fixed assets. In addition a meeting with HUD financial advisors will take place to discuss the report forms and how they relate to each other. The unreserved surplus balance will be discussed at this meeting.

The operating reserve of \$580,210 is from a program that has since closed. The local HUD financial advisor will be sending a guide as to what to do to close out this line item. Upon receipt of the guide the procedures to close the line item will be implemented.

PREVIOUSLY REPORTED ITEM RESOLVED

Section 8 Rental Certificate Program - CFDA #14.857

For the year ended June 30, 1996, 35 case files from the Section 8 Rental Certificate Program were selected for review. Of those 35 files, six did not contain the Certificate of Rent Reasonableness and one did not have a signed HAP agreement.

Resolution

All Section 8 Rental Certificate Program case files we reviewed for the year ended June 30, 1997, contained the required Certificates of Rent Reasonableness and signed HAP agreements.

OTHER FINDINGS AND RECOMMENDATIONS

IV. MINNESOTA LEGAL COMPLIANCE

ITEMS ARISING THIS YEAR

97-9 Payments Not Approved by the Board of Commissioners

During the year ended June 30, 1997, disbursements for both the St. Cloud HRA and the Stearns County HRA were run under one system. As such, our testing of the disbursements system covered both entities. During our testing, we noted that one of the 25 general disbursements, and three of the 15 expense reimbursement claims selected for testing were over the \$1,000 Board-approval threshold established by the HRA; these claims were never submitted to the HRA Boards for approval. Two of these four claims over \$1,000 were charged to the St. Cloud HRA.

Minn. Stat. § 469.012, subd. 1 (24), gives the HRA Board the power to make expenditures necessary to carry out the purposes of Minn. Stat. ch. 469. Thus all expenditures need to be approved by the HRA Board, unless it delegates this power to one or more of its agents or employees under Minn. Stat. § 469.012, subd. 1 (3).

On April 19, 1995, the St. Cloud HRA Board passed resolution 95-14 adopting a new procurement policy. Item B of this policy states that all expenditures over \$1,000 require approval by the HRA Board on a monthly basis. The two payments described above should have been approved by the St. Cloud HRA Board in order to be in compliance with its procurement policy and with Minn. Stat. § 469.012, subd. 1 (24).

We recommend that the HRA establish procedures to ensure that all payments over \$1,000 are being submitted to the Board for approval in accordance with its procurement policy and with Minn. Stat. § 469.012, subd. 1 (24).

Client's Response:

Procedures have been established and disbursements of \$1,000 or more are being approved by the board prior to being entered into the accounting system for disbursement.

97-10 Broker Acknowledgment Certification Forms

The HRA did not have broker acknowledgment certification forms for its brokers. The certification is a written acknowledgment from brokers that they have received a statement of the HRA's investment restrictions and that they agree to handle the HRA's account in accordance with those restrictions. Minn. Stat. § 118A.04, subd. 9, requires receipt of the acknowledgment before the HRA can enter into a transaction with a broker.

We recommend the HRA obtain written acknowledgments from all brokers before entering into transactions with them in accordance with Minn. Stat. § 118A.04, subd. 9.

Client's Response:

Broker Acknowledgement Certification Forms have been obtained for all brokers. This procedure will be done on an annual basis in accordance to Minnesota Statute 118A.04, subd. 9.

97-11 Mutual Fund Investments

At June 30, 1997, the St. Cloud HRA and the Stearns County HRA held a joint investment in the Great Hall Prime Money Market Fund, a mutual fund, in the amount of \$268,500. The St. Cloud HRA's proportionate share of this

investment was approximately \$241,650. Upon review of the prospectus and inquiry to the broker, we have determined that this mutual fund is not a permissible investment under Minn. Stat. § 118A.04 or Minn. Stat. § 50.14.

We recommend that the HRA invest only in those investments permissible under Minn. Stat. § 118A.04 or Minn. Stat. § 50.14.

Client's Response:

All investments that were not permissible under the Minnesota Statute 118A.04 have been eliminated. All future investments will be made in accordance with Minnesota Statute 118A.04.

97-12 Contract Compliance

During our review of the HRA's construction contracts, we noted that the construction manager for the Liberty Savings Redevelopment Project did not obtain and retain for the files copies of the bid solicitation and an affidavit of publication verifying bid solicitation from an official newspaper or trade journal.

Minn. Stat. § 469.015, subd. 1, states that before receiving bids, the authority should publish, once a week for two consecutive weeks in an official newspaper, a notice that bids will be received for construction work, or for the purchase of equipment, supplies, or materials. The notice should state the nature of the work and the terms and conditions upon which the contract is to be let, naming a time and place where bids will be received, opened, and read publicly. Because the bid solicitation and affidavit of publication were not retained in the contract files, we could not determine if the HRA complied with these requirements.

To help ensure that its construction managers comply with applicable legal requirements regarding contracts, we recommend that the HRA prepare and distribute to its construction managers a checklist of the compliance requirements in Minn. Stat. § 469.015.

Client's Response:

The State Auditor compliance manual will be obtained. A check list will be created to ensure compliance with Minnesota statutes which will be maintained in the contract file.

97-13 Sale of Equipment to HRA Employees

Over the years, the HRA has sold the following equipment to various HRA employees without going through the proper bidding process required by Minn. Stat. § 15.054:

- 1 remote answering system
- 1 lap top computer
- 3 office chairs
- 7 personal computers with monitors
- 1 printer
- 2 desks

All of this equipment was at least three years old when sold.

Minn. Stat. § 15.054 states that property or materials owned by the state or a political subdivision, except real property, may be sold to an employee of the state or a political subdivision after reasonable public notice, at a public auction or by sealed bid if the employee is the highest bidder and is not directly involved in the auction or sealed bid process.

We recommend that the HRA hold a public auction or sealed bid process when employees wish to buy HRA property. The auction must be publicly advertised. Employees purchasing HRA property must not be involved in the auction or sealed bid process.

Client's Response:

Sale of equipment to HRA employees has ceased. All equipment will be disposed of properly in compliance with Minnesota Statute 15.054. The HRA will investigate to determine if the items to be auctioned can be sold at the City of St. Cloud's public auction. In addition, it will be investigated to determine whether equipment can be donated to another government agency. All supporting documentation of disposed equipment will be maintained.

97-14 Improper Use of Tax Increment Financing (TIF) Collections

Four of the HRA's Debt Service Funds made payments out of TIF collections to the City of St. Cloud to compensate the City for local government aid that was lost when the TIF districts were created. The amounts and funds affected are:

Schedule 3
(Continued)

	Paid in Fiscal Year-End June 30, <u>1996</u>	Paid in Fiscal Year-End June 30, <u>1997</u>	<u>Total</u>
Debt Service Funds			
Woodcraft	\$ 22,915	\$ 19,194	\$ 42,109
Target	-	8,722	8,722
FSI	-	1,587	1,587
Webway	-	<u>12,821</u>	<u>12,821</u>
Total	<u>\$ 22,915</u>	<u>\$ 42,324</u>	<u>\$ 65,239</u>

The use of TIF collections to reimburse the City for lost local government aid is not in compliance with state TIF laws, codified at Minn. Stat. §§ 469.174-.179. If the HRA wishes to compensate the City for lost local government aid, it may do so from the General Fund.

We recommend that the HRA's General Fund reimburse the affected Debt Service Funds for these improper payments. All future payments to the City of St. Cloud for lost local government aid should be paid out of the General Fund.

Client's Response:

The HRA will reimburse the affected debt service accounts for the improper payments. All future payments will be paid in a proper fashion.

97-15 Christmas Party

On December 20, 1996, the St. Cloud HRA paid for a Christmas party for staff and their spouses/guests; the total claim for this party was \$413. Op. Atty. Gen. 59a-22, Nov. 23, 1966, specifically prohibits governmental entities from expending public funds to pay for Christmas parties.

When we brought this to the Acting Executive Director's attention, he issued a memo, dated November 10, 1997, stating that parties cannot be funded by the HRA and that individuals will have to pay their own costs. We commend the HRA for taking immediate steps to stop this practice.

V. MANAGEMENT PRACTICES

ITEMS ARISING THIS YEAR

97-16 Practices of Former Executive Director

A. Meal Reimbursements

The HRA's meal reimbursement policy allows for reimbursement of meals to employees on HRA business at prevailing rates, and states that expenses are to be documented with receipts and explanations. During the year ended June 30, 1997, the former Executive Director submitted claims for reimbursement of 32 meals totaling \$767.12, an average of \$23.97 per meal; individual meal amounts submitted for reimbursement ranged from \$3.12 to \$65.10. The former Executive Director would usually make notations on or next to the receipts listing the individuals whose meals were included in the total. Many times these individuals were not employees of the HRA.

We recommend that the HRA enforce its meal reimbursement policy and reimburse only those meals that have been incurred by its employees.

Client's Response:

The meal reimbursement policy will be followed.

B. Payments to the Former Executive Director in Excess of \$1,000 Not Submitted to the HRA Board of Commissioners for Approval

During the year ended June 30, 1997, the former Executive Director was reimbursed a total of \$3,157.07 for travel expenses and the following items purchased out of his personal account: a computer scanner, a fax machine, a keyboard, an office chair with arm pads, numerous publications, and a software book. On each occasion, a receipt or claim was submitted to the HRA for reimbursement. Although many of these reimbursements were individually less than \$1,000, as submitted and paid they totaled over \$1,000. However, these payments were never approved by the HRA Board.

We recommend that the HRA establish procedures to ensure that all payments over \$1,000 are submitted to the Board for approval in accordance with its procurement policy.

Client's Response:

All payments of \$1,000 or more will be submitted to the Board of Commissioners for approval in accordance with the procurement policy.

C. Consulting Work Performed While on Sick Leave

During the year ended June 30, 1997, we noted 11 instances in which the former Executive Director performed consulting work for the Stearns County HRA while claiming a full eight-hour day of sick leave on his St. Cloud HRA time sheets. During these sick days, the former Executive Director billed a total of 36 hours to the Stearns County HRA.

We recommend that the HRA review with legal counsel whether the HRA has the option of seeking reimbursement from the former Executive Director for overpayments of salary. We are forwarding copies of this report to the St. Cloud City Attorney and the Stearns County Attorney for review as to whether the submission for payment of sick leave by the former Executive Director constituted a false claim.

Client's Response:

Legal counsel is in the process of reviewing this matter.

D. Leave and Holiday Time Billed Directly to TIF Districts

The former Executive Director's time was generally billed 50 percent to the General Fund and 50 percent to the Internal Service Fund, where it was allocated to St. Cloud and Stearns County HRA funds, including TIF districts, based on salaries. During our review of the former Executive Director's time sheets for the year ended June 30, 1997, we noted the following leave and holiday time billed directly to TIF districts:

<u>Pay Period Ending</u>	<u>Hours</u>				<u>Amount</u>	
	<u>Vacation</u>	<u>Sick Leave</u>	<u>Holiday</u>	<u>Total</u>	<u>General TIF Account</u>	<u>Webway Project</u>
October 15, 1996	10	-	-	10	\$ 399	\$ -
October 31, 1996	10	-	-	10	374	-
February 28, 1997	4	-	-	4	-	177
May 31, 1997	-	14	4	18	710	-
Total	24	14	4	42	\$ 1,483	\$ 177

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(Continued)

The "General TIF" account gets allocated to all of the tax increment financing districts' debt service funds.

Since there is no rationale for the HRA to bill leave and holiday time directly to TIF districts, we recommend that the HRA reimburse the General TIF account in the Debt Service Fund and the Webway Project Capital Projects Fund \$1,483 and \$177, respectively. Both the General Fund and the Internal Service Fund should be charged \$830 to correct this error. In the future, the HRA should refrain from billing employees' leave and holiday time directly to TIF districts.

Client's Response:

The funds will be reimbursed to the funds charged. The HRA will refrain from billing employees' leave and holiday time directly to TIF districts.

97-17 Transfers Between Entities Not Approved by the Board of Commissioners

During our audit, we noted the following transfers between the St. Cloud HRA and the Stearns County HRA:

	<u>Stearns County HRA</u>	<u>St. Cloud HRA</u>		<u>Section 8 Housing Special Revenue Fund</u>
	<u>Common Bond Capital Projects Fund</u>	<u>Internal Service Fund</u>	<u>General Fund</u>	<u>Fund</u>
To temporarily fund recycling of single family multi-bonds				
February 28, 1997	\$ (700,000)	\$ -	\$ 700,000	\$ -
March 31, 1997	(300,000)	-	300,000	-
April 30, 1997	(421,003)	-	421,003	-
To return funds used to operate the St. Cloud HRA's Internal Service Fund; this was originally transferred to the Internal Service Fund during the fiscal year ended June 30, 1992				
June 30, 1997	-	(10,000)	-	10,000

Unless the HRA Boards have specifically delegated the authority to transfer money between entities, all transfers of this type should be approved by the respective Boards. We could find no indication that these transactions between the St. Cloud HRA and the Stearns County HRA were approved by either of the HRA Boards.

We recommend that all future transfers of funds between the St. Cloud HRA and the Stearns County HRA be subject to prior approval by both Boards. Full disclosure of the transfers, including the purpose and amounts, should be made part of the official minutes of the respective Boards.

Client's Response:

Approval from both boards for transfers between the entities will be obtained for and fully disclosed in the official minutes of board meeting. The reason and supporting documentation will be attached to the journal voucher.

97-18 Transfers Between Funds Not Approved by the Board of Commissioners

During our audit, we noted the following instance where cash was transferred between St. Cloud HRA funds:

- On May 1, 1997, \$49,977 was transferred from the Paramount Theater Special Revenue Fund to the Paramount Theater Project Capital Projects Fund. The Paramount Theater Special Revenue Fund was created on May 1, 1997. Although the HRA Board approved a budget for the pre-opening expenditures of the Paramount Theater, neither the transfer nor the creation of the Special Revenue Fund was recorded in the HRA's Board minutes.

Unless the St. Cloud HRA Board has specifically delegated the authority to create funds and transfer money between funds, all activity of this type should have Board approval. We could find no indication that any of this activity was approved by the St. Cloud HRA Board.

We recommend that the creation of new funds and all interfund transfers be subject to prior approval by the St. Cloud HRA Board. Full disclosure of interfund transfers, including the purpose and amounts, should be made part of the official minutes of the Board.

Client's Response:

Approval from the board will be obtained for the creation of new funds and interfund transfers and will be fully disclosed in the official minutes of board meeting.

97-19 Budgetary Practices

The HRA does not adopt formal revenue and expenditure budgets for the Development Reserve, MHFA Community Rehabilitation, Paramount Theater, and Carter Place Special Revenue Funds. To effectively exercise budgetary controls, budgets should be established for all special revenue funds.

We recommend that formal revenue and expenditure budgets be adopted for all Special Revenue Funds as part of the HRA's normal budgeting process.

Client's Response:

All funds will have formal revenue and expenditure budgets adopted as part of the normal budgeting process.

97-20 Meal Reimbursement Policy

The HRA's meal reimbursement policy is included as policy #608 of the personnel policy and states, "Payment for meals shall be made for employees on Authority business at prevailing rates in the community." The general expense reimbursement policy also states that expenses are to be documented with receipts and explanations.

We feel the meal reimbursement policy should be clarified to give direction on when meals are reimbursable. Meals should be reimbursed in the City of St. Cloud only when the meal hour is the only time a meeting can be scheduled. There should be a clear statement that alcohol is not a reimbursable expense. Finally, only original receipts should be accepted for reimbursement. Copies of original receipts can be altered and should not be accepted. Credit card receipts are also unacceptable because they do not provide sufficient detail to determine the number of meals being claimed, nor do they indicate whether alcohol is being reimbursed.

We recommend that the HRA clarify its meal reimbursement policy as discussed in the preceding paragraph.

Client's Response:

During the process of reviewing the operating policies these issues will be addressed and the policy will be amended.

97-21 Disaster Recovery Plan

The HRA does not have procedures for continued operations in the event of a disaster or major computer breakdown. The absence of a disaster recovery plan prevents a timely recovery of vital information and adds to the cost of the interruption.

We recommend that the HRA create and maintain a disaster recovery plan. Some common items found in a disaster recovery plan include:

- a detailed list of recovery procedures;
- a time line of when procedures will take place;
- identification of a disaster recovery team;
- responsibilities of the disaster recovery team;
- a list of emergency phone numbers;
- computer hardware configuration and minimum equipment requirements;
- a list of vendor contacts;
- information relative to off-site back-up storage facilities; and
- any agreements regarding back-up sites for continued operations.

The plan should be approved by the Board, with a copy stored at an off-site facility.

Client's Response:

Preparing a Disaster Recovery Plan will be addressed during the process of reviewing the operating policies.

97-22 Purchase of U.S. West Building

In November 1990, the Board adopted resolution 90-58 to issue bonds for the purpose of refinancing the MHFA mortgage on the Northway A & B (Grace McDowell) Project. According to the resolution, the funds made available as

a result of prepayment of the MHFA mortgage were to be used for future public housing programs. The Common Bond Capital Projects Fund was established to account for these funds.

In February 1997, the HRA Board approved the purchase of the U.S. West Building in downtown St. Cloud for \$700,000; however, the Board minutes gave no indication from which fund the payment was to be made. The building was purchased in June 1997 and the expenditure was charged to the Common Bond Capital Projects Fund because only that fund had a sufficient cash balance to cover the payment. By using the Common Bond Capital Projects Fund to pay for a development project not associated with public housing, the HRA has not complied with resolution 90-58.

We recommend that the HRA comply with resolution 90-58 by financing the purchase of the U.S. West Building from a fund other than the Common Bond Capital Projects Fund.

Client's Response:

There is a development agreement on the property which includes a purchase option. Upon the sale of the property the Common Bond fund will be reimbursed. The board will pass a resolution to make a one time exception to Resolution 90-58 and will include a statement regarding the reimbursement to the Common Bond fund.

97-23 Personal and Professional Services Contracts

The HRA's procurement policy states that personal and professional services contracts may be negotiated, but a formal report of the award is to be made to the Board.

During our review of personal and professional services contracts, we noted the following contracts where we could find no evidence of approval by the HRA Board:

- professional services contract for architect and engineering services on the Liberty Savings Redevelopment Project in the amount of \$38,500;
- professional services contract for construction manager services on the Liberty Savings Redevelopment Project in the amount of \$102,638;

Schedule 3
(Continued)

- professional services contract for an asbestos survey and oversight of asbestos removal on the Paramount Theater Project in the amount of \$8,433;
- personal services contract with an HRA employee for cleaning services performed at the HRA offices in the amount of \$3,600; and
- personal services contract with an HRA employee for computer consulting services in the amount of \$3,000, plus an annual payment for cleaning the equipment in the amount of \$12 per computer and \$6 per printer.

Although the HRA Board subsequently approved payments made on these contracts that were in excess of \$1,000, the contracts themselves should have been approved by the Board before the payments were made.

We recommend that all professional and personal services contracts be formally approved by the HRA Board in accordance with the HRA's procurement policy.

Client's Response:

It should be noted that the actual individual payments (over \$1,000) for these contracts were submitted to the board for approval. As a result, no money was paid out without board approval at a public meeting. The board intends to have formal reports of personal and professional services contracts presented for formal approval.

97-24 Recording of Transactions in the General Ledger

Several of the HRA's funds recorded in the general ledger contain more than one fund for financial reporting purposes. For instance, the Carter Place Special Revenue Fund is accounted for in the HRA's general ledger as a department within the General Fund. Assets, liabilities, revenues, and expenditures are all accounted for in separate accounts within the General Fund for these two funds so they can be easily separated for financial reporting purposes.

On three instances, we noted where a check was disbursed, the cash was credited in one "department" within the fund, but the expenditure was debited in another "department." For example, check #79275 for \$3,100 was issued on June 12, 1997. The cash in the Grace McDowell "department" within the

fund was credited, but the expenditure was debited in the Common Bond "department." When these two departments were broken out into separate funds for financial reporting purposes, they were out of balance. Additional audit time was needed to determine and correct these errors.

We recommend that more care be taken when coding and recording transactions in the general ledger system.

Client's Response:

These type of errors should be found during the reconciliation of cash and investments.

97-25 Allocation of Interest

The HRA has a policy of allocating pooled interest income based on the cash balances in the individual funds at the end of each month. If a particular fund has a deficit cash balance at the end of the month, it is charged interest expense. We feel interest would be more accurately allocated if it were done on the average cash balance held during the month rather than the balance at the end of the month.

We recommend that the HRA adopt a policy of allocating pooled interest on the average cash balances held in the funds during the month.

Client's Response:

The board adopted an interest allocation policy in December 1997. The policy states that the interest will be allocated on the pooled method. An average balance will be calculated by using the beginning and ending balance of each fund.

97-26 Questionable Expenditures

During our audit, we noted the following items purchased by the HRA:

- rolls for employees and others at non-public meetings,
- coffee for daily consumption by HRA employees,
- a cake for a party held for a retiring employee, and
- flowers for employees who have had medical emergencies.

The Minnesota Constitution allows for the state and its political subdivisions to expend public funds only if the expenditures are authorized by law and have a public purpose. We do not believe these expenditures meet the public purpose test.

When we brought these items to the Acting Executive Director's attention, he issued a memo, dated November 10, 1997, stating that:

- The HRA can no longer purchase coffee for the staff to consume on a general basis; an employee coffee fund will be set up.
- Flowers, cakes for parties, and gifts cannot be funded by the HRA. When these items are thought appropriate, an envelope will be passed around the office.
- Rolls can only be paid for by the HRA if they are for a public meeting, or prior to normal working hours.

We commend the HRA for taking immediate steps to stop these practices.

97-27 Payment on Contract Before Goods Received

In September 1996, the HRA entered into an agreement with R.J. & Associates for a computer network expansion project. Part of the agreement included an overhead projector plate at a cost of \$2,500. R.J. & Associates submitted an invoice to the HRA in November 1996, which included the cost of the projector plate. The HRA paid the invoice and added the items to its fixed asset inventory list. In June 1997, it was brought to our attention that the overhead projector plate had never been received. As of the audit date, discussions had taken place between the HRA and R.J. & Associates, but the issue still had not been resolved.

We recommend that the HRA continue in its efforts to resolve this issue. Policies and procedures should be established to ensure that the HRA does not pay for goods and services until they have been received.

Client's Response:

To resolve this issue a credit balance was established. Services have been rendered and the amount has been reduced to zero.