

# 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**

**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, 2008**

## **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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**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, 2008**



**Management and Compliance Report**

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

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

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

**Schedule 1**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

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

- A. Our report expresses unqualified opinions on the basic financial statements of the Housing and Redevelopment Authority (HRA) of the City of Saint Paul, a component unit of the City of Saint Paul.
- B. Significant deficiencies in internal control were disclosed by the audit of the financial statements of the HRA and are 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*." Two of the significant deficiencies are material weaknesses.
- C. No instances of noncompliance material to the financial statements of the HRA were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award program were 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."
- E. The Auditor's Report on Compliance for the major federal award program for the HRA expresses an unqualified opinion.
- F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major program is:
  - Highway Planning and Construction CFDA #20.205
- 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. FINDINGS RELATED TO FINANCIAL STATEMENTS AUDITED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

07-1 Notes and Loans Receivable

During our audit procedure confirming the notes and loans receivable balance, we received confirmations that noted discrepancies between what the borrowers stated as their principal balance and the balance that the HRA has recorded on the Nortridge System as of the same date. According to the Nortridge System, the cumulative principal balance of the confirmations was higher than what the borrowers reported on the returned confirmations. In accordance with the stated terms and conditions, the loan principals had been either partially or completely forgiven. The loan officers/project managers were responsible for communicating with the proper accounting personnel to adjust the loan balances to ensure that the Nortridge System reflected the proper receivable balances outstanding. However, due to a lack of communication or a communication breakdown, this information was not properly received, and the Nortridge System was not accordingly adjusted.

The discrepancies between the borrowers' and the HRA's records that existed as of November 30 potentially could have carried over indefinitely beyond the date of the financial statements. An audit adjustment was made to correct the year-end December 31, 2008, financial statements. While the 2008 audit adjustment was not material, the underlying communication problem has not been adequately addressed.

We recommend that the HRA review internal controls currently in place, especially relating to communication, and design and implement procedures to improve internal controls to timely detect and prevent inaccuracies in the Nortridge System and misstatements in the financial statements.

Client's Response:

*In July 2008, we instituted a loan review servicing system to ensure that the Nortridge System loan balances are correct. We have made great strides in making timely and accurate changes to loan balances since then. To further enhance the system, we will do a re-review of outstanding loan balances of forgivable loans before November 30 with the appropriate project managers.*



07-2 Audit Adjustments

A control deficiency 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 misstatements of the financial statements on a timely basis. One control deficiency that typically is considered significant is identification by the auditor of a material misstatement in the financial statements not initially identified by the entity's internal controls.

During our audit, we proposed the following adjustments that resulted in significant changes to the HRA's financial statements:

- Land held for resale increased by \$1,800,000 on the "Value of Properties Owned by the HRA between 1/1/08 and 12/31/08" report, which is the basis for the land held for resale balance reported on the financial statements, in the HRA Loan Enterprise Fund.
- Land held for resale and deferred revenue decreased by \$709,500 in the HRA Development Capital Projects Fund.
- Due from other governments and the related intergovernmental revenue increased by \$113,202, and accounts payable and the related expenditures increased by \$113,202 in the HRA Federal and State Programs Special Revenue Fund.
- Construction in progress increased by \$1,935,559 in the Government-Wide Statement of Net Assets.

The inability to detect a material misstatement in the financial statements increases the likelihood that the financial statements would not be fairly presented.

We recommend the HRA modify internal controls over financial reporting to detect misstatements in the financial statements.

Client's Response:

*In order to detect misstatements in the financial statements, the Planning and Economic Development (PED) accounting staff will do a thorough review of documents and reports provided to the State Auditor for their use in performing the audit, prior to forwarding the documents and reports. This review will be performed by the three accountants who have responsibility for various HRA funds. This review will consist of:*

- a. Ascertaining that reports such as the "Value of Property Owned by the HRA" report have correct opening balances, have correctly noted all transactions that have taken place during the year, have correctly valued those transactions, and have the proper valuation of the property at year-end.*
- b. Reviewing these reports for accuracy and ascertaining that the general ledger entries properly reflect transactions which have affected the values in the report.*
- c. Questioning the appropriate project managers involved with projects which involve use of HRA funds and government grants for construction to ascertain whether or not:
  - i. The property involved is currently owned by the HRA.*
  - ii. The property will be fully or partially owned by the HRA in the future.*
  - iii. The costs incurred by HRA funds are to be transferred to another non-HRA fund, capitalized by the HRA, or treated as operating expenses.**

*No report will be released to the State Auditor until all accountants have completed their review and have posted the transactions to the general ledger, ensuring that valuations in the reports agree with ledger balances.*

ITEM ARISING THIS YEAR

08-1 Land Held For Resale

During our audit of land held for resale, we identified two properties that were each revalued during 2008 from a net realizable value of \$900,000 to a net realizable value of \$0 on the "Value of Properties Owned by the HRA between 1/1/08 and 12/31/08" report. According to the real estate specialist responsible for the report mentioned above, the net realizable value of the two properties should not have been revalued.

Due to a lack of review over the report mentioned above, the revaluation error was not discovered and potentially could have carried over indefinitely beyond the date of the financial statements. A material audit adjustment was made, as identified in Finding 07-2, to correct the understated land held for resale balance for the year-end December 31, 2008, financial statements.

We recommend that the HRA review internal controls currently in place, and design and implement procedures, including monitoring, to improve internal controls to timely detect and prevent inaccuracies in property valuation records and misstatements in the financial statements.

Client's Response:

*The "Value of Property Owned by the HRA" report will not be released to the State Auditor until the three PED accountants responsible for the HRA funds have performed a review of the report. This review will consist of:*

- a. Ascertaining that the report has the correct opening balances.*
- b. Ascertaining that the report contains all transactions that should be reflected in the report.*
- c. Ascertaining that the transactions were correctly valued.*
- d. Ascertaining that the properties have the proper valuation at year-end.*

*In addition, PED and the City's Office of Financial Services staff will meet to formalize a property valuation policy. Such policy will be implemented immediately upon approval of said policy.*

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

None.

**IV. OTHER FINDINGS AND RECOMMENDATIONS**

None.

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REBECCA OTTO  
STATE AUDITOR

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## **REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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

We have audited 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, as of and for the year ended December 31, 2008, which collectively comprise the HRA's basic financial statements, and have issued our report thereon dated July 22, 2009. 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 HRA's internal control over financial reporting as a basis for designing our auditing procedures 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 preceding paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the HRA's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the HRA's financial statements that is more than inconsequential will not be prevented or detected by the HRA's internal control. We considered the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 07-1, 07-2, and 08-1 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the HRA's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 07-2 and 08-1 to be material weaknesses.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the HRA'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 seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, tax increment financing, and miscellaneous provisions. The listed categories were tested in conjunction with the audit of the financial statements of the City of Saint Paul.

The HRA's written responses to the significant deficiency and material weaknesses identified in our audit have been included in the Schedule of Findings and Questioned Costs. We did not audit the HRA's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the HRA's Board, management, others within the HRA, 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

July 22, 2009

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## **REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

### Compliance

We have audited the compliance of the Housing and Redevelopment Authority (HRA) of the City of Saint Paul, a component unit of the City of Saint Paul, 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 its major federal program for the year ended December 31, 2008. The HRA's major federal program is 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 its major federal program is the responsibility of the HRA's management. Our responsibility is to express an opinion on the HRA'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 HRA'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 HRA's compliance with those requirements.

In our opinion, the HRA complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2008.

## Internal Control Over Compliance

The management of the HRA 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 HRA'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, 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 HRA's internal control over compliance.

A control deficiency in internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the HRA's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the HRA's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the HRA's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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.

## Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the HRA of the City of Saint Paul as of and for the year ended December 31, 2008, which collectively comprise the HRA's basic financial statements, and have issued our report thereon dated July 22, 2009. Our audit was performed for the purpose of forming opinions on the HRA'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.

This report is intended solely for the information and use of the HRA's Board, management, others within the HRA, 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

July 22, 2009

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

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

Schedule 2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
<b>U.S. Department of Housing and Urban Development</b>		
Direct Grants		
Housing Counseling Assistance Grant Program	14.169	\$ 47,539
Shelter Plus Care Grant	14.238	48,010
HOME Investment Partnerships Program	14.239	982,484
HOME Investment Partnerships Program		
American Dream Downpayment Initiative Program	14.239	20,000
<b>Total U.S. Department of Housing and Urban Development</b>		<b>\$ 1,098,033</b>
<b>U.S. Department of Transportation</b>		
Passed Through Minnesota Department of Transportation		
Highway Planning and Construction		
City House Project		
TEA 21 Grant	20.205	1,186,100
<b>Total Federal Awards</b>		<b>\$ 2,284,133</b>

Notes to Schedule of Expenditures of Federal Awards

1. The Schedule of Expenditures of Federal Awards presents the activity of federal award programs expended by the Housing and Redevelopment Authority (HRA) of the City of Saint Paul, a blended component unit of the City of Saint Paul. The HRA's reporting entity is defined in Note 1 to the basic financial statements.
2. The expenditures on this schedule are on the basis of accounting used by the individual funds of the HRA. Governmental funds use the modified accrual basis of accounting. Proprietary funds use the accrual basis.
3. During 2008, \$959,921 of CFDA #14.239 was passed through to subrecipients.
4. Pass-through grant numbers were not assigned by the pass-through agencies.