

# STATE OF MINNESOTA

## Office of the State Auditor



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

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MANAGEMENT AND COMPLIANCE REPORT

**OLMSTED COUNTY**  
**HOUSING AND REDEVELOPMENT AUTHORITY**  
**ROCHESTER, MINNESOTA**

YEAR ENDED DECEMBER 31, 2010

## **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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**OLMSTED COUNTY  
HOUSING AND REDEVELOPMENT AUTHORITY  
ROCHESTER, MINNESOTA**

**Year Ended December 31, 2010**



**Management and Compliance Report**

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

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**OLMSTED COUNTY HOUSING AND REDEVELOPMENT AUTHORITY  
ROCHESTER, MINNESOTA**

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**OLMSTED COUNTY HOUSING AND REDEVELOPMENT AUTHORITY  
ROCHESTER, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2010**

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

- A. Our report expresses an unqualified opinion on the basic financial statements of the Olmsted County Housing and Redevelopment Authority (Authority).
- 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 Authority were disclosed during the audit.
- D. A significant deficiency relating to the audit of the major federal award program is reported in the "Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133." It is not a material weakness.
- E. The Auditor's Report on Compliance for the major federal award program for the Authority expresses an unqualified opinion.
- F. Findings relative to a major federal award program for the Authority were reported as required by Section 510(a) of OMB Circular A-133.
- G. The major program is:
  - Section 8 Housing Choice Vouchers CFDA #14.871
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. The Olmsted County Housing and Redevelopment Authority was determined to be a low-risk auditee.

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

PREVIOUSLY REPORTED ITEM RESOLVED

**Segregation of Duties (07-2)**

Procedures were established by the Authority for an independent review of information entered into the HAPPY system on a quarterly basis, but an independent review was not always being performed by an individual who does not have access to the HAPPY system.

**Resolution**

This comment was combined with item 07-3, "Internal Controls Over Rental Assistance Payments - Section 8 Housing Choice Vouchers."

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

PREVIOUSLY REPORTED ITEM NOT RESOLVED

07-3 Internal Controls Over Rental Assistance Payments - Section 8 Housing Choice Vouchers (CFDA #14.871)

Management is responsible for establishing and maintaining internal controls. Adequate segregation of duties is a key internal control in an organization. Authority staff uses the HAPPY system to process Section 8 Housing Choice Vouchers information. Rental Assistance Technicians can initiate a case, make and record the eligibility determination in the HAPPY system, determine the amount of the rental assistance payment, and collect and receipt the rental payment into the HAPPY system. To address this lack of segregation of duties, the Authority developed independent review procedures to monitor the information the Rental Assistance Technicians enter into the HAPPY system by comparing it with supporting information.

For 2010, sample cases were selected for monitoring for quarters one and two, but the Authority did not perform the independent review of the program eligibility determinations, rental assistance payments, and receipts in all the cases selected. No cases were selected for review for the last two quarters. The independent reviews were not done due to staffing limitations.

We recommend Authority management fully implement the independent review procedures to monitor the Section 8 Housing Choice Vouchers program. We also recommend that these procedures be performed in a timely manner.



Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

*Gary Lueders, Housing Administrator,  
Olmsted County Housing and Redevelopment Authority*

Corrective Action Planned:

*OCHRA disbursements are processed using HAPPY software data interfaced into our CGI accounting system. At this time, HAPPY duties are not completely segregated. A review process will be put into place to confirm the information in the HAPPY System and CGI match the tenant file.*

- *Timing of testing will be quarterly.*
- *Finance will pull 20 random files across all programs and rentals included in HAPPY occupancy and tenant accounts receivable systems.*
- *The Secretary will pull the hard copy files. Contracted HRA staff from the City of Faribault will trace source data from the file to the HAPPY calculation to ensure that the information matches (whether it is HAP payment amount, rent charged, or amount collected).*
- *Finance staff will then ensure that any outgoing payments match or incoming receipts match what is in CGI to what is in HAPPY and the file.*
- *Goal for completion of each quarter's review will be by the end of the following quarter.*

Anticipated Completion Date:

*Ongoing*

ITEM ARISING THIS YEAR

10-1 Utility Rate Data - Section 8 Housing Choice Vouchers (CFDA #14.871)

The Authority must maintain an up-to-date utility allowance schedule. The Authority must review utility rate data for each utility category each year and must adjust its utility allowance schedule if there has been a rate change of ten percent or more for a utility category or fuel type since the last time the utility allowance schedule was revised (24 CFR section 982.517). The Authority did not review utility rate data for each utility category for 2010 to determine if there had been a rate change of ten percent or more. This review needs to be done for possible changes to the utility allowance for tenant-paid utilities. The review was not done because of staffing.

We recommend the Authority review utility rate data for each utility category yearly and adjust its utility allowance schedule if there has been a rate change of ten percent or more.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

*Gary Lueders*

Corrective Action Planned:

*The utility allowance has been reviewed and it's confirmed that the rates have not increased by more than 10% and a new schedule is not required at this time.*

Anticipated Completion Date:

*The review was completed by August 2, 2011.*



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***

Board of Commissioners  
Olmsted County Housing and Redevelopment Authority

We have audited the basic financial statements of the Olmsted County Housing and Redevelopment Authority (Authority) as of and for the year ended December 31, 2010, and have issued our report thereon dated September 13, 2011. 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 Olmsted County Housing and Redevelopment Authority'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 Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 Authority'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 Olmsted County Housing and Redevelopment Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### Minnesota Legal Compliance

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories, except that we did not test for compliance in deposits and investments, claims and disbursements, and miscellaneous provisions because these items were tested as part of the Olmsted County audit.

The results of our tests indicate that for the items tested, the Olmsted County Housing and Redevelopment Authority 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, management, others within the Olmsted County Housing and Redevelopment Authority, 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 13, 2011



REBECCA OTTO  
STATE AUDITOR

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## **REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Commissioners  
Olmsted County Housing and Redevelopment  
Authority

### Compliance

We have audited the Olmsted County Housing and Redevelopment Authority's (Authority) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended December 31, 2010. The Authority'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 Authority's management. Our responsibility is to express an opinion on the Authority'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 Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Authority's compliance with those requirements.

In our opinion, the Olmsted County Housing and Redevelopment Authority complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2010. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and is described in the accompanying Schedule of Findings and Questioned Costs as item 10-1.

### Internal Control Over Compliance

Management of the Olmsted County Housing and Redevelopment Authority 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 Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified 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 07-3. 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 Olmsted County Housing and Redevelopment Authority as of and for the year ended December 31, 2010, and have issued our report thereon dated September 13, 2011. Our audit was performed for the purpose of forming an opinion on the Authority's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. The SEFA is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The SEFA has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the SEFA is fairly stated in all material respects in relation to the basic financial statements taken as whole.

Olmsted County Housing and Redevelopment Authority's corrective action plans to the federal award findings identified in our audit are included in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Authority's corrective action plans and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Commissioners, management and others within the Olmsted County Housing and Redevelopment Authority, 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 13, 2011

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

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**OLMSTED COUNTY HOUSING AND REDEVELOPMENT AUTHORITY  
ROCHESTER, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2010**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Agriculture</b>		
Direct		
Rural Rental Housing Loans	10.415	<u>\$ 28,559</u>
<b>U.S. Department of Housing and Urban Development</b>		
Direct		
Shelter Plus Care	14.238	\$ 118,385
Public and Indian Housing	14.850	283,802
Section 8 Housing Choice Vouchers	14.871	3,436,171
Public Housing Capital Fund Cluster		
Public Housing Capital Fund	14.872	123,017
Formula Capital Fund Stimulus Grant - ARRA	14.885	<u>159,629</u>
<b>Total U.S. Department of Housing and Urban Development</b>		<u><b>\$ 4,121,004</b></u>
<b>Total Federal Awards</b>		<u><b>\$ 4,149,563</b></u>

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**OLMSTED COUNTY HOUSING AND REDEVELOPMENT AUTHORITY  
ROCHESTER, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2010**

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1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by the Olmsted County Housing and Redevelopment Authority (Authority). The Authority's reporting entity is defined in Note A to the financial statements.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Authority under programs of the federal government for the year ended December 31, 2010. 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 Authority, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Authority.

3. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the full 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.

4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue Per U.S. Department of Housing and Urban Development (HUD) Notice PIH 2006-03 (HA) unused Section 8 Housing Choice Voucher (CFDA #14.871) housing assistance payments from HUD must be maintained in a Restricted Net Assets account.	\$ 3,971,917
	<u>177,646</u>
Expenditures per Schedule of Expenditures of Federal Awards	<u>\$ 4,149,563</u>

5. Subrecipients

During 2010, the Authority did not pass any federal money to subrecipients.

**OLMSTED COUNTY HOUSING AND REDEVELOPMENT AUTHORITY  
ROCHESTER, MINNESOTA**

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6. American Recovery and Reinvestment Act

The American Recovery and Reinvestment Act of 2009 (ARRA) requires recipients to clearly distinguish ARRA funds from non-ARRA funding. In the schedule, ARRA funds are denoted by the addition of ARRA to the program name.