

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

MANAGEMENT AND COMPLIANCE REPORT
PREPARED AS A RESULT OF THE AUDIT OF THE

MINNEAPOLIS PUBLIC HOUSING AUTHORITY
MINNEAPOLIS, MINNESOTA

YEAR ENDED SEPTEMBER 30, 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.

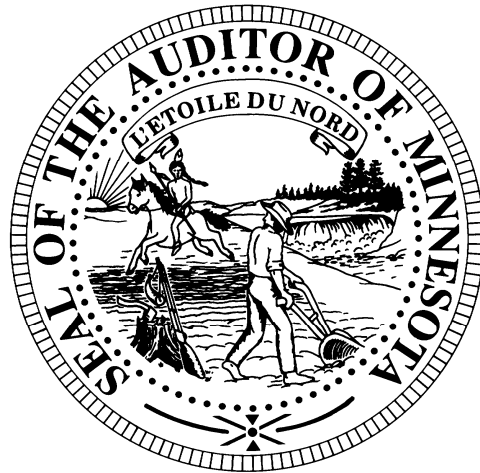
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**MINNEAPOLIS PUBLIC HOUSING AUTHORITY
MINNEAPOLIS, MINNESOTA**

Year Ended September 30, 2008



Management and Compliance Report

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

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**MINNEAPOLIS PUBLIC HOUSING AUTHORITY
MINNEAPOLIS, MINNESOTA**

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**MINNEAPOLIS PUBLIC HOUSING AUTHORITY
MINNEAPOLIS, MINNESOTA**

Schedule 1

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses an unqualified opinion on the basic financial statements of the Minneapolis Public Housing Authority (MPHA).
- B. No matters involving internal control over financial reporting were reported in the "Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*."
- C. No instances of noncompliance material to the financial statements of the MPHA were disclosed during the audit.
- D. A significant deficiency relating to the audit of a major federal award program is reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular 133." It was not a material weakness.
- E. The Auditor's Report on Compliance for the major federal award programs for the MPHA expresses an unqualified opinion.
- F. A finding relative to a major federal program for the MPHA was reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major programs are:
 - Public and Indian Housing Program
 - Operating Subsidy (Low Rent) CFDA No. 14.850
 - Revitalization of Severely Distressed
 - Public Housing CFDA No. 14.866
 - Section 8 Housing Choice Vouchers Program CFDA No. 14.871
- H. The threshold for distinguishing between Types A and B programs was \$2,353,778.
- I. The MPHA was not determined to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS RESOLVED

Bank Reconciliations (07-1)

Bank statements for the MPHA's main checking account were not completely reconciled on a timely basis.

Resolution

Bank reconciliations are now being completed on a timely basis.

Access to Computer Systems (07-2)

Network and Oracle access had not been deactivated for two individuals who had left MPHA employment during the fiscal year.

Resolution

The MPHA implemented new procedures during 2008 to ensure that timely notification was given to the IT Department when an employee left employment with the MPHA. Our testing for 2008 revealed no instances of untimely computer access termination after the MPHA had implemented its new procedures.

Journal Entries (07-3)

Most individuals in the Finance Department who had the ability to initiate journal entries could also post journal entries to the accounting system. The MPHA policy required all entries to be reviewed by a second individual, but our testing noted a number of journal entries that did not contain initials of the reviewer.

Resolution

The MPHA reviewed job duties and the Oracle system security to ensure that only those employees that need the ability to post journal entries have that level of access. The policies and procedures for journal entries were reviewed and updated. These procedures now include a month-end review of journal entries posted to verify that they were proper and that they contain evidence of a secondary review. For all journal entries reviewed during the current audit, no instances of journal entries missing the required secondary sign-off were noted.

Payroll (07-4)

No review was being performed to verify that all changes to the payroll master file were authorized.

Resolution

An individual independent of payroll is now reviewing payroll edit reports to make sure that all changes made to the payroll system master file were authorized.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

03-3 Section 8 Housing Choice Vouchers - Eligibility, Reporting, and Special Tests and Provisions (Housing Inspections and Rent Reasonableness) - CFDA No. 14.871

HUD Section 8 Housing Choice Vouchers Program requirements include third-party verifications of income, assets, and other information; annual inspection of housing units; and information regarding rent reasonableness. In addition, information on program participants should match between original file documentation and the same information reported to HUD.

Based on a review of 40 Section 8 Housing Choice Vouchers Program participant files, the following items were noted:

Items similar to those identified in the previous year:

- One file reviewed was missing the current application.
- For one file reviewed, the tenant rent and housing assistance payment calculated by auditors differed from the amount calculated by the MPHA. The difference resulted from a calculation error involving the payment standards.
- Two files reviewed did not contain verification of the social security numbers of all household members six years old and older.

Schedule 1
(Continued)

- For three files reviewed, re-examinations were not conducted in a timely manner. Re-examinations are required annually. For one of these cases, foreclosure proceedings on the property made it difficult to get the re-examination performed in a timely manner.
- In two files, deficiencies with the 50058 were noted. In one file, the date of birth was incorrect for one person. The other file had multiple issues including questions on disability status, two misspelled last names, one wrong first name, and the wrong ethnicity of one individual. These errors would not have had an effect on eligibility or other outcomes.
- Four files were either missing or had incorrectly completed Status 214 Citizenship forms. All members of a family must be included on the form or have their own attestation that they are either U.S. citizens or non-citizens with eligible immigration status. Anyone unlawfully in the United States is ineligible to participate in the Section 8 Housing Choice Vouchers Program.
- In eleven files reviewed, the annual inspections of housing units were either late or the file contained no documentation indicating that the inspection had been completed. Housing inspections are required annually. Of these files, six were within the two months overdue that HUD would accept on the PIC calculation. Two of the remaining files were over two months late. One file was over six months late due to a change in ownership and some communication issues. The remaining two files contained no evidence that the inspections had been completed.
- In six files, deficiencies with the Housing Assistance Payment (HAP) contracts were noted. In four files, the signed HAP contracts were missing, and in one file the HAP contract with the landlord was not signed for the current year. HAP contracts ensure that landlords agree to the terms the MPHA requires in the leases and to the amounts paid in rent both by the MPHA and the tenant. Housing assistance payments to landlords should not be made until the HAP contract has been properly executed.
- Three files were either missing a current HUD Form 9886, *Authorization for Release of Information*, or the form was not properly signed and dated. Complete and current releases are required prior to requesting third-party verifications.

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

- Correct files where documentation is missing, incomplete, or incorrect as noted above. For future applications, all required documentation should either be obtained at the time of application or be received before applicants can be accepted into the program. For all files, at the time of recertification, such documentation should be reviewed and updated as necessary.
- Recalculate and correct tenant rent and housing assistance payments where differences have been identified. Tenants should be reimbursed or otherwise credited for overpayments.
- Ensure re-examinations are conducted in a timely manner, since changes in family income and composition may occur that necessitate adjustments in tenant rent and housing assistance payments.
- Ensure annual inspections of housing units are completed on time.

Corrective Action Plan:

Contact Person:

Cheryl Borden, Managing Director of Housing Choice Voucher Program
Rita Ytzen, Senior Supervisor of Housing Choice Voucher Program

Corrective Action Plan:

All files with missing, incomplete, or incorrect documentation have been corrected. To ensure that all required documentation is properly obtained and complete, MPHA has already implemented revised procedures and enhancements to the Housing Choice Voucher software application. A mandatory documents folder containing the participant and the participant's family information is checked by staff prior to completing any new action on the participant. This creates an on-going documentation review. In addition, clerical file audits are continuing to be performed by Supervisory staff. Greater emphasis is being placed on supervisors to ensure that errors are corrected in a timely manner.

Schedule 1
(Continued)

MPHA has implemented software upgrades that will assist staff in scheduling and monitoring completion of annual re-examinations and inspections. The inspection program is designed to filter inspections, by date, and is used by the Inspections Supervisor to assure units are scheduled for inspection within 364 days of the previously completed annual inspection.

The Section 8 Quality Control Specialist will randomly review files for quality assurance. These reviews identify any missing and/or late reexaminations and annual Housing Quality Standards (HQS) inspections, accurate rent calculations, and proper documentation on program participants. The audits also cover HUD's PIH Information Center (PIC) system to ensure accurate and timely submissions of 50058 records.

The file with an incorrect rent calculation has been corrected. The correction did not require a reimbursement to the family.

Anticipated Completion Date:

The software enhancements and revised procedures are already in place.

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

All errors identified in the audit have been corrected.

PREVIOUSLY REPORTED ITEMS RESOLVED

Low Rent - Eligibility - CFDA No. 14.850 (03-2)

The following summarizes prior audit issues and recommendations for the Low Rent Program based on a review of 40 participant files and corrective actions resulting in current year resolution:

Late Re-Examinations

For four files reviewed, re-examinations were not conducted in a timely manner.

Resolution

For the Low Rent Program, annual re-examinations were conducted.

Third-Party Verifications

Three files reviewed did not contain necessary third-party verifications.

Resolution

For all Low Rent Program participant files reviewed during the current audit, we noted no instances of files missing the necessary third-party verifications.

Section 8 Housing Choice Vouchers - Eligibility, Reporting, and Special Tests and Provisions (Housing Inspections and Rent Reasonableness) – CFDA No. 14.871 (03-3)

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

Rent Reasonableness

One file reviewed did not contain a rent reasonableness determination.

Resolution

For all Section 8 Housing Choice Voucher Program participant files reviewed during the current audit, we noted no instances of files missing the rent reasonableness determination.

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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
Minneapolis Public Housing Authority

We have audited the basic financial statements of the Minneapolis Public Housing Authority (MPHA) as of and for the year ended September 30, 2008, and have issued our report thereon dated June 24, 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 MPHA's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the MPHA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the MPHA's internal control over financial reporting.

A 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 MPHA'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 MPHA's financial statements that is more than inconsequential will not be prevented or detected by the MPHA's internal control.

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 MPHA'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 or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the MPHA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Minnesota Legal Compliance

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

The *Minnesota Legal Compliance Audit Guide for Local Government* contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories, except that we did not test for compliance in public indebtedness and claims and disbursements because they are not applicable to the MPHA.

The results of our tests indicate that, for the items tested, the MPHA complied with the material terms and conditions of applicable legal provisions.

This report is intended solely for the information and use of the Board of Commissioners, management, others within the MPHA, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

June 24, 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

Board of Commissioners
Minneapolis Public Housing Authority

Compliance

We have audited the compliance of the Minneapolis Public Housing Authority (MPHA) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2008. The MPHA's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the MPHA's management. Our responsibility is to express an opinion on the MPHA's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the MPHA's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the MPHA's compliance with those requirements.

In our opinion, the MPHA complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2008.

Internal Control Over Compliance

The management of the MPHA is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the MPHA's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the MPHA's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the MPHA's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency.

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 MPHA'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 MPHA's internal control. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 03-3 to be a significant deficiency.

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 MPHA's internal control. We did not consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs to be a material weakness.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the MPHA as of and for the year ended September 30, 2008, and have issued our report thereon dated June 24, 2009. Our audit was performed for the purpose of forming an opinion on the MPHA's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

This report is intended solely for the information and use of the Board of Commissioners, management and others within the MPHA, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto

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STATE AUDITOR

/s/Greg Hierlinger

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June 24, 2009

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**MINNEAPOLIS PUBLIC HOUSING AUTHORITY
MINNEAPOLIS, MINNESOTA**

Schedule 2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Housing and Urban Development		
Direct Funding		
Public and Indian Housing Program		
Operating Subsidy (Low Rent)	14.850	\$ <u>20,048,076</u>
Section 8 Project-Based Programs		
N/C S/R Section 8 Program	14.182	\$ 909,784
Section 8 Moderate Rehabilitation	14.856	<u>832,213</u>
Total Section 8 Project-Based Cluster		\$ <u>1,741,997</u>
Section 8 Housing Choice Vouchers Program	14.871	<u>\$ 40,778,088</u>
Disaster Voucher Program	14.DVP	<u>\$ 56,543</u>
Revitalization of Severely Distressed Public Housing	14.866	<u>\$ 2,573,229</u>
Public Housing Capital Fund Program	14.872	<u>\$ 13,089,837</u>
Passed Through the City of Minneapolis		
Community Development Block Grant (CDBG)		
CDBG-Funded Low-Rent Housing Program	14.218	<u>\$ 163,406</u>
Total U.S. Department of Housing and Urban Development		\$ <u>78,451,176</u>
Corporation for National and Community Service		
Direct Funding		
Volunteers in Service to America	94.013	<u>\$ 8,089</u>
Total Federal Awards		\$ <u>78,459,265</u>

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 Minneapolis Public Housing Authority (MPHA). The MPHA's reporting entity is defined in Note 1 to the financial statements.
2. The expenditures on this schedule are on the accrual basis of accounting.
3. For the year ended September 30, 2008, the MPHA did not pass any federal money to a subrecipient.