

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

MANAGEMENT AND COMPLIANCE REPORT

OLMSTED COUNTY
HOUSING AND REDEVELOPMENT AUTHORITY
ROCHESTER, MINNESOTA

YEAR ENDED DECEMBER 31, 2009

Description of the Office of the State Auditor

The mission of the Office of the State Auditor is to oversee local government finances for Minnesota taxpayers by helping to ensure financial integrity and accountability in local governmental financial activities.

Through financial, compliance, and special audits, the State Auditor oversees and ensures that local government funds are used for the purposes intended by law and that local governments hold themselves to the highest standards of financial accountability.

The State Auditor performs approximately 160 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits of local governments;

Government Information - collects and analyzes financial information for cities, towns, counties, and special districts;

Legal/Special Investigations - provides legal analysis and counsel to the Office and responds to outside inquiries about Minnesota local government law; as well as investigates allegations of misfeasance, malfeasance, and nonfeasance in local government;

Pension - monitors investment, financial, and actuarial reporting for approximately 730 public pension funds; and

Tax Increment Financing - promotes compliance and accountability in local governments' use of tax increment financing through financial and compliance audits.

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

Office of the State Auditor
525 Park Street, Suite 500
Saint Paul, Minnesota 55103
(651) 296-2551
state.auditor@state.mn.us
www.auditor.state.mn.us

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

Year Ended December 31, 2009



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**

TABLE OF CONTENTS

	<u>Reference</u>	<u>Page</u>
Schedule of Findings and Questioned Costs	Schedule 1	1
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		5
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133		8
Schedule of Expenditures of Federal Awards	Schedule 2	11
Notes to the Schedule of Expenditures of Federal Awards		12

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

Schedule 1

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2009**

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 (HRA).
- B. A significant deficiency in internal control was disclosed by the audit of financial statements of the Olmsted County HRA and is 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*." It is not a material weakness.
- C. No instances of noncompliance material to the financial statements of the Olmsted County HRA 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 Applicable to Each Major Program and 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 Olmsted County HRA expresses an unqualified opinion.
- F. A finding relative to a major federal award program for the Olmsted County HRA was 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 HRA was determined to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

07-2 Segregation of Duties

Management is responsible for establishing and maintaining internal controls. Adequate segregation of duties is a key internal control in an organization's accounting system. Rental Assistance Technicians use the HAPPY software system to process rental assistance payments. Procedures were established by the HRA for an independent review of information entered into the HAPPY system. An independent review is not always being performed by an individual who does not have access to the HAPPY system. We also found that the quality control reviews are not being performed in a timely manner.

We recommend the Olmsted County HRA management implement and monitor oversight procedures to create proper internal controls. These controls should also be performed in a timely manner.

Client's Response:

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 Rental Assistance Coordinator (RAC) will be limited to READ ONLY ACCESS to HAPPY.*
- *The RAC will pull the hard copy files and 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.*

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

07-3 Internal Controls Over Rental Assistance Payments (CFDA #14.871)

Management is responsible for establishing and maintaining internal controls. Adequate segregation of duties is a key internal control in an organization's accounting system. Rental Assistance Technicians use the HAPPY software to process the Section 8 Housing Choice Vouchers program eligibility determinations and rental assistance payments. Procedures were established by the HRA for an independent review of information entered into the HAPPY system. An independent review is not always being performed by an individual who does not have access to the HAPPY system. We also found that the quality control reviews are not being performed in a timely manner.

We recommend the Olmsted County HRA implement and monitor oversight procedures for internal controls over Section 8 Housing Choice Vouchers rental assistance payments based on eligibility determinations. These controls should also 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 Rental Assistance Coordinator (RAC) will be limited to READ ONLY ACCESS to HAPPY.*

Schedule 1
(Continued)

- *The RAC will pull the hard copy files and 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.



REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

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

Board of Commissioners
Olmsted County Housing and Redevelopment
Authority

We have audited the basic financial statements of the Olmsted County Housing and Redevelopment Authority (HRA) as of and for the year ended December 31, 2009, and have issued our report thereon dated September 22, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Olmsted County HRA'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 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.

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 HRA'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. However, we identified a deficiency in internal control over financial reporting, described in the Schedule of Findings and Questioned Costs as item 07-2, that we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Olmsted County 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 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 and claims and disbursements, 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 HRA complied with the material terms and conditions of applicable legal provisions.

The Olmsted County HRA's written response to the internal control finding identified in our audit has been included in the Schedule of Findings and Questioned Costs. We did not audit the HRA's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Commissioners, management, others within the Olmsted County 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

September 22, 2010

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

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

Board of Commissioners
Olmsted County Housing and Redevelopment
Authority

Compliance

We have audited the compliance of the Olmsted County Housing and Redevelopment Authority (HRA) 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, 2009. The Olmsted County 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 Olmsted County 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 Olmsted County 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, 2009.

Internal Control Over Compliance

Management of the Olmsted County 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 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 HRA's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying Schedule of Findings and Questioned Costs as item 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 HRA as of and for the year ended December 31, 2009, and have issued our report thereon dated September 22, 2010. Our audit was performed for the purpose of forming an opinion on the Olmsted County 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.

The Olmsted County HRA'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 HRA'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 Olmsted County 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

/s/Greg Hierlinger

REBECCA OTTO
STATE AUDITOR

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 22, 2010

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

Schedule 2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2009**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Direct		
Rural Rental Housing Loans	10.415	<u>\$ 37,383</u>
U.S. Department of Housing and Urban Development		
Direct		
Shelter Plus Care	14.238	\$ 84,229
Public and Indian Housing	14.850	219,608
Section 8 Housing Choice Vouchers	14.871	3,290,086
Public Housing Capital Fund Cluster		
Public Housing Capital Fund	14.872	120,978
Formula Capital Fund Stimulus Grant - ARRA	14.885	<u>61,490</u>
Total U.S. Department of Housing and Urban Development		<u>\$ 3,776,391</u>
Total Federal Awards		<u>\$ 3,813,774</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, 2009**

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 (HRA). The HRA'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 HRA under programs of the federal government for the year ended December 31, 2009. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the HRA, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the HRA.

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	\$ 3,673,724
Timing difference between recognition of revenue and expenditures for the Section 8 Housing Choice Vouchers Program (CFDA #14.871)	<u>140,050</u>
Expenditures per Schedule of Expenditures of Federal Awards	<u>\$ 3,813,774</u>

5. Subrecipients

During 2009, the HRA did not pass any federal money to subrecipients.

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

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.