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

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, 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.

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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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, 2010

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

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. A significant deficiency in internal control was disclosed by the audit of the financial statements of the 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*." The significant deficiency is a material weakness.

C. No instances of noncompliance material to the financial statements of the HRA were disclosed during the audit.

D. Significant deficiencies relating to the audit of the major federal award programs are 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." Some of the significant deficiencies are material weaknesses.

E. The Auditor's Report on Compliance for the major federal award programs for the HRA expresses an unqualified opinion.

F. Findings relative to major federal award programs for the HRA were reported as required by Section 510(a) of OMB Circular A-133.

G. The major programs are:

Tax Credit Exchange 1602 Program Funds - ARRA	No assigned CFDA #
HOME Investment Partnerships Program	CFDA #14.239
Tax Credit Assistance Program - ARRA	CFDA #14.258

H. The threshold for distinguishing between Types A and B programs was $498,752.

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

ITEM ARISING THIS YEAR

10-1 Notes and Loans Receivable

During our audit procedure confirming the notes and loans receivable balance, we received four confirmations with a discrepancy between what the borrowers stated as their principal balance at November 30, 2010, and the balance that the HRA had recorded on the Nortridge System as of the same date. According to the Nortridge System, the cumulative principal balance of these four confirmations was $3,157,118, while the borrowers' reported principal balances totaled $572,963, a difference of $2,584,155. For two of the four loans, representing a difference of $1,784,155, in accordance with the stated terms and conditions, the loan principals had either been 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 as of November 30, 2010.

The discrepancy between the borrowers' and the HRA's records for $1,740,081 of the $1,784,155 difference was communicated to proper accounting personnel by the loan officers/project managers to allow the loan balance to be adjusted on the Nortridge System for year-end financial statement purposes and did not require an audit adjustment at year-end.

The other two loans to one borrower were recorded on the Nortridge System as a principal balance totaling $800,000. The first loan issued in 1999 had a principal balance of $350,000, and a subsequent loan issued in 2001 had a principal balance of $450,000. The borrower submitted to the auditor, in response to the confirmation that was sent, a copy of a *Satisfaction of Mortgage* that had been filed with Ramsey County on September 7, 2010, and August 9, 2010, respectively. After the auditors informed HRA staff of this issue, it was determined that the respective loans indeed had not been satisfied and that the *Satisfaction of Mortgage* forms were erroneously completed and filed. The auditors resent the two loan confirmations to the borrower who then signed the confirmation that the loan balances totaling the $800,000 were correct.

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

Client's Response:

Planning and Economic Development's (PED) Directors of Housing, Economic Development, and Administration will be responsible for continually communicating with loan officers and project managers (LO/PM) the importance of timely communication with the proper accounting personnel of any changes in amount of loan receivables. In addition, if such information is provided at either Credit Committee or Resource Committee, it will be noted in the minutes, and the minutes will be forwarded to accounting personnel as back-up to direct communication between the LO/PM and accounting staff. In addition, accounting personnel will perform a pre-audit of outstanding loan balances to determine if any potential loan amount changes exist.

Where there is no evidence of complete repayment of outstanding loans, mortgage satisfactions will only be issued at the written direction of the Housing Director or Economic Development Director, depending upon project type. The Housing or Economic Development Director can only authorize a satisfaction if they have reviewed written evidence that a satisfaction is proper; such evidence may include Credit Committee approval, HRA Board approval, or a City Attorney's opinion that the satisfaction may be issued in accordance with the original loan documents.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

ITEMS ARISING THIS YEAR

10-2 Davis-Bacon Act - Tax Credit Exchange 1602 Program Funds - ARRA (No Assigned CFDA #), HOME Investment Partnerships Program (CFDA #14.239) and Tax Credit Assistance Program - ARRA (CFDA #14.258)

When required by the Davis-Bacon Act, all laborers and mechanics employed by the contractors or subcontractors to work on construction contracts in excess of $2,000 financed by federal assistance funds must be paid wages not less than those established for the locality of the project.

The HRA has assigned monitoring of compliance with the Davis-Bacon Act for any project financed by federal assistance funds to the City of Saint Paul's Human Rights and Equal Economic Opportunity (HREEO) Department. HREEO has developed a tracking system that allows contractors and subcontractors to submit their certified payrolls for those time periods that it has employees performing construction services related to the projects funded by federal assistance funds. A staff member of HREEO has been assigned to monitor contractors' and subcontractors' compliance with Davis-Bacon Act requirements; however, there is no monitoring of this individual's work.

Furthermore, based on the testing performed by the auditor in relation to compliance with the Davis-Bacon Act for the HOME Investment Partnerships Program (CFDA #14.239), the auditor discovered two subcontractors had not submitted certified payrolls on HREEO's tracking system to allow for the monitoring with the requirements of the Davis-Bacon Act.

We recommend that the HRA and the City's HREEO Department review their policies and procedures to ensure appropriate monitoring for compliance with the Davis-Bacon Act occurs, and that monitoring of staff's work occurs and is documented.

<u>Corrective Action Plan</u>:

<u>Contact Person(s)</u>:

Ruth Richardson

<u>Corrective Action Plan</u>:

The HREEO Department will issue and implement the following policies and procedures to ensure the appropriate monitoring of compliance with the Federal Davis-Bacon Act.

1. *The Contract Compliance Supervisor will maintain an electronic spreadsheet of all on-going Federal Davis-Bacon Requirements.*

2. *The Contract Compliance Supervisor will develop a Federal Davis-Bacon Checklist that will document review of the Federal Davis-Bacon Compliance Officer work that provides the date of the review and a signature that the project has been reviewed for accuracy.*

3. *The Contract Compliance Supervisor will prepare a quarterly report for the Deputy Director on findings related to the monitoring of the Compliance Officer's work.*

<u>Anticipated Completion Date</u>:

December, 2011

10-3 Identification of Federal Awards - Tax Credit Assistance Program - ARRA (CFDA #14.258), HOME Investment Partnerships Program (CFDA #14.239) and Tax Credit Exchange 1602 Program Funds - ARRA (No Assigned CFDA #) and State Energy Program - ARRA (CFDA #81.041)

The HRA and the City of Saint Paul have entered into an agreement whereby the City has agreed to perform administrative and accounting services for the HRA. The City of Saint Paul's Department of Planning and Economic Development (PED) staff initially provided auditors with federal awards information that included an estimate of $105,643 for expenditures for the HOME Investment Partnerships Program (CFDA #14.239). At the time of the estimate, the auditor determined that $1,108,981 of expenditures had been incurred related to the Program. In addition, at the time PED staff provided its estimate of expenditures for the HOME Investment Partnerships Program (CFDA #14.239), they did not include identification of the Tax Credit Assistance Program - ARRA (CFDA #14.258), the Tax Credit Exchange 1602 Program Funds - ARRA (no assigned CFDA #), or the State Energy Program - ARRA (CFDA #81.041). It was not until the audit of the HRA Federal & States Programs Special Revenue Fund and after the completion of the audit of the financial statements in the case of the State Energy Program - ARRA that auditors were made aware of these federal grants.

The Office of Management and Budget's (OMB) Circular A-133, Subpart C, § .300, indicates auditee responsibilities include identifying all federal awards received and expended and the federal programs under which they were received in preparation of the Schedule of Expenditures of Federal Awards (SEFA).

We recommend the HRA develop a system and written procedures that will allow staff to properly identify and classify all federal awards received and expended. Procedures should include determination of the correct program CFDA number, revenue source, and program name.

Corrective Action Plan:

Contact Person(s):

Jerry Falksen

Corrective Action Plan:

Accounting personnel entering cash receipts for grants will ascertain whether or not the grants are direct or indirect federal grants by reviewing a current listing of active grants, which are identified by program name, revenue source, and CFDA number. If the grant received is new, the accounting personnel will contact the person requesting the grant to ascertain whether or not the grant is a Federal grant, and if so, obtain the CFDA number.

PED's Director of Administration receives written notices of all grants received/administered by PED. He will ensure proper accounting staff receive copies of these notices as well.

PED accounting staff providing estimates of federal award expenditures for an audit year will have their estimates reviewed and confirmed by another PED accountant before submitting the estimates to the auditors.

Anticipated Completion Date:

No later than September 1, 2011

10-4 Subrecipient Monitoring - HOME Investment Partnerships Program (CFDA #14.239), Tax Credit Assistance Program - ARRA (CFDA #14.258), and Tax Credit Exchange 1602 Program Funds - ARRA (No Assigned CFDA #)

The HRA provided federal awards to subrecipients for the HOME Investment Partnerships Program (CFDA #14.239), the Tax Credit Assistance Program - ARRA (CFDA #14.258), and the Tax Credit Exchange 1602 Program Funds - ARRA (No Assigned CFDA #) during the year ended December 31, 2010.

OMB Circular A-133, Subpart C, § .400, indicates auditee responsibilities for entities that provide federal awards to subrecipients as a pass-through entity. Included in these responsibilities is, at the time of the award, identifying to the subrecipient the federal award information (CFDA title and number, award name, name of federal agency, and applicable compliance requirements).

Based on our review of the agreements between the HRA and its subrecipients, the HRA did not provide the CFDA numbers to subrecipients.

We recommend the HRA develop a system and written policies and procedures to ensure compliance requirements over subrecipients are met and subrecipients are properly informed of all aspects of the sub-award in accordance with OMB Circular A-133.

Corrective Action Plan:

Contact Person(s):

Jerry Falksen

Corrective Action Plan:

If Federal grant funds are being passed through to a sub-recipient, all new sub-recipient grant agreements will now include the CFDA number. In addition, all PED personnel issuing sub-recipient grant agreements will be directed to include the CFDA number when applicable.

Anticipated Completion Date:

No later than September 1, 2011

10-5 Eligibility - HOME Investment Partnerships Program (CFDA #14.239)

The HRA expended federal awards to individuals related to the rehabilitation of their homes, based on the eligibility requirements for the HOME Investment Partnerships Program (CFDA #14.239). As part of our testing of the HRA's compliance with the eligibility requirement, the auditor selected three individuals whose property received rehabilitation work during the year ended December 31, 2010, to determine whether the HRA followed the specific requirements for determining that the individual and their property were eligible to receive federal assistance under the HOME Investment Partnerships Program.

In some cases, based on an agreement entered into between the HRA and a contractor of professional services, the contractor was required to determine whether an individual and their related property was eligible to receive the benefit of rehabilitation work. Of the three individuals selected for testing by the auditor, for one of them the contractor made the determination that an individual and their related property was eligible under the program. The documentation supporting this individual's eligibility in this particular instance was not available for the auditor to view. The auditor was informed by the HRA's project manager that a staff member of the contractor had mistakenly shredded the documentation for confidentiality purposes, as the staff member was unaware that the documentation must be kept for verification. The contractor reacquired the documentation from the individual property owner for the auditor to review, and the auditor then verified that the property owner had met the eligibility requirements.

We recommend the HRA develop a system and written policies and procedures to ensure compliance requirements over eligibility are met and documentation kept and maintained in accordance with OMB Circular A-133.

Corrective Action Plan:

Contact Person(s):

Jerry Falksen

Corrective Action Plan:

The HRA will include a cover letter when agreements for sub-recipients who receive Federal assistance under the HOME Investment Partnerships Program are issued. This cover letter will include clear language requiring them to properly train their staff in all aspects of record retention and reporting required of the sub-grantee, per attachment B of the agreement.

Anticipated Completion Date:

No later than September 1, 2011

IV. OTHER FINDINGS AND RECOMMENDATIONS

OTHER ITEM FOR CONSIDERATION

GASB Statement 54

The Governmental Accounting Standards Board's (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, is effective for the HRA for the year ending December 31, 2011. The standard's objectives are to enhance the usefulness of fund balance information included in the financial report through clearer fund balance classifications that can be consistently applied and to clarify existing governmental fund type definitions.

Fund Balance Reporting

Statement 54 establishes new fund balance classifications based on constraints imposed on how resources can be spent. The existing components of fund balance are reserved, unreserved-designated, and unreserved-undesignated. Statement 54 replaces these components with nonspendable, restricted, committed, assigned, and unassigned as defined below:

- *Nonspendable* - amounts that cannot be spent because they are either not in spendable form (for example, inventory or prepaid items) or legally or contractually required to be maintained intact (such as the corpus of a permanent fund).

- *Restricted* - amounts that can be spent only for specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

- *Committed* - amounts that can be used only for specific purposes determined by a formal action of a government's highest level of decision-making authority.

- *Assigned* - amounts a government intends to use for a specific purpose that do not meet the criteria to be classified as restricted or committed.

- *Unassigned* - spendable amounts not contained in the other classifications.

The HRA should begin the process for implementing the new fund balance classifications. A key step in successfully implementing the new fund balance requirements is to plan ahead. The HRA can start with the following steps:

- review the requirements of GASB Statement 54;

- review current fund balances and compare to the new classifications;

- reclassify January 1, 2011, fund balance using the new classifications;

- review/update/prepare a comprehensive fund balance policy;

- prepare appropriate Board resolutions to commit fund balance; and

- if the Board of Commissioners intends to delegate authority to assign fund balance, prepare the resolutions delegating that authority.

<u>Governmental Fund Type Definitions</u>

The definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are clarified in the new standard. The new definition for a special revenue fund could have significant impact on the HRA's current fund classifications.

GASB Statement 54 provides a new and clearer description of when it is appropriate to account for an activity using a special revenue fund. Special revenue funds are used to report specific revenue sources restricted or committed to specified purposes other than debt service and capital projects, where the restricted or committed revenue sources comprise a substantial portion of the fund's resources, and are expected to continue to do so in the future. The standard does not define substantial portion; however, most recommendations are generally that the restricted or committed revenues should comprise at least 35 to 50 percent of total fund revenues. Under this definition, it is possible that some current special revenue funds will no longer meet the requirements for special revenue fund treatment. The HRA's management should review the HRA's special revenue funds to ensure these funds continue to warrant treatment as special revenue funds.

The HRA's management should perform the following steps prior to December 31, 2011:

- prepare a list of the HRA's special revenue funds;
- determine the sources of revenues for each of those funds;
- identify whether any of those revenues are restricted or committed;
- determine if these restricted or committed revenues represent a substantial portion of the fund's revenues and are expected to continue to be a substantial source of revenues;
    - if yes, the fund may continue to be classified as a special revenue fund;
    - if not, determine whether the HRA will combine that fund with the general fund or with a similar purpose special revenue fund that meets the new definition;
- code revenues in the general ledger by source constraints--restricted, committed, assigned or unassigned; and
- determine if there needs to be a restatement of beginning fund balances.

Additional implementation steps could include: informing any component units that they also will need to meet the requirements; deciding on how fund balance will be presented in the financials, for example, detailed vs. aggregate methods; and developing the potential note disclosures. Additional guidance on GASB Statement 54 can be found on the Office of the State Auditor's website at:
http://www.auditor.state.mn.us/other/Statements/fundbalances_postGASB54_1012_statement.pdf.

STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

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

REBECCA OTTO
STATE AUDITOR

(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*

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, 2010, which collectively comprise the HRA's basic financial statements, and have issued our report thereon dated June 24, 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 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 and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

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. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 10-1 to be a material weakness.

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 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 seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Except for tax increment financing, which was tested in conjunction with the audit of the financial statements of the HRA, the other listed categories were tested in conjunction with the audit of the financial statements of the City of Saint Paul.

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

Also included in the Schedule of Findings and Questioned Costs is an other item for consideration. We believe this information to be of benefit to the HRA, and we are reporting it for that purpose.

The 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 HRA's Board of Commissioners, 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	*/s/Greg Hierlinger*
REBECCA OTTO STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

June 24, 2011

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STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

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

REBECCA OTTO
STATE AUDITOR

(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 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

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

Compliance

We have audited the Housing and Redevelopment Authority (HRA) of the City of Saint Paul's 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 each of its major federal programs for the year ended December 31, 2010. The HRA'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 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 could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010.

Internal Control Over Compliance

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 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.

Our consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 10-3 and 10-4 to be material weaknesses.

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. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 10-2 and 10-5 to be significant deficiencies.

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, 2010, and have issued our report thereon dated June 24, 2011. Our audit was performed for the purpose of forming opinions on the HRA's financial statements that collectively comprise the HRA'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 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 a whole.

The HRA'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 HRA's corrective action plans and, accordingly, we express no opinion on them.

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

June 24, 2011

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

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

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Housing and Urban Development		
Direct Grants		
Housing Counseling Assistance Grant Program	14.169	$ 53,212
Shelter Plus Care Grant	14.238	47,023
HOME Investment Partnerships Program	14.239	1,898,376
Passed Through Minnesota Housing Finance Agency		
Tax Credit Assistance Program - ARRA	14.258	3,164,171
Total U.S. Department of Housing and Urban Development		**$ 5,162,782**
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation		
Highway Planning and Construction	20.205	**$ 4,750**
U.S. Department of Treasury		
Passed Through Minnesota Housing Finance Agency		
Tax Credit Exchange 1602 Program Funds - ARRA	Not Assigned	$ 11,302,314
National Foreclosure Mitigation Counseling Program	21.000	155,229
Total U.S. Department of Treasury		**$ 11,457,543**
U.S. Department of Energy		
Passed Through Minnesota Housing Finance Agency		
State Energy Program - ARRA	81.041	**$ 13,044**
Total Federal Awards		**$ 16,638,119**

The notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

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

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

1. Reporting Entity

   The Schedule of Expenditures of Federal Awards presents the activities 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 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, 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 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 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 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. Pass-through grant numbers were not assigned by the pass-through agencies.

4. Subrecipients

Of the expenditures presented in the schedule, the HRA provided federal awards to subrecipients as follows:

CFDA Number	Program Name	Amount Provided to Subrecipients
14.238	Shelter Plus Care Grant	$ 47,023
14.239	HOME Investment Partnerships Program	459,962
14.258	Tax Credit Assistance Program - ARRA	3,164,171
Not Assigned	Tax Credit Exchange 1602 Program Funds - ARRA	11,302,314
	Total	$ 14,973,470

5. 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.