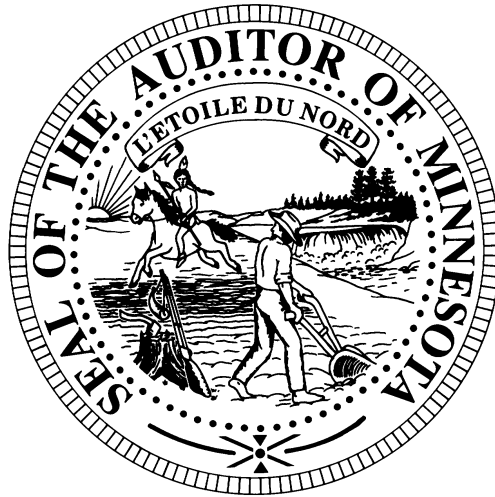


# STATE OF MINNESOTA

## Office of the State Auditor



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

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MANAGEMENT AND COMPLIANCE REPORT

**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, 2016

## **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 150 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 650 public pension funds; and

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

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

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**HOUSING AND REDEVELOPMENT  
AUTHORITY OF THE CITY OF SAINT PAUL  
SAINT PAUL, MINNESOTA  
(A COMPONENT UNIT OF THE CITY OF SAINT PAUL)**

**Year Ended December 31, 2016**



**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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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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

### Independent Auditor's Report

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

We have audited, 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, 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, Minnesota, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the HRA's basic financial statements, and have issued our report thereon dated June 8, 2017. Our report includes a reference to other auditors who audited the financial statements of the Penfield Apartments, as described in our report on the HRA's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the HRA's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Recommendations, 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. 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. We consider the deficiency described in the accompanying Schedule of Findings and Recommendations as item 2016-001 to be a material weakness.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the HRA's financial statements are free from 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**

The *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested in connection with the audit of the HRA's financial statements: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories; however, they were tested in conjunction with our audit of the financial statements of the City of Saint Paul.

In connection with our audit, nothing came to our attention that caused us to believe that the HRA failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Cities*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the HRA's noncompliance with the above referenced provisions.



## **HRA's Response to Finding**

The HRA's response to the internal control finding identified in our audit is described in the Corrective Action Plan. The HRA's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting, compliance, and the provisions of the *Minnesota Legal Compliance Audit Guide for Cities* and the results of that testing, and not to provide an opinion on the effectiveness of the HRA's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the HRA's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

June 8, 2017

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

SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
FOR THE YEAR ENDED DECEMBER 31, 2016

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

INTERNAL CONTROL

ITEM ARISING THIS YEAR

Finding Number 2016-001

Audit Adjustment

**Criteria:** 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 of the financial statements on a timely basis. Auditing standards define a material weakness as a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

**Condition:** During our audit, we identified a material adjustment that resulted in a significant change to the HRA's financial statements.

**Context:** The inability to detect material misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented. This adjustment was found in the audit; however, independent external auditors cannot be considered part of the HRA's internal control.

**Effect:** The following audit adjustment was reviewed and approved by the appropriate HRA staff and is reflected in the financial statements: in the HRA Development Capital Projects Fund, due to other governments was decreased and other financing sources--advances issued was increased by \$9,360,000. This adjustment also affected the governmental activities in the government-wide financial statements.

**Cause:** The HRA recorded intra-entity activity incorrectly. The City of Saint Paul and the HRA routinely advance funding from one fund to another. During 2016, a long-term advance was made from a City fund to a governmental fund of the HRA. This was a loan from the City fund to pay for costs to renovate the Palace Theatre. On the HRA's financial statements in this particular instance, this activity needed to be reported as a long-term liability which, for governmental funds, is recorded at the government-wide level. This liability was originally recorded at the governmental fund level as well, instead of being reported as an other financing source.

**Recommendation:** We recommend the HRA review its policies and procedures for the preparation of its financial statements to ensure that the financial information prepared by the accounting staff is accurately presented in the HRA financial statements in accordance with generally accepted accounting principles.

**View of Responsible Official:** Concur

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

**CORRECTIVE ACTION PLAN  
FOR THE YEAR ENDED DECEMBER 31, 2016**

**Finding Number:** 2016-001

**Finding Title:** Audit Adjustment

Name of Contact Person Responsible for Corrective Action:

Rhonda Gillquist

Corrective Action Planned:

The Housing and Redevelopment Authority (HRA) typically does not receive advances from the City of Saint Paul (City) but did receive a \$9,360,000 advance from the City in 2016 for construction of the Palace Theatre. This advance must be repaid to the City based on Palace Theatre operating revenues received by the HRA. Because this advance is long-term with no specific repayment schedule, the HRA needed to report this advance as a long-term debt rather than a due to other governmental unit liability. To ensure that the HRA's advances are accurately represented in the HRA financial statements, the advances will be reviewed before the HRA Comprehensive Annual Financial Report (CAFR) is submitted as final.

Anticipated Completion Date:

December 31, 2017