

State of Minnesota



Office of the State Auditor

Julie Blaha
State Auditor

**Housing and Redevelopment Authority
of the City of Saint Paul
Saint Paul, Minnesota
(A Component Unit of the City of Saint Paul)**

Management and Compliance Report

Year Ended December 31, 2020

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 100 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 Minnesota’s local 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, 2020



Management and Compliance Report

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

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

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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

Board of Commissioners
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, 2020, and the related notes to the financial statements, which collectively comprise the HRA of the City of Saint Paul's basic financial statements, and have issued our report thereon dated October 19, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the HRA of the City of Saint Paul's internal control over financial reporting as a basis for designing 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 of the City of Saint Paul's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the HRA of the City of Saint Paul'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 did identify a deficiency in internal control over financial reporting that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

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 of the City of Saint Paul'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 2020-002 to be a material weakness and item 2020-001 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the HRA of the City of Saint Paul'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 financial statements. 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

In connection with our audit, nothing came to our attention that caused us to believe that the HRA of the City of Saint Paul failed to comply with the provisions of the contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing sections of the *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, insofar as they relate to accounting matters. These categories were tested in conjunction with our audit of the financial statements of the City of Saint Paul. 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 of the City of Saint Paul's noncompliance with the above referenced provisions, insofar as they relate to accounting matters.

HRA of the City of Saint Paul's Response to Findings

The HRA of the City of Saint Paul's responses to the internal control findings identified in our audit are described in the Corrective Action Plan. The HRA of the City of Saint Paul's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 of the City of Saint Paul'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 of the City of Saint Paul's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

/s/Julie Blaha

JULIE BLAHA
STATE AUDITOR

/s/Dianne Syverson

DIANNE SYVERSON, CPA
DEPUTY STATE AUDITOR

October 19, 2021

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

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2020**

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

INTERNAL CONTROL

Finding Number: 2020-001

Prior Year Finding Number: 2019-001

Repeat Finding Since: 2018

Land Held for Resale

Criteria: Land held for resale is reported as an asset at the net realizable value for all assets acquired before 2009 and at cost of purchase for all assets purchased after 2009 in the fund which acquired it, per the Housing and Redevelopment Authority (HRA) of the City of Saint Paul's policy. Supporting documentation for the valuation of land held for resale should be prepared and retained by the HRA of the City of Saint Paul.

Condition: During the audit of the HRA of the City of Saint Paul's land held for resale, 18 properties were tested by verifying the value at which they were recorded in the system as of December 31, 2019. The HRA of the City of Saint Paul was unable to provide documentation supporting the value of five of the properties tested. This problem still existed for the year ended December 31, 2020.

Context: It is unknown whether or not the values of these properties are reported in accordance with the HRA of the City of Saint Paul's policy.

Effect: There is an increased risk that the HRA of the City of Saint Paul's land held for resale asset values are reported incorrectly or not in accordance with the HRA of the City of Saint Paul's policy.

Cause: The primary staff responsible for maintaining the land held for resale inventory and the staff who worked on these particular properties with missing information have both retired. Current staff taking over this duty had difficulty locating the proper documentation to support the valuation of these land held for resale properties.

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

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2020**

Recommendation: We recommend the HRA of the City of Saint Paul strengthen internal controls over the valuation of its land held for resale inventory. Documentation should be prepared and retained to support the land held for resale values reported.

View of Responsible Official: Concur

Finding Number: 2020-002

Prior Year Finding Number: N/A

Repeat Finding Since: N/A

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: A material audit adjustment was identified that resulted in significant changes to the HRA of the City of Saint Paul'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. The adjustment was found in the audit; however, independent external auditors cannot be considered part of the HRA of the City of Saint Paul's internal control.

Effect: The HRA Tax Increment Capital Projects Fund due to other governments and expenditures increased by \$1,504,504 to record a payable due to Ramsey County. This audit adjustment was reviewed and approved by the appropriate Planning and Economic Development staff and is reflected in the financial statements.

Cause: This activity was overlooked when the financial statement information was prepared.

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

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2020**

Recommendation: We recommend the HRA of the City of Saint Paul review internal controls currently in place and design and implement procedures to improve internal controls over financial reporting which will prevent, or detect and correct, misstatements in the financial statements. The updated controls should include review of the balances and supporting documentation by a qualified individual to identify potential misstatements.

View of Responsible Official: Concur



CITY OF SAINT PAUL
Melvin Carter, Mayor

25 West Fourth Street, Ste. 1300
Saint Paul, MN 55102

Telephone: 651-266-6565

**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, 2020**

Finding Number: 2020-001

Finding Title: Land Held for Resale

Name of Contact Person Responsible for Corrective Action:

Rhonda Gillquist

Corrective Action Planned:

On June 23, 2021, a new land held for resale valuation policy was adopted by the HRA Board through RES 21-906. The system we use to maintain the land held for resale records is being transitioned to our GIS system. Once this transition is complete, we will ensure that our property documentation includes the appropriate valuations consistent with the new policy.

Anticipated Completion Date:

December 31, 2021

Finding Number: 2020-002

Finding Title: Audit Adjustment

Name of Contact Person Responsible for Corrective Action:

Rhonda Gillquist

Corrective Action Planned:

At the end of 2019, the accountant who had completed the accounting and financial reporting for the Tax Increment Financing (TIF) Districts retired. An accounts payable accrual was misunderstood and missed in 2020 during the transition to new staff. To ensure that accounts payable is accurately presented in the HRA financial statements, accounts payable will be reviewed before the HRA financial statements are submitted as final.

Anticipated Completion Date:

December 31, 2021



CITY OF SAINT PAUL
Melvin Carter, Mayor

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

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2020**

Finding Number: 2019-001
Repeat Finding Since: 2018
Finding Title: Land Held for Resale

Summary of Condition: During the audit of the HRA of the City of Saint Paul's land held for resale, 18 properties were tested by verifying the value at which they were recorded in the system as of December 31, 2019. The HRA of the City of Saint Paul was unable to provide documentation supporting the value of five of the properties tested.

Summary of Corrective Action Previously Reported: The HRA has recently centralized our asset management functions for better oversight. Property management staff were formerly part of the Housing team, and now that function is housed within the Finance and Administration team along with Accounting. We will review the current policy for land held for resale adopted in 2009 to determine if changes are needed. Once we have completed the policy review and any updates, we will ensure that our property documentation includes the appropriate value information consistent with the policy.

Status: Partially Corrected. Per the 2018 corrective action plan, the anticipated completion date was December 31, 2019 to review the current land held for resale adopted in 2009. This policy was reviewed by December 31, 2019 and it was determined that the policy needed to be updated to address systems that will ensure reliable value estimates and documentation not vulnerable to the staffing changes and retirements that were causal factors in the finding. Per the 2019 corrective action plan, the revised anticipated completion date was June 30, 2021 to update the land held for resale policy and ensure that our records include the appropriate documentation of value consistent with the policy. The HRA Board through RES 21-906, adopted a revised land held for resale valuation policy on June 23, 2021. Due to COVID-19, the revised anticipated completion date to ensure that our records include the appropriate documentation of value consistent with the revised valuation policy is December 31, 2021.

Was corrective action taken significantly different than the action previously reported?
Yes _____ No X