

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, 2011

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@osa.state.mn.us
www.auditor.state.mn.us

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

Year Ended December 31, 2011



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**

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: **Unqualified**

Internal control over financial reporting:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **No**

Noncompliance material to the financial statements noted? **No**

Federal Awards

Internal control over major programs:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **Yes**

Type of auditor's report issued on compliance for major programs: **Unqualified**

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? **Yes**

The major program is:

Section 8 Housing Choice Vouchers

CFDA #14.871

The threshold for distinguishing between Types A and B programs was \$300,000.

Olmsted County Housing and Redevelopment Authority qualified as low-risk auditee?
Yes

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

None.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

PREVIOUSLY REPORTED ITEM NOT RESOLVED

10-1 Utility Allowances - Special Tests and Provisions

Programs: Section 8 Housing Choice Vouchers (CFDA No. 14.871)

Criteria: Standard internal control procedures should include a review process to determine that utility rate data has been updated yearly to ensure the utility allowance schedule is accurate.

Per 24 C.F.R. § 982.517, the PHA must maintain an up-to-date utility allowance schedule. The PHA must review utility rate data for each utility category each year and must adjust its utility allowance schedule if there has been a rate change of ten percent or more for a utility category or fuel type since the last time the utility allowance schedule was revised.

Condition: The Olmsted County Housing and Redevelopment Authority (HRA) does not have a review process in place to determine if the utility allowance schedule is accurate and updated. During our review, the Olmsted County HRA could not provide documentation that the utility allowance schedule has been reviewed for each utility category to determine if there has been a rate change of ten percent or more. Therefore, we could not determine if the appropriate utility allowance was given for tenant-paid utilities.

Questioned Costs: None.

Context: For 2011, the utility allowance schedule used was from 2008, and documentation was not provided to determine that utility rates have not changed by 10 percent or more for a utility category.

Effect: The lack of a review process to determine if the utility rate allowance schedule has been updated for any utility rate changes over ten percent increases the risk that an incorrect utility allowance schedule is used for providing the appropriate allowance for tenant-paid utilities.

Cause: The review of utility rate data was missed due to staffing.

Recommendation: We recommend the Olmsted County HRA establish procedures to review the yearly utility rate data and to determine if the utility allowance schedule is accurate.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

Gary Lueders, Housing Administrator, Olmsted County Housing and Redevelopment Authority

Corrective Action Planned:

The Utility Allowance calculation is set up as a recurring task on the division calendar to begin the review of the utility allowance in August each year. The task list is reviewed monthly at the division meeting with all staff. After the review, there will be a comment period and then 60 days notice will be given to the tenants for an effective date of January 1st of the following year. This was done for 2012 and is already in progress for 2013. Prior to the effective date this is approved by the board.

Anticipated Completion Date:

January 1, 2012

PREVIOUSLY REPORTED ITEM RESOLVED

Segregation of Duties (07-3)

Rental Assistance Technicians use the HAPPY software system to process Section 8 Housing Choice Vouchers Program information. Procedures were established by the HRA for an independent review of information entered into the HAPPY system on a quarterly basis. An independent review was not always being performed by an individual who did not have access to the HAPPY system. We also found that the independent reviews were not being performed for all cases chosen for review for the first two quarters, and no review was being performed for the last two quarters.

Resolution

Independent reviews are now being performed by an individual who does not have access to the HAPPY system.

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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 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, 2011, and have issued our report thereon dated September 21, 2012. 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

Management of the Olmsted County HRA is responsible for establishing and maintaining effective 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 Olmsted County 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.

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 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 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, claims and disbursements, and miscellaneous provisions 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.

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 21, 2012

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

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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 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

Board of Commissioners
Olmsted County Housing and Redevelopment Authority

Compliance

We have audited the Olmsted County Housing and Redevelopment Authority's (HRA) 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 its major federal program for the year ended December 31, 2011. 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 of 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 could have a direct and material effect on its major federal program for the year ended December 31, 2011. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and is described in the accompanying Schedule of Findings and Questioned Costs as item 10-1.

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 Olmsted County HRA's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the 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 the 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, 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 10-1. 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 Housing and Redevelopment Authority as of and for the year ended December 31, 2011, and have issued our report thereon dated September 21, 2012. Our audit was performed for the purpose of forming an opinion on the Olmsted County Housing and Redevelopment Authority's financial statements that collectively comprise the Authority'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 underlying 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.

Olmsted County Housing and Redevelopment Authority'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 Authority'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 Authority, 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

September 21, 2012

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

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>\$ 29,820</u>
U.S. Department of Housing and Urban Development		
Direct		
Shelter Plus Care	14.238	\$ 142,988
Public and Indian Housing	14.850	291,029
Section 8 Housing Choice Vouchers	14.871	3,484,469
Public Housing Capital Fund	14.872	<u>161,365</u>
Total U.S. Department of Housing and Urban Development		<u>\$ 4,079,851</u>
Total Federal Awards		<u>\$ 4,109,671</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, 2011**

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 Olmsted County HRA under programs of the federal government for the year ended December 31, 2011. 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	\$ 3,979,090
Per U.S. Department of Housing and Urban Development (HUD)	
Notice PIH 2006-03 (HA) unused Section 8 Housing Choice Voucher	
(CFDA #14.871) housing assistance payments from HUD must be	
maintained in a Restricted Net Assets account.	<u>130,581</u>
Expenditures per Schedule of Expenditures of Federal Awards	<u>\$ 4,109,671</u>

5. Subrecipients

During 2011, the Olmsted County HRA did not pass any federal money to subrecipients.