



# **MINNESOTA OFFICE OF THE STATE AUDITOR**

**THE HOUSING AND REDEVELOPMENT  
AUTHORITY OF STEARNS COUNTY  
ST. CLOUD, MINNESOTA**

**YEAR ENDED JUNE 30, 1997**

**JUDITH H. DUTCHER  
STATE AUDITOR**

THE HOUSING AND REDEVELOPMENT AUTHORITY OF STEARNS COUNTY  
ST. CLOUD, MINNESOTA

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 1997

**THE HOUSING AND REDEVELOPMENT AUTHORITY OF STEARNS COUNTY  
ST. CLOUD, MINNESOTA**

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THE HOUSING AND REDEVELOPMENT AUTHORITY OF STEARNS COUNTY  
ST. CLOUD, MINNESOTA

Schedule 3

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1997

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses a qualified opinion on the general purpose financial statements of the Housing and Redevelopment Authority of Stearns County (HRA), because the HRA's policy is to prepare its Public Housing Enterprise Fund financial statements on the basis of accounting practices prescribed or permitted by the U.S. Department of Housing and Urban Development. These practices differ in some respects from generally accepted accounting principles. Accordingly, the Public Housing Enterprise Fund financial statements are not intended to present the financial position, results of operations, and cash flows in conformity with generally accepted accounting principles.
- B. Reportable conditions in internal control were disclosed by the audit of the financial statements of the HRA and are reported in the "Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*." One of the reportable conditions is a material weakness.
- C. No instances of noncompliance material to the financial statements of the HRA were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award program are reported in the "Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133."
- E. The Auditor's Report on Compliance for the major federal award program for the HRA expresses an unqualified opinion.
- F. No findings relative to the major federal award program for the HRA were disclosed during the audit.

- G. The major program was Section 8 Rental Certificate Program - CFDA #14.857.
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. The HRA was not determined to be a low-risk auditee.

## II. FINANCIAL STATEMENT AUDIT--INTERNAL CONTROLS

### PREVIOUSLY REPORTED ITEM NOT RESOLVED

#### 96-1 Lack of Segregation of the Accounting Functions

Due to the limited number of accounting personnel within the HRA, segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible. This is not unusual in operations the size of the HRA; however, the HRA's management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an accounting point of view.

Control procedures which the HRA should consider include:

- management determining that employees under its direct supervision are submitting financial reports currently;
- management determining that financial records are maintained currently; and
- management reviewing financial reports to the Board and other governmental units for reasonableness and to ascertain that they agree with the accounting records.

We recommend that HRA management be aware of the lack of segregation of the accounting functions and, if possible, implement oversight procedures to ensure that the internal control policies and procedures are being implemented by staff.

Client's Response:

The management and Board are aware of the lack of segregation of the accounting functions due to the HRA's limited staff. With regard to accounting related to all areas other than Housing Accounts/Programs, the HRA has implemented several procedures to ensure proper oversight as follows:

1. The mail is opened by support staff and/or the Interim Executive Director.
2. The deposit is made by the CPA firm hired to assist with monthly accounting services.
3. The monthly accounts payable list including all bills, regardless of amount, is prepared and classified by the Interim Executive Director.
4. The CPA firm prepares the actual checks from the monthly accounts payable list.
5. The following are submitted to the Board each month:
  - a. The accounts payable list for the current month,
  - b. The checks to be signed, and
  - c. Detailed schedules of deposits and disbursements prepared by the CPA firm.
6. Each check requires signature of two Board members.
7. A monthly bank reconciliation is performed by the CPA firm.
8. Financial data are required to be submitted and maintained on a timely and consistent basis to the Board and Executive Director.
9. The Executive Director and the Board review all financial data on a regular basis to ascertain they agree with the underlying accounting records.

ITEMS ARISING THIS YEAR

97-1 Cancellation of Supporting Documentation for Paid Claims

During the year ended June 30, 1997, disbursements for both the St. Cloud HRA and the Stearns County HRA were run under one system. As such, our testing of the disbursements system covered both entities. During our testing, we noted that the supporting documentation for one of the 25 general disbursements and seven of the 15 travel disbursements selected for testing were not adequately canceled. Three of these eight claims were charged to the Stearns County HRA. Supporting documentation should be canceled to prevent further use or possible resubmission.

We recommend that the HRA cancel all supporting documentation for claims at the time the claim is paid. This may be accomplished by stamping "Paid" on each page of the supporting documentation.

Client's Response:

*Management intends to establish procedures requiring all supporting documentation be properly cancelled on each page.*

97-2 Policies and Procedures Manual

Over time, the relationship between the Stearns County HRA and the St. Cloud HRA was such that the Stearns County HRA operated under the general operating policies and procedures adopted by the St. Cloud HRA. For instance, the procurement policy adopted by the St. Cloud HRA was also applied to the Stearns County HRA because the day-to-day operations were run under one system by the same individuals. With the recent separation of the two HRA's, the Stearns County HRA needs to adopt its own set of policies and procedures.

The Stearns County HRA has an investment policy, and has recently adopted procurement and conflict of interest policies, but we feel additional policies and procedures need to be created. Some of the areas that should be addressed include: cash receipts and disbursements, journal entries, capitalization of assets, electronic data processing, risk management, disaster recovery, electronic funds transfers, debt issuance, cost allocation, and interest allocation.

We recommend that the HRA adopt additional operating policies and procedures. These policies should be organized into a single manual for ease in determining if the HRA's actions are in compliance with its policies.

Client's Response:

*The management of Stearns County HRA has begun developing its own policies and procedures and will be incorporating them into a manual that will address policies and procedures related to accounting issues and Minnesota Statutes. Since the separation from St. Cloud HRA, Stearns HRA has adopted the following policies:*

- a. Procurement Policy, Resolution No. 97-08*
- b. Investment Policy, Resolution No. 97-15*
- c. Conflicts of Interest, adopted May 28, 1997*
- d. Investment Policy, adopted September 23, 1997*
- e. Access to Data, adopted December 19, 1997*

97-3 Bank Reconciliations

During the year ended June 30, 1997, the HRA accountant would attempt to reconcile the HRA's cash balance to the bank statement on a monthly basis. In reviewing these reconciliations, we found that some of these bank reconciliations were never completed. For those that were completed, the supporting documentation provided for some of the reconciling items was inadequate, and a "plug" journal entry was needed to get the book balance to agree with the bank balance. These "plug" entries represent unidentifiable differences between the HRA's book balance and the bank balance. These types of differences should be fully investigated and reconciled.

We recommend that the HRA reconcile its cash balance to the bank statements on a monthly basis. Reconciling items should be fully explained and have adequate supporting documentation. A "plug" figure should not be needed to balance the account.

Client's Response:

*Monthly bank reconciliations are now performed by the CPA firm hired to perform monthly accounting services for all accounts controlled by the HRA (not the housing accounts). The Firm account for every deposit,*

*disbursement, and adjustment. The monthly reconciled balance is agreed to the general ledger balances and all differences are investigated, support received and maintained, and proper adjustments made.*

97-4 Backup Documentation for Journal Entries

During the course of our audit, we found it necessary to examine numerous journal entries and found that some of these entries were not supported by adequate documentation. This made it extremely difficult and time-consuming to determine if the reasons for the journal entries, as well as the amounts, were proper.

We recommend that documentation supporting the amounts of and reasons for journal entries be filed with all journal entry forms.

Client's Response:

*Management intends to adopt a policy that proper support is to be on file for any adjusting journal entries posted to the accounting records.*

**OTHER FINDINGS AND RECOMMENDATIONS**

**III. MINNESOTA LEGAL COMPLIANCE**

ITEMS ARISING THIS YEAR

97-5 Payments Not Approved by the Board of Commissioners

During the year ended June 30, 1997, disbursements for both the St. Cloud HRA and the Stearns County HRA were run under one system. As such, our testing of the disbursements system covered both entities. During our testing, we noted that one of the 25 general disbursements and three of the 15 expense reimbursement claims selected for testing were over the \$1,000 Board-approval threshold established by the HRA; these claims were never submitted to the HRA Boards for approval. Two of these four claims over \$1,000 were charged to the Stearns County HRA.

Minn. Stat. § 469.012, subd. 1 (24), gives the HRA Board the power to make expenditures necessary to carry out the purposes of Minn. Stat. §§ 469.001-469.047. Thus, all expenditures need to be approved by the HRA Board unless it delegates this power to one or more of its agents or employees under Minn. Stat. § 469.012, subd. 1 (3).

On January 15, 1986, the Stearns County HRA Board passed a resolution adopting operating policies for the Stearns County HRA. Item 2 of this resolution required staff to transmit a list of disbursements over \$500 for review by the Board. On April 19, 1995, the St. Cloud HRA Board passed resolution 95-14 adopting a new procurement policy. Item B of this policy stated that all expenditures over \$1,000 require approval by the HRA Board on a monthly basis. At that time, the relationship between the Stearns County HRA and the St. Cloud HRA was such that the Stearns County HRA operated under the general operating policies and procedures adopted by the St. Cloud HRA. Thus, the Stearns County HRA Board also began approving only those claims over \$1,000. On May 16, 1997, the Stearns County HRA Board adopted a procurement policy similar to the St. Cloud HRA's which included Board approval of all expenditures over \$1,000.

In order to be in compliance with the procurement policy and with Minn. Stat. § 469.012, subd. 1 (24), the two payments over \$1,000 described above should have been approved by the Stearns County HRA Board.

We recommend that the HRA Board establish procedures to ensure that all payments over \$1,000 are submitted to the Board for approval in accordance with its procurement policy, and with Minn. Stat. § 469.012, subd. 1 (24).

Client's Response:

*Since June 1997, Stearns County HRA has implemented its own disbursement system separate from the St. Cloud HRA (with the exception of the housing disbursements) as noted in comment 96-1 above. In addition, in May 1997, Stearns County HRA adopted a procurement policy which is in compliance with Minnesota Statutes Section 469.015. The policy requires HRA Board approval of all expenditures over \$1,000. In addition, the HRA Executive Director is not authorized to make any purchases over \$500 without Board approval. Lastly, the HRA has established procedures in which, at each regular Board meeting, a detailed list of accounts payable is presented, Board*

*members are provided an opportunity to comment, the items are approved, and the disbursements are signed. All disbursements require the signature of two Board members.*

97-6 Broker Acknowledgment Certification Forms

The HRA did not have broker acknowledgment certification forms for its brokers. The certification is a written acknowledgment from brokers that they have received a statement of the HRA's investment restrictions and that they agree to handle the HRA's account in accordance with those restrictions. Minn. Stat. § 118A.04, subd. 9, requires receipt of the acknowledgment before the HRA can complete a transaction with a broker.

We recommend the HRA obtain written acknowledgments from all brokers before entering into transactions with them in accordance with Minn. Stat. § 118A.04, subd. 9.

Client's Response:

*In accordance with Minnesota Statute 118A.04, subd. 9, management intends to establish procedures that will require proper Broker Certification Forms be received from each broker and approved by management before entering any transactions with the Broker. These certifications will be filed on an annual basis.*

97-7 Mutual Fund Investments

At June 30, 1997, the St. Cloud HRA and the Stearns County HRA held a joint investment in the Great Hall Prime Money Market Fund, a mutual fund, in the amount of \$268,500. The Stearns County HRA's proportionate share of this investment was approximately \$26,850. Upon review of the prospectus and inquiry to the broker, we have determined that this mutual fund is not a permissible investment under Minn. Stat. § 118A.04 or Minn. Stat. § 50.14.

We recommend that the HRA invest only in those investments permissible under Minn. Stat. § 118A.04 or Minn. Stat. § 50.14.

Client's Response:

*Management intends to establish procedures to ensure investments include only those investments permitted by Minnesota Statute 118A.04. These procedures will be supplied the St. Cloud HRA as well for those investments made on behalf of Stearns County HRA. In addition, management intends to require annual receipt and approval of "Broker Certifications" that have a description of allowed investments attached to it.*

**IV. MANAGEMENT PRACTICES**

ITEMS ARISING THIS YEAR

97-8 Practices of the Former Executive Director

A. Payments Made to the Former Executive Director for Consulting Services

During the year ended June 30, 1997, the former Executive Director submitted 18 claims for consulting services on tax increment financing projects, public housing projects, and the Single Family Housing Program totaling \$44,842. Each of these claims for payment exceeded \$1,000.

The procurement policy in effect at the time these payments were made specified that all payments over \$1,000 required Board approval. These payments for consulting services did not appear on the "Over \$1,000 Disbursements" lists submitted to the Stearns County HRA Board until January 1997.

During January of 1997, payments to the former Executive Director did start appearing on the "Over \$1,000 Disbursements" lists. Between January and June of 1997, seven payments were made totaling \$15,861.

The former Director of Accounting for the Stearns County and St. Cloud HRA has stated in a signed affidavit that, prior to January of 1997, the former Executive Director instructed her to leave these payments off of the "Over \$1,000 Disbursements" lists because they were employee compensation. These payments should have been treated like any other payments to independent contractors and included on the lists for approval by the HRA Board.

Client's Response:

*Any future payments made to the Executive Director will be treated in accordance with the procurement policy discussed in comment 97-5 above. This will insure that monies paid to an executive director are approved by the board either as salary or as other compensation. In addition, the HRA has established a conflict of interest policy (as noted in comment 97-8C) that requires any such services be disclosed to and approved by the Board.*

B. Authorization for the Former Executive Director to Work on Specific Projects

On January 18, 1989, the Stearns County HRA Board passed resolution 89-01, "Adopting Interim Operating Policies for the Stearns County Housing and Redevelopment Authority." Item 3 of that resolution states:

New Project Initiatives - If, in accordance with the Agency's fee schedule, any city or township requests technical or project assistance, prior to initiating same a summary will be transmitted to each Board member for review. If no meeting is called . . . , staff can enter into a preliminary contract for said initiative, with formal ratification taking place at the next quarterly meeting.

The following is a summary of the former Executive Director's claims submitted to the Stearns County HRA, by project, for the year ended June 30, 1997:

<u>Project</u>	<u>Amount</u>
Cold Spring Coborns	\$ 2,667 *
Cold Spring Creamery	1,895 *
Cold Spring Grainery	2,765 *
Cold Spring	5,422 *
Cold Spring Granite	1,006 *
St. Augusta	330 *
Avon	169
Burlington Northern Acquisition	163
General	11,263

Schedule 3  
(Continued)

Melrose	108 *
Holdingsford	108
Quarry Park	507
St. John's	1,905
Single Family Housing Program	14,384 *
St. Joseph Township	322 *
St. Cloud Meat and Provision	246 *
Albany	123 *
Rheaume's House of Lettering	415 *
Paynesville	614
Waite Park	215
Overhead Door	<u>215</u>
Total	<u>\$ 44,842</u>

We examined Board minutes, memos, and Board agenda packets for approval to work on these projects as required by the HRA's operating policies. Prior to January of 1997, we found no evidence that the Board knew of or authorized the former Executive Director to work as an independent contractor for these various projects. We did find indications that the HRA Board approved of or was aware that the former Executive Director, in his capacity as Executive Director, was working on the projects listed above that have been denoted with an asterisk.

The State Auditor's Office has concluded that for the period prior to January 1997, the former Executive Director was not authorized to: (1) exclude the payments made to himself for over \$1,000 from the HRA Board review and approval process; and (2) work for outside entities, in a private capacity, and charge the HRA for doing so. The State Auditor's Office is forwarding a copy of this report to the St. Cloud City Attorney and the Stearns County Attorney for review and appropriate action.

We recommend that the HRA consult with legal counsel regarding obtaining reimbursement from the former Executive Director for amounts he received without authorization by the Board.

Client's Response:

*The Board is consulting with its legal counsel regarding the potential for reimbursement from the Former Executive Director for unauthorized payments he received for certain unauthorized projects. The Stearns County HRA will cooperate with any activities undertaken by the County Attorney.*

C. Conflict of Interest

In addition to being unauthorized, the former Executive Director may have violated Minn. Stat. § 469.009 prior to January of 1997 because he had a personal financial interest in these billings to the HRA. This statute prohibits employees from taking an action or making a decision which could substantially affect the employee's financial interest.

The former Executive Director's status as an employee of the HRA is strongly supported by organizational documents. The HRA Bylaws, Article II, section 5, states, in part:

"The Authority shall employ an Executive Director . . ."  
(emphasis added).

This parallels the language of Minn. Stat. § 469.012, subd. 1, which states that an HRA Authority has the power to "employ an Executive Director." In the October 6, 1989, HRA Board minutes, a salary adjustment is requested "for part-time Stearns County HRA employees," including the "Executive Director."

The HRA Bylaws also indicate that "the compensation of the Executive Director shall be determined by the Authority." When salary amounts were paid to the former Executive Director, the checks were posted to the HRA account. Despite this, however, it was the St. Cloud HRA that issued 1099's to the former Executive Director and the other part-time employees of the HRA. The HRA should have issued W-2's directly to its own employees.

Despite the confusion created by the issuance of 1099's by the St. Cloud HRA, the evidence strongly suggests that the former Executive Director was an employee of the Stearns County HRA and, as such, was subject to the requirements of Minn. Stat. § 469.009.

Minn. Stat. § 460.009 also requires employees to submit a written statement to the Board describing the nature of the conflict of interest. We found no evidence that the former Executive Director made written disclosures to the HRA Board of his personal financial interest in these billings to the HRA. Though the Board had authorized or acknowledged the former Executive Director's assistance to various projects as the Executive Director prior to January 1997, there is nothing in the record to indicate the Board was aware that the former Executive Director was assisting in these projects as a private citizen for personal financial gain.

Not only is there a lack of disclosure, the former Director of Accounting has stated in a signed affidavit that the former Executive Director instructed her not to submit these bills to the Board for approval thereby ensuring that, prior to 1997, the Board would not be aware of the payments being billed and received by the former Executive Director.

Under Minn. Stat. § 469.009, both the failure to disclose a conflict and conflict itself are gross misdemeanors. We will be forwarding a copy of this report to the Stearns County Attorney for review and appropriate action.

Client's Response:

*Management will recommend the Board study the Operating Policies regarding the nature and cost of services provided by the HRA to governmental and private entities. In addition, management will establish procedures to ensure Board approval will be required on such contracts. In accordance with the Conflict of Interest policy adopted by the Board, all agreements and contracts provided by the Executive Director must be disclosed to and approved by the Board. The Stearns County HRA will cooperate with any activities undertaken by the County Attorney.*

97-9 Transfers Between Entities Not Approved by the Board of Commissioners

During our audit, we noted the following transfers between the St. Cloud HRA and the Stearns County HRA:

**Schedule 3**  
**(Continued)**

	St. Cloud HRA		Stearns County HRA	
	Common Bond Capital Projects Fund	Internal Service Fund	General Fund	Section 8 Housing Special Revenue Fund
To temporarily fund recycling of single family multi-bonds:				
February 28, 1997	\$ (700,000)	\$ -	\$ 700,000	\$ -
March 31, 1997	(300,000)	-	300,000	-
April 30, 1997	(421,003)	-	421,003	-
 To return funds used to operate the St. Cloud HRA's Internal Service Fund; this was originally transferred to the Internal Service Fund during the fiscal year ended June 30, 1992:				
June 30, 1997	\$ -	\$ (10,000)	\$ -	\$ 10,000

Unless the HRA Boards have specifically delegated the authority to transfer money between entities, all transfers of this type should be approved by the respective Boards. We could find no indication that any of these transactions between the St. Cloud HRA and the Stearns County HRA were approved by either of the HRA Boards.

We recommend that all future transfers of funds between the St. Cloud HRA and the Stearns County HRA be subject to prior approval by both Boards. Full disclosure of the transfers, including the purpose and amounts, should be made part of the official minutes of the respective Boards.

**Client's Response:**

*Management will prepare a recommendation to the Board for its consideration to adopt a policy addressing transferring cash funds between the St. Cloud and Stearns County HRA's. It is anticipated the policy will require disclosure of such transfers (amounts and purposes) and approval of the transfers by both Boards prior to the transfers occurring. The transfers are to be documented in the minutes.*

97-10 Transfers Between Funds Not Approved by the Board of Commissioners

During our audit, we noted the following instances where cash was transferred between Stearns County HRA funds:

1. On October 15, 1996, \$34,302 was transferred from the Public Housing Enterprise Fund to the General Fund to reimburse the General Fund for a parcel of land purchased (lot #2 in Sartell) on January 24, 1996.
2. On December 29, 1995, \$53,000 was transferred to the General Fund and \$10,000 was transferred to the Capital Projects Fund from the Economic Development Loan Special Revenue Fund (Economic Development Loan Fund). The explanation given on the journal entry was "TO COVER STEARNS CO EXPENSE AND CREATE DUE TO."

On June 28, 1996, an additional \$15,000 was transferred to the General Fund from the Economic Development Loan Fund. No explanation was given for this transfer. Also on June 28, 1996, the Economic Development Loan Fund was paid back the \$10,000 it loaned to the Capital Projects Fund.

The balance of \$68,000 due from the General Fund was paid back to the Economic Development Loan Fund on November 15, 1996.

3. On June 30, 1997, the General Fund transferred \$28,885 to the Capital Projects Fund. The explanation given on the journal entry was "CLOSE CAP PROJECT SC." The effect of this interfund transaction was to transfer the following costs from the Capital Projects Fund to the General Fund:
  - \$17,311 in consulting services paid to the former Executive Director on various current or proposed tax increment financing (TIF) projects,
  - \$636 in financial advisor fees paid to Springsted on the Cold Spring Granite TIF project,
  - \$9,895 in appraisal fees paid to Real Estate Services on the proposed Coborns TIF project, and
  - \$1,043 in interest costs.

Unless the Stearns County HRA Board has specifically delegated the authority to transfer money between funds, all interfund transfers should have Board approval. We could find no indication that any of these interfund transactions were approved by the Stearns County HRA Board.

We recommend that all future interfund transfers be subject to prior approval by the Stearns County HRA Board. Full disclosure of these interfund transfers, including the purpose and amounts, should be made part of the official minutes of the Board.

Client's Response:

*Management will prepare a recommendation to the Board for its consideration to adopt a policy addressing transferring cash between funds within Stearns County HRA.*

97-11 Budgetary Practices

The HRA does not adopt formal revenue and expenditure budgets for the Economic Development Loan, DTED Grants, and Home Energy Audits Special Revenue Funds. To effectively exercise budgetary controls, budgets should be established for all special revenue funds.

We recommend that formal revenue and expenditure budgets be adopted for all special revenue funds as part of the HRA's normal budgeting process.

Client's Response:

*Management will prepare a recommendation to the Board for its consideration to adopt a policy that requires the Board approve, on a yearly basis, formal revenue and expenditure budgets for all Special Revenue Funds during their normal budgeting process each year.*

97-12 Separate Report on TIF

The Office of the State Auditor's Tax Increment Financing (TIF) Division will be issuing a separate report on certain aspects of the Stearns County HRA's TIF operations.