

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

MINNEAPOLIS PUBLIC HOUSING AUTHORITY
MINNEAPOLIS, MINNESOTA

YEAR ENDED DECEMBER 31, 2013

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.

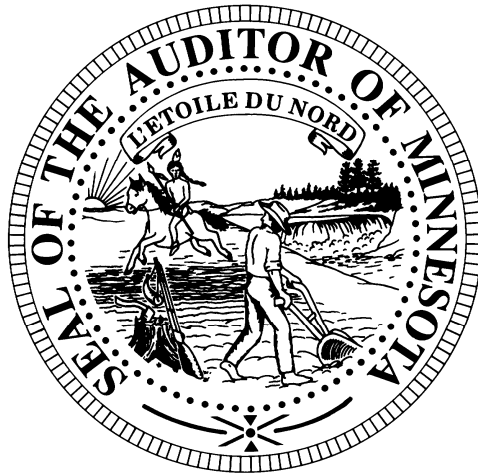
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**MINNEAPOLIS PUBLIC HOUSING AUTHORITY
MINNEAPOLIS, MINNESOTA**

Year Ended December 31, 2013



Management and Compliance Report

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

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**MINNEAPOLIS PUBLIC HOUSING AUTHORITY
MINNEAPOLIS, MINNESOTA**

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**MINNEAPOLIS PUBLIC HOUSING AUTHORITY
MINNEAPOLIS, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2013**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

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: **Unmodified**

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:

Moving to Work Demonstration Program

CFDA #14.881

The threshold for distinguishing between Types A and B programs was \$2,604,184.

The Minneapolis Public Housing Authority (MPHA) qualified as a 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

Finding 2012-002

Special Tests and Provisions - Housing Quality Standards (HQS) Enforcement
Re-Inspections

Program: U.S. Department of Housing and Urban Development's (HUD) Moving to Work Demonstration Program (CFDA No. 14.881)

Pass-Through Agency: None.

Criteria: OMB Circular A-133 § .300(b) states that the auditee shall maintain internal control over federal programs that provides reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its programs.

Condition: The MPHA tracks HQS inspections and re-inspections in the Visual Homes system. From Visual Homes, we selected 25 files for housing units that had failed HQS inspections and sought documentation related to the re-inspections. When housing units under Housing Assistance Payment (HAP) contract fail to meet HQS, the PHA must require the owner to correct any life-threatening HQS deficiencies within 24 hours after the inspections and all other HQS deficiencies within 30 calendar days or within a specified PHA-approved extension. Re-inspections must be within 24 hours for life-threatening deficiencies and within 30 calendar days or within a specified PHA-approved extension for all other HQS deficiencies. In one of the 25 files tested, the re-inspection was not performed within the required 24 hours for a life-threatening deficiency.

Questioned Costs: None.

Context: For housing units that fail to meet HQS, the MPHA must require the owner to correct any life-threatening HQS deficiencies within 24 hours after the inspection and all other HQS deficiencies within 30 calendar days or within a specified PHA-approved extension. The original inspectors of the units are responsible for scheduling re-inspections for life-threatening or for all other HQS deficiencies.

Effect: Failure to properly re-inspect the housing units that failed to meet HQS could lead to the housing unit's landlord receiving HAP for housing units that are not meeting the requirements necessary to receive the HAP payments.

Cause: A failure in design and implementation of internal control.

Recommendation: We recommend the MPHA establish policies and procedures improving oversight of the re-inspection process to ensure re-inspections are performed timely.

Corrective Action Plan:

Name of Contact Persons Responsible for Corrective Action:

Rita Ytzen, Senior Supervisor of HCV Program

Corrective Action Planned:

- *Owner caused life-threatening deficiencies, a 24 hour condition, will result in the HAP payments being placed in abatement immediately. And, if the unit is not brought into HQS compliance within 24 hours, the HAP contract will be cancelled.*
- *Establishment of monthly reports created by the Senior Inspector will monitor and track all failed inspections that contain a 24 hour, life-threatening condition. On a monthly basis, the HQS Administrative Assistant will track all failed inspections and the end result - abatement of the HAP, timely re-inspection of unit and a passed HQS, or HQS termination of the HAP Contract.*

Anticipated Completion Date:

Implemented September 2014

PREVIOUSLY REPORTED ITEMS RESOLVED

**Eligibility - Moving to Work Demonstration Program (CFDA No. 14.881)
(2011-001)**

For one participant file tested, the annual re-examination was not conducted in a timely manner.

Resolution

During the current audit, we noted no instances of late re-examinations.

**Davis-Bacon Act - Moving to Work Demonstration Program (CFDA
No. 14.881) (2012-001)**

For the five contracts tested for compliance with the Davis-Bacon Act requirements, one contractor had not submitted required payroll reports.

Resolution

For all of the contracts reviewed during the current audit, the required payroll reports were submitted to the MPHA.



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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

Members of the Board of Commissioners
Minneapolis Public Housing Authority
Minneapolis, 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 Minneapolis Public Housing Authority (MPHA) as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the MPHA's basic financial statements, and have issued our report thereon dated September 24, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the MPHA's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances 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 MPHA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the MPHA'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 the MPHA'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 the attention of those charged with governance.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the MPHA'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 Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains six categories of compliance to be tested in connection with the audit of the MPHA's financial statements: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our audit considered all of the listed categories.

In connection with our audit, nothing came to our attention that caused us to believe that the MPHA failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. 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 MPHA's noncompliance with the above referenced provisions.

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 Political Subdivisions* and the results of that testing, and not to provide an opinion on the effectiveness of the MPHA'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 MPHA'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

September 24, 2014

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REBECCA OTTO
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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Independent Auditor's Report

Members of the Board of Commissioners
Minneapolis Public Housing Authority
Minneapolis, Minnesota

Report on Compliance for the Major Federal Program

We have audited the Minneapolis Public Housing Authority's (MPHA) 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 the MPHA's major federal program for the year ended December 31, 2013. The MPHA's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the MPHA's major federal program based on our audit of the types of compliance requirements referred to above. 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 MPHA'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 on compliance for the major federal program. However, our audit does not provide a legal determination of the MPHA's compliance with those requirements.

Opinion on the Major Federal Program

In our opinion, the MPHA complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2013.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2012-002. Our opinion on the major federal program is not modified with respect to this matter.

The MPHA's response to the noncompliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs as a Corrective Action Plan. The MPHA's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the MPHA is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the MPHA's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program 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 MPHA'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. 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 the attention of those charged with governance.

Our consideration of 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 material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as item 2012-002, that we consider to be a significant deficiency.

The MPHA's response to the internal control over compliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs as a Corrective Action Plan. The MPHA's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the MPHA as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the MPHA's basic financial statements. We have issued our report thereon dated September 24, 2014, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the 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. Such information 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 information 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 basic financial statements or to the basic 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 as a whole.

Purpose of This Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

September 24, 2014

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

**MINNEAPOLIS PUBLIC HOUSING AUTHORITY
MINNEAPOLIS, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Housing and Urban Development		
Direct Funding		
Section 8 Project-Based Cluster		
N/C S/R Section 8 Program	14.182	\$ 1,031,397
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	14.856	939,817
Total Section 8 Project-Based Cluster		\$ 1,971,214
Shelter Plus Care	14.238	36,865
Continuum of Care Program	14.267	15,137
Section 8 Housing Choice Vouchers	14.871	2,305,486
Moving to Work Demonstration Program	14.881	82,461,734
Total U.S. Department of Housing and Urban Development		\$ 86,790,436
U.S. Department of Health and Human Services		
Passed Through the City of Minneapolis		
PPHF: Community Transformation Grants and National Dissemination and Support for Community Transformation Grants - financed solely by Prevention and Public Health Funds		
	93.531	15,701
Total Federal Awards		\$ 86,806,137

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**MINNEAPOLIS PUBLIC HOUSING AUTHORITY
MINNEAPOLIS, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by the Minneapolis Public Housing Authority (MPHA). The MPHA'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 MPHA under programs of the federal government for the year ended December 31, 2013. 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 MPHA, it is not intended to and does not present the financial position, changes in net position, or cash flows of the MPHA.

3. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on 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. Clusters

Clusters of programs are groupings of closely related programs that share common compliance requirements. Total expenditures by cluster are:

Section 8 Project-Based Cluster	\$ 1,971,214
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5. Subrecipients

The MPHA did not pass any federal awards through to subrecipients during the year ended December 31, 2013.