

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

**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, 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.

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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, 2011



Management and Compliance Report

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

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

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**HOUSING AND REDEVELOPMENT
AUTHORITY OF THE CITY OF SAINT PAUL
SAINT PAUL, 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? **Yes**
- Significant deficiencies identified? **Yes**

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

Federal Awards

Internal control over major programs:

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

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? **No**

The major program is:

HOME Investment Partnerships Program

CFDA #14.239

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

Housing and Redevelopment Authority of the City of Saint Paul qualified as low-risk auditee? **No**

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

10-1 Notes and Loans Receivable

Criteria: Management is responsible for establishing and maintaining internal control. This responsibility includes the internal control over the various accounting cycles, the fair presentation of the financial statements and related notes, and the accuracy and completeness of all financial records and related information.

Condition: As a result of audit procedures, which included confirming the notes and loans receivable balances as of November 30, 2011, and auditing the related allowance accounts, we determined that two loans were incorrectly recorded on the Nortridge System.

Context: During previous years, there have been discrepancies between the loan principal balances represented on the Nortridge System and the loan balances confirmed by borrowers, with some of these differences being considered material. While the differences determined for the year ended December 31, 2011, were not considered material, the inability to detect adjustments required to be made to notes and loans receivable balances increases the likelihood that the financial statements would not be fairly presented.

Effect: During our audit, we proposed audit adjustments to decrease loans receivable by \$146,600, increase the allowance for loans receivable by \$78,400, and to increase allowance for interest on loans receivable by \$146,836.

Cause: One of the loans was transferred to a different loan officer/project manager, and the previous loan manager had not updated the loan records correctly. The other loan was foreclosed on after December 31, 2011, and the loan officer/project manager was not aware of the requirement to inform the HRA's Credit Committee to review the loan for a potential revaluation of the loan receivable as of December 31, 2011.

Recommendation: The HRA should review internal controls currently in place, especially related to communication, and then design and implement procedures to improve internal controls to timely detect and prevent inaccuracies in the Nortridge System and potential misstatements in the financial statements.

Client's Response:

Planning and Economic Development's (PED) Directors of Housing, Economic Development, and Administration will be responsible for continually communicating with loan officers and project managers (LO/PM) the importance of timely communication with the proper accounting personnel of any changes in amount of loan receivables. In addition, if such information is provided at either Credit Committee or Resource Committee, it will be noted in the minutes, and the minutes will be forwarded to accounting personnel as back-up to direct communication between the LO/PM and accounting staff.

ITEMS ARISING THIS YEAR

11-1 Prior Period 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. One indication of a material weakness in internal control is restatement of previously issued financial statements to reflect the correction of a material misstatement due to error.

Condition: The HRA's 2011 financial statements reflect a prior period adjustment to restate the January 1, 2011, net assets of the HRA Parking Enterprise Fund and of the business-type activities.

Context: The need for prior period adjustments can raise doubts as to the reliability of the HRA's financial information being presented.

Effect: The January 1, 2011, net assets of the HRA Parking Enterprise Fund and of the business-type activities were restated by \$1,550,477 to account for the sale of land utilized as a parking lot, the related loss on the sale, and an HRA loan to the buyer that occurred in a prior year.

Cause: Other HRA staff involved in the sale of the land and arranging the loan had not made a previous HRA accountant aware that the transactions occurred.

Recommendation: We recommend the HRA review its procedures for preparation and disclosure of financial information to ensure accurate presentation in the financial statements. All HRA staff must fully and timely communicate transactions that have taken place to the accounting staff in order for the accounting staff to properly record, as necessary, the transactions on the general ledger and on other financial records.

Client's Response:

PED's Director of Housing and Director of Economic Development will ensure their staff understand their responsibility to timely communicate with the proper accounting personnel changes in any HRA property. Such communication will be via email and will include a copy to the respective Director - Housing or Economic Development.

11-2 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. Statement on Auditing Standards 115 defines a material weakness as a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

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

Context: The HRA internally prepares and reports appropriate government-wide and fund financial statements, including the related notes to the financial statements. The inability to detect significant misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented.

Effect: An audit adjustment was necessary to record additional payables and expenditures.

- Housing and economic development expenditures and payables (accounts payable and due to other governments) were increased in the HRA Tax Increment Capital Projects Fund by \$2,022,259.

The adjustment was reviewed and approved by the appropriate HRA staff and is reflected in the financial statements.

Cause: When preparing the fund financial statements as of and for the year ended December 31, 2011, the accountant decided that some invoices submitted for payment during January 2012 should be expenditures for the year ending December 31, 2012; however, the invoices included \$2,022,259 for work performed in 2011 and should have been recorded as 2011 expenditures.

Recommendation: We recommend transactions occurring after the balance sheet date of the individual fund statements be reviewed by the accounting staff to accurately determine the proper time period in which the expenditures should be recorded in accordance with generally accepted accounting principles.

Client's Response:

Per current practice, PED accounting staff will continue to review key accounts throughout the year, such as cash, principal and interest, etc. In addition, PED accounting staff will review all transactions occurring after the balance sheet statement date to determine the proper time period they should be recorded in.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

PREVIOUSLY REPORTED ITEMS RESOLVED

Davis-Bacon Act - Tax Credit Exchange 1602 Program Funds - ARRA (No Assigned CFDA No.), HOME Investment Partnerships Program (CFDA No. 14.239) and Tax Credit Assistance Program - ARRA (CFDA No. 14.258) (10-2)

The HRA assigned monitoring of compliance with the Davis-Bacon Act for any project financed by federal assistance funds to the City of Saint Paul's Human Rights and Equal Economic Opportunity (HREEO) Department. The monitoring work performed by a staff member of HREEO was not being reviewed. Auditors also discovered that two subcontractors had not submitted certified payrolls on HREEO's tracking system to allow for the monitoring with the requirements of the Davis-Bacon Act.

Resolution

In October 2011, the HREEO Department implemented policies and procedures to ensure the monitoring of compliance with the Davis-Bacon Act. The policies and procedures include peer-to-peer monitoring, a documented review for accuracy performed by the Contract Compliance Supervisor, and additional procedures to be completed before closing a project and approving a final draw request. For those projects selected by the auditor for testing of internal controls over compliance, documentation existed that a review was performed by the Contract Compliance Supervisor.

Identification of Federal Awards - Tax Credit Assistance Program - ARRA (CFDA No. 14.258), HOME Investment Partnerships Program (CFDA No. 14.239), Tax Credit Exchange 1602 Program Funds - ARRA (No Assigned CFDA No.), and State Energy Program - ARRA (CFDA No. 81.041) (10-3)

The HRA and the City of Saint Paul had entered into an agreement whereby the City agreed to perform administrative and accounting services for the HRA. For the year ended December 31, 2010, the City of Saint Paul's Department of Planning and Economic Development did not properly identify and classify all federal awards received and expended when estimates of the expenditures of federal awards were requested by the auditors.

Resolution

For the year ended December 31, 2011, when the City of Saint Paul's Department of Planning and Economic Development provided estimates of the expenditures of federal awards, all the awards received and expended were all properly identified and classified.

Subrecipient Monitoring - HOME Investment Partnerships Program (CFDA No. 14.239), Tax Credit Assistance Program - ARRA (CFDA No. 14.258), and Tax Credit Exchange 1602 Program Funds - ARRA (No Assigned CFDA No.) (10-4)

Agreements between the HRA and its subrecipients did not include the CFDA number of the federal award or awards being passed through to the HRA's subrecipients.

Resolution

For the year ended December 31, 2011, the HRA included in its agreements with its subrecipients the CFDA number of the federal sub-award being passed through.

Eligibility - HOME Investment Partnerships Program (CFDA No. 14.239) (10-5)

The HRA had entered into an agreement with a contractor whereby the contractor was required to determine whether an individual and their related property were eligible to receive the benefit of rehabilitation work. Documentation supporting an individual's eligibility was not available for the auditor to review. The documentation was mistakenly shredded by a staff member of the contractor. The contractor reacquired the documentation from the individual property owner, and the auditor then verified that the property owner had met the eligibility requirements.

Resolution

The auditor selected two individuals whose property received rehabilitation work during the year ended December 31, 2011, to test whether the HRA followed the specific requirements for determining that the individuals and their property were eligible to receive federal assistance under the HOME Investment Partnerships Program. The documentation supporting eligibility for both individuals and their related properties was available for the auditor to review.



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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*

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

We have audited 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, Minnesota, a component unit of the City of Saint Paul, as of and for the year ended December 31, 2011, which collectively comprise the HRA's basic financial statements, and have issued our report thereon dated June 25, 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 HRA is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the HRA's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the HRA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the HRA's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and another deficiency that we considered 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's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 11-1 and 11-2 to be material weaknesses.

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 Questioned Costs as item 10-1 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Except for tax increment financing, which was tested in conjunction with the audit of the financial statements of the HRA, the other listed categories were tested in conjunction with the audit of the financial statements of the City of Saint Paul.

The results of our tests indicate that for the items tested, the HRA complied with the material terms and conditions of applicable legal provisions.

The HRA's written responses to the internal control findings identified in our audit have been included in the Schedule of Findings and Questioned Costs. We did not audit the HRA's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the HRA's Board of Commissioners, management, others within the 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

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

June 25, 2012

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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

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

Compliance

We have audited the Housing and Redevelopment Authority (HRA) of the City of Saint Paul's 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 HRA is a component unit of the City of Saint Paul. The 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 the 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 on the HRA's compliance with those requirements.

In our opinion, the HRA complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2011.

Internal Control Over Compliance

Management of the 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 the 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.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the HRA of the City of Saint Paul, Minnesota, as of and for the year ended December 31, 2011, and have issued our report thereon dated June 25, 2012. Our audit was performed for the purpose of forming opinions on the HRA's financial statements that collectively comprise the HRA'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 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.

This report is intended solely for the information and use of the HRA's Board of Commissioners, management and others within the 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

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

June 25, 2012

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**HOUSING AND REDEVELOPMENT
AUTHORITY OF THE CITY OF SAINT PAUL
SAINT PAUL, 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 Housing and Urban Development		
Direct Grants		
Housing Counseling Assistance Grant Program	14.169	\$ 20,766
Shelter Plus Care Grant	14.238	45,730
HOME Investment Partnerships Program	14.239	2,784,895
Passed Through Minnesota Housing Finance Agency		
Tax Credit Assistance Program - ARRA	14.258	2,000
Total U.S. Department of Housing and Urban Development		\$ 2,853,391
U.S. Department of Treasury		
Passed Through Minnesota Housing Finance Agency		
National Foreclosure Mitigation Counseling Program	21.000	62,578
U.S. Department of Energy		
Passed Through Minnesota Housing Finance Agency		
State Energy Program - ARRA	81.041	4,489
Total Federal Awards		\$ 2,920,458

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**HOUSING AND REDEVELOPMENT
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SAINT PAUL, 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 Housing and Redevelopment Authority (HRA) of the City of Saint Paul, a blended component unit of the City of Saint Paul. The HRA'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 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 basis of accounting used by the individual funds of the HRA. Governmental funds use the modified accrual basis of accounting. Proprietary funds use 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.

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4. Subrecipients

Of the expenditures presented in the schedule, the HRA provided federal awards to subrecipients as follows:

<u>CFDA Number</u>	<u>Program Name</u>	<u>Amount Provided to Subrecipients</u>
14.238	Shelter Plus Care Grant	\$ 45,730
14.239	HOME Investment Partnerships Program	108,478
14.258	Tax Credit Assistance Program - ARRA	2,000
81.041	State Energy Program - ARRA	4,489
	Total	<u>\$ 160,697</u>

5. American Recovery and Reinvestment Act

The American Recovery and Reinvestment Act of 2009 (ARRA) requires recipients to clearly distinguish ARRA funds from non-ARRA funding. In the schedule, ARRA funds are denoted by the addition of ARRA to the program name.