

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

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

YEAR ENDED DECEMBER 31, 2005

Description of the Office of the State Auditor

The Office of the State Auditor serves as a watchdog for Minnesota taxpayers by helping to ensure financial integrity, accountability, and cost-effectiveness in local governments throughout the state.

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 250 financial and compliance audits per year and has oversight responsibilities for over 4,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits for 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 over 700 public pension funds; and

Tax Increment Financing, Investment and Finance - 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 Employee's Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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

Year Ended December 31, 2005



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 1

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses an unqualified opinion on the basic financial statements of the Olmsted County Housing and Redevelopment Authority (HRA).
- B. No matters involving internal control over financial reporting were reported in the "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*."
- C. No instances of noncompliance material to the financial statements of the Olmsted County Housing and Redevelopment Authority were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award program were 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 programs for the Olmsted County Housing and Redevelopment Authority expresses an unqualified opinion.
- F. A finding relative to a major federal award program for the Olmsted County HRA was reported as required by Section 510(a) of OMB Circular A-133.
- G. The major program is:

Section 8 Housing Choice Voucher CFDA #14.871
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. The Olmsted County Housing and Redevelopment Authority was determined to be a low-risk auditee.

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

None.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

COMPLIANCE

ITEM ARISING THIS YEAR

05-1 Failure to Retain Housing Quality Standard Report and Rent Reasonableness Documents (CFDA # 14.871)

Questioned Costs: \$28,851

The Olmsted County Housing and Redevelopment Authority is required to inspect units leased to a family at least annually to determine if the unit meets Housing Quality Standards (HQS). The HRA must prepare a unit inspection report documenting the inspection. Four of the forty case files tested did not have a 2005 inspection report. If units under the Housing Assistance Program (HAP) fail to meet HQS, the HRA must require the owner to correct any life threatening deficiencies within 24 hours and all other deficiencies within 30 calendar days. If the owner does not correct the cited deficiencies within the specified correction period, the HRA must stop paying HAP payments beginning no later than the first month following the specified correction date. One of the forty case files tested did not pass the inspection and there was no evidence of re-inspection. This resulted in \$28,851 in 2005 HAP expenditures incurring without documentation of an inspection.

The HRA must maintain records to document the basis for determining if the rent to an owner is reasonable rent (initially and during the term of the HAP contract). Three of the forty case files tested failed to document rent reasonableness.

We recommend the Olmsted County HRA retain documentation showing units were inspected at least annually and any deficiencies were corrected or HAP payments were stopped within the specified period. We also recommend the HRA document rent reasonableness determinations.

Section 8 - Housing Quality Inspections

Name of Contact Person Responsible for Corrective Action:

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

Corrective Action Planned:

The U.S. Department of Housing and Urban Development has recently implemented a new requirement in through its Public Indian Housing Information Center (PIC). A multitude of information needs to be reported to PIC for households receiving rental assistance through the Section 8, including status of the housing quality standards inspection report. If the report is not completed by a pre-determined date, the PIC system will alert the agency of the problem, and corrective action will be taken.

This process did not exist prior to 2006.

Anticipated Completion Date:

Ongoing.

Section 8 - Rent Reasonableness

Name of Contact Person Responsible for Corrective Action:

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

Corrective Action Planned:

Staff will document determinations pertaining to the reasonableness of the rent for units occupied by households receiving rental assistance through the Section 8 program.

Anticipated Completion Date:

Ongoing.

Overall

Name of Contact Person Responsible for Corrective Action:

Stephanie Reese, Accountant, Public Works Finance

Corrective Action Planned:

Finance staff will conduct a quarterly internal audit of the Section 8 files and follow up to ensure the above measures are in place and working.

Anticipated Completion Date:

Ongoing.



PATRICIA ANDERSON
STATE AUDITOR

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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*

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, 2005, and have issued our report thereon dated June 22, 2006. 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. The financial statements of the Rolling Heights Village program, a program within the Olmsted County Housing and Redevelopment Authority, were audited by other auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Olmsted County HRA's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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 Local Government*, 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 Local Government* contains five main categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, and claims and disbursements. Our study included all of the listed categories, except we did not test for compliance in deposits and investments or claims and disbursements, 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, and federal awarding agencies and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: June 22, 2006



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OFFICE OF THE STATE AUDITOR

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PATRICIA ANDERSON
STATE AUDITOR

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND 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 compliance of the Olmsted County Housing and Redevelopment Authority (HRA) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2005. 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 on 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 are applicable to its major federal program for the year ended December 31, 2005. However, the results of our auditing procedures disclosed instances of

noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as item 05-1.

Internal Control Over Compliance

The 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 the HRA's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the Olmsted County HRA as of and for the year ended December 31, 2005, and have issued our report thereon dated June 22, 2006. Our audit was performed for the purpose of forming an opinion on the Olmsted County HRA's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards 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 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, 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 Board of Commissioners, management, and federal awarding agencies and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: June 22, 2006

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

Schedule 2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Housing and Urban Development		
Direct		
Low-Income Public Housing	14.850A	\$ 189,862
Section 8 Housing Choice Voucher	14.871	3,193,215
Public Housing Capital Fund Program	14.872	191,196
Total Expenditures of Federal Awards		\$ 3,574,273

Notes to Schedule of Expenditures of Federal Awards

1. The Schedule of Expenditures of Federal Awards presents the activity of federal programs expended by the Olmsted County Housing and Redevelopment Authority (HRA). The Olmsted County HRA's reporting entity is defined in Note A to the basic financial statements.
2. The expenditures on this schedule are on the accrual basis of accounting.
3. During 2005, the Olmsted County HRA did not pass any federal money to subrecipients.