

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 SEPTEMBER 30, 2007

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 September 30, 2007



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 1

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2007**

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses an unqualified opinion on the basic financial statements of the Minneapolis Public Housing Authority (MPHA).
- B. Deficiencies in internal control were disclosed by the audit of the financial statements of the MPHA and are 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*." One of the significant deficiencies is a material weakness.
- C. No instances of noncompliance material to the financial statements of the MPHA were disclosed during the audit.
- D. Significant deficiencies relating to the audit of the major federal award programs are reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular 133." One of the significant deficiencies is a material weakness.
- E. The Auditor's Report on Compliance for the major federal award programs for the MPHA expresses an unqualified opinion.
- F. Findings relative to a major federal program for the MPHA were reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major programs are:

Public and Indian Housing Program	
Operating Subsidy (Low Rent)	CFDA No. 14.850
Section 8 Housing Choice Vouchers Program	CFDA No. 14.871
- H. The threshold for distinguishing between Types A and B programs was \$2,293,958.
- I. The MPHA was not determined to be a low-risk auditee.

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

INTERNAL CONTROL

ITEMS ARISING THIS YEAR

07-1 Bank Reconciliations

Bank reconciliations for the MPHA's main checking account are not completely reconciled on a timely basis. On the bank reconciliations provided for audit several months after fiscal year-end, unreconciled differences were approximately \$7,100 and \$22,500 at September 30, 2006 and 2007, respectively. In addition, numerous general ledger reconciling items have been carried forward since 2004. Performing complete and timely bank reconciliations is a control designed to detect errors or irregularities on a timely basis.

We recommend that bank reconciliations be performed on a timely basis; that unreconciled amounts be resolved; and that adjustments be made in the general ledger for old reconciling items. Reviews of bank reconciliations should document the ongoing monitoring of this process.

Client's Response:

MPHA recognizes the need for timely bank reconciliations. The loss and long-term vacancy of two key positions throughout the year caused a delay in completing the reconciliations timely. Changes in our accounting structure and systems, as we transitioned to HUD's asset management, has made the reconciliation more time consuming and more difficult.

MPHA plans to review the bank reconciliation process in an effort to simplify it and allow it to be completed more timely. In addition, MPHA will adjust the general ledger for old reconciling items.

07-2 Access to Computer Systems

Network and Oracle access had not been de-activated for two individuals who had left MPHA employment during the fiscal year. Department heads are responsible for informing the IT Department when an employee leaves the MPHA so that access to

computer systems can be terminated. Terminating access to computer systems on a timely basis is a control designed to limit the risk of access to the systems by unauthorized individuals.

We recommend the MPHA develop procedures to ensure that timely notification is given to the IT Department when an individual leaves employment so their access to the network or other computer systems is terminated. Evidence should also exist that management has monitored this control to ensure that it is working appropriately.

Client's Response:

MPHA has implemented a procedure where the Human Resources Manager will, by electronic correspondence to the Director of IT, 1) notify IT that the person's employment is being terminated and advise IT regarding the effective date of the action, 2) request that the terminating employee's access to the agency's computer systems (personal computers, lap-top computers, external access, key tag access to buildings, etc.) be revoked, and 3) request written verification, by return electronic correspondence, that the requested revocation has been done. A copy of the Human Resources Manager's request and the IT Director's response will be filed in the former employee's Personnel File for any necessary future reference.

07-3 Journal Entries

The MPHA's policies on journal entries to the accounting system (Oracle) require that all entries are to be reviewed by a second individual. Our testing noted a number of journal entries that did not contain the initials of a reviewer. The policies also provide that one individual is responsible for posting the journal entries to Oracle. However, most of the individuals in the Finance Department who initiate journal entries also have the ability to post the journal entries to the accounting system.

The ability to make journal entries on the general ledger system is a powerful function. It allows those employees with access to the journal entry function to make changes to the general ledger system. To prevent abuse of this function, it should be limited to those employees who have a logical need for this access.

We recommend the Finance Department review access to the journal entry function to determine if there is a logical need for that access for all employees who have access. We also recommend that all journal entries display evidence that they were reviewed by a second individual. A report should be generated monthly from Oracle that shows all journal entries that have been posted to the accounting system. Review and monitoring

of this report should be done to ensure that no journal entries have been made which have not been submitted for review and approval. Policies and procedures for journal entries should be reviewed and updated accordingly.

Client's Response:

MPHA will review job duties and the Oracle system security to ensure only those employees that need the ability to post journals have that level of access. Finance employees will be reminded that all journal entries need to have a secondary review. Procedures on month-end close will be updated to include a comparison of a system-generated posted journals report to the journal entry log as well as a comprehensive check of all journal entries to insure a secondary review was completed.

07-4 Payroll

Authorization for MPHA payroll changes such as new hires, promotions, and pay increases is initiated in the Human Resources Department. Notification of changes to be made is sent to the payroll clerk. The payroll clerk inputs the changes to the master file of the payroll system in addition to processing payroll. No review was being performed to verify that all changes to the payroll master file were authorized.

To strengthen internal controls, we recommend that someone independent of the payroll processing function review payroll edit reports to make sure that all changes made to the payroll system master file were authorized.

Client's Response:

MPHA's payroll is processed by the City of Minneapolis. MPHA will work with the City to determine if a payroll activity report could be provided to MPHA. If such a report cannot be produced by the City, MPHA will look into other alternatives as compensating controls for this process.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

03-2 Low Rent - Eligibility - CFDA No. 14.850

U. S. Department of Housing and Urban Development (HUD) Low Rent requirements include third-party verifications of income, assets, and other information; selection from the waiting list; annual re-examinations; and information regarding rent calculations. In addition, information on program participants should match between original file documentation and the same information reported to HUD.

Based on a review of 40 Low Rent participant files, the following items were noted:

Item similar to that identified in the previous year:

- For four files reviewed, re-examinations were not conducted in a timely manner. The required annual re-examinations were between one and two months late. The MPHA reported to us that the re-examinations were late due to tenants missing scheduled appointments and because of delays experienced in receipt of third-party verifications. Also, when there is an increase in rent, the MPHA is required to give a 30-day written notice to the tenant. Because the MPHA had to wait the full 30 days, the effective date of the re-examination was pushed to a later date, causing the re-examination to be past the due date.

New item identified during the current year's audit:

- Three files reviewed did not contain necessary third-party verifications. In one case, the student status of the client should have been verified. In another case, the auditor could not tie the bank account amounts to those reported on the HUD Form 50058, *Family Report* (50058). In the final case, there was no support for the amount reported on the 50058 as income from the parents' estate. As required by HUD, eligibility technicians should document attempts to independently verify any participant-provided income or asset information before using such information. Ideally, the MPHA should receive verifications directly from the third party.

Schedule 1
(Continued)

We acknowledge that the MPHA has taken steps to strengthen controls over the Low Rent Program. Although there have been significant improvements noted over the prior years, we recommend the MPHA take the following corrective actions:

- Ensure re-examinations are conducted in a timely manner since changes in family income and composition may occur that necessitate adjustments in rent.
- Adhere to the written policies and procedures for verifications of income and assets and the documentation of efforts to independently obtain third-party verifications.
- Correct files where documentation is missing, incomplete, or incorrect as noted above. For future applications, all required documentation should either be obtained at the time of application or be received before applicants can be accepted into the program. At the time of recertification, such documentation should be reviewed and updated as necessary for all files.

Corrective Action Plan:

Contact Person:

*Mary Boler, Director of Property Management Operations
Kim Hamilton, Supervisor of Leasing & Occupancy*

Corrective Action Plan:

MPHA strives to complete all re-examinations on time. There are instances where third-party verifications are not returned in a timely manner forcing a delay. Also there will always be residents who don't cooperate with the re-examination process. Staff will continue to follow through with lease terminations as necessary. When there is a delay in the process due to the tenant not cooperating, we apply back charges to the date any increases should have gone into effect, thus recovering the lost revenue.

MPHA requests third-party verifications for all instances where needed. When the third-party verification is not received MPHA staff should document the file per the Statement of Policies, PART III Verifications #4 with self-certification being the final method of verification when the other methods fail. MPHA field

Eligibility Technicians recently attended Public Housing Rent calculations training offered by Nan McKay. This was a three-day training course on all aspects of rent calculations including third-party verifications. Staff was tested and certified on their knowledge.

All file deficiencies noted have been corrected.

Anticipated Completion Date:

Staff training will continue on an as-needed basis. File deficiencies have already been corrected.

03-3 Section 8 Housing Choice Vouchers - Eligibility, Reporting, and Special Tests and Provisions (Housing Inspections and Rent Reasonableness) - CFDA No. 14.871

HUD Section 8 Housing Choice Vouchers Program requirements include third-party verifications of income, assets, and other information; annual inspection of housing units; and information regarding rent reasonableness. In addition, information on program participants should match between original file documentation and the same information reported to HUD.

Based on a review of 40 Section 8 Housing Choice Vouchers Program participant files, the following items were noted:

Items similar to those identified in the previous year:

- Four files reviewed had issues with the applications. Two files were missing current applications. In another file, the application was signed but dated 1968. In the final file, the application was signed by the non-minor son but not by the applicant.
- For two files reviewed, the tenant rent and housing assistance payments calculated by auditors differed from the amounts calculated by the MPHA. The differences resulted from calculation errors involving the payment standards or occupancy standards.
- Six files reviewed either did not contain verification of the social security numbers of all household members six years old and older, or they had discrepancies between the social security card information and the information entered onto the 50058s.

Schedule 1
(Continued)

- For ten files reviewed, re-examinations were not conducted in a timely manner. Re-examinations are required annually.
- In three files, deficiencies with the 50058 were noted. In one file, the payment standard used should have been three, but was four on the 50058. In another file, the payment standard on the 50058 was \$951, but it should have been \$941. In the remaining file, a social security number was incorrectly reported on the form. These errors would not have had an effect on eligibility or other outcomes.
- Four files were missing a signature on the Status 214 Citizenship form. All members of a family must be included on the form or have their own attestation that they are either U.S. citizens or non-citizens with eligible immigration status. Anyone unlawfully in the United States is ineligible to participate in the Section 8 Housing Choice Vouchers Program.
- In six files reviewed, the annual inspections of housing units were either late or the file contained no documentation indicating that the inspection had been completed. Housing inspections are required annually.
- In five files, deficiencies with the Housing Assistance Payment (HAP) contracts were noted. In four files, the signed HAP contracts were missing, and in one file, the HAP contract with the landlord was not signed for the current year. HAP contracts ensure that landlords agree to the terms the MPHA requires in the leases and to the amounts paid in rent both by the MPHA and the tenant. Housing assistance payments to landlords should not be made until the HAP contract has been properly executed.

New items identified during the current year's audit:

- One file reviewed did not contain a rent reasonableness determination. The MPHA is required to maintain records to document the basis for the determination that rent to the owner is a reasonable rent.
- Three files were either missing a current HUD Form 9886, *Authorization for Release of Information*, or the form was not properly signed and dated. Complete and current releases are required prior to requesting third-party verifications.

Schedule 1
(Continued)

We acknowledge that the MPHA has taken steps to strengthen controls over the Section 8 Housing Choice Vouchers Program. Although there have been significant improvements noted over the prior years, we recommend the MPHA take the following corrective actions:

- Correct files where documentation is missing, incomplete, or incorrect as noted above. For future applications, all required documentation should either be obtained at the time of application or be received before applicants can be accepted into the program. For all files, at the time of recertification, such documentation should be reviewed and updated as necessary.
- Recalculate and correct tenant rent and housing assistance payments where differences have been identified. Tenants should be reimbursed or otherwise credited for overpayments.
- Ensure re-examinations are conducted in a timely manner, since changes in family income and composition may occur that necessitate adjustments in tenant rent and housing assistance payments.
- Ensure annual inspections of housing units are completed on time.

Corrective Action Plan:

Contact Person:

Cheryl Borden, Director of Housing Choice Voucher Program

Corrective Action Plan:

All files with missing, incomplete, or incorrect documentation have been corrected.

All files with incorrect rent calculations have been corrected and the participants have been credited for any tenant overpayments.

MPHA Section 8 Supervisors will provide on-going monthly training sessions with staff to ensure that staff is aware of the required file documentation. In addition, the Section 8 Quality Control Specialist will randomly review files for quality assurance.

Schedule 1
(Continued)

Similarly, Section 8 Supervisors will meet monthly with staff to ensure that staff can accurately calculate and report rent on the HUD 50058 form. Supervisors will also train new staff and provide training updates to existing staff on rent calculations. In addition, the Section 8 Quality Control Specialist will randomly review files for quality assurance.

MPHA is implementing software upgrades that will assist staff in scheduling and monitoring completion of annual re-examinations and inspections. In addition, the Section 8 Quality Control Specialist will monitor HUD's reporting system to monitor delayed annual re-examinations and HQS inspections.

Anticipated Completion Date:

Staff training will continue on a monthly basis. All Section 8 Technicians who were on staff during November, 2007 received Nan McKay Housing Specialist Training. The training included eligibility, occupancy and rent calculations. All who attended received certification.

The Quality Control Specialist will continue quality control audits including inspections and HUD information systems reporting.

Upgraded software to assist with re-examination and inspection scheduling and monitoring is expected to be in place by July 15, 2008.

All errors identified in the audit have been corrected.

PREVIOUSLY REPORTED ITEMS RESOLVED

Section 8 Housing Choice Vouchers - Eligibility, Reporting, and Special Tests and Provisions (Housing Inspections and Rent Reasonableness) - CFDA No. 14.871 (03-3)

The following summarizes prior audit issues and recommendations for the Section 8 Housing Choice Voucher Program based on a review of 40 participant files and corrective actions resulting in current year resolution:

Third-Party Verifications

One file reviewed did not contain necessary third-party verifications.

Resolution

For all Section 8 Housing Choice Voucher Program participant files reviewed during the current audit, we noted no instances of files missing the necessary third-party verifications.

Current Signed Leases

Two files reviewed did not contain current signed leases.

Resolution

For all Section 8 Housing Choice Voucher Program participant files reviewed during the current audit, we noted no instances of files failing to contain current signed leases.

IV. OTHER ITEM FOR CONSIDERATION

Other Postemployment Benefits (OPEB)

The Governmental Accounting Standards Board (GASB) issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which governs employer accounting and financial reporting for OPEB. This standard, similar to what GASB Statement 27 did for government employee pension benefits and plans, provides the accounting and reporting standards for the various other postemployment benefits many local governments offer to their employees. OPEB can include many different benefits offered to retirees such as health, dental, life, and long-term care insurance coverage.

If retirees are included in an insurance plan and pay a rate similar to that paid for younger active employees, this implicit subsidy is considered OPEB. In fact, local governments may be required to continue medical insurance coverage pursuant to Minn. Stat. § 471.61, subd. 2b. This benefit is common when accumulated sick leave is used to pay for retiree medical insurance. Under the new GASB statement, accounting for OPEB is now similar to the accounting used by governments for pension plans.

Schedule 1
(Continued)

This year, the Legislature enacted a new law, Minn. Stat. § 471.6175, intended to help local governments address their OPEB liability in at least three important ways:

- It allows governments to create both irrevocable and revocable OPEB trusts.
- It authorizes the use of a different list of permissible investments for both irrevocable and revocable OPEB trusts.
- It also permits governments to invest OPEB trust assets with the State Board of Investment (SBI), bank trust departments, and certain insurance companies.

Some of the issues that the MPHA Board will need to address in order to comply with the statement are:

- determine if employees are provided OPEB;
- if OPEB are being provided, the MPHA Board will have to determine whether it will advance fund the benefits or pay for them on a pay-as-you-go basis;
- if OPEB are being provided, and the MPHA Board determines that the establishment of a trust is desirable in order to fund the OPEB, the MPHA Board will have to comply with the new legislation enacted authorizing the creation of an OPEB trust and establishing an applicable investment standard;
- if an OPEB trust will be established, the MPHA will have to decide whether to establish an irrevocable or a revocable trust, and report that trust appropriately in the financial statements; and
- in order to determine annual costs and liabilities that need to be recognized, the MPHA Board will have to decide whether to hire an actuary.

GASB Statement 45 would be applicable to the MPHA for the year ended September 30, 2009.



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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
Minneapolis Public Housing Authority

We have audited the financial statements of the Minneapolis Public Housing Authority (MPHA) as of and for the year ended September 30, 2007, and have issued our report thereon dated June 13, 2008. 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

In planning and performing our audit, we considered the MPHA's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination

of control deficiencies, that adversely affects the MPHA's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the MPHA's financial statements that is more than inconsequential will not be prevented or detected by the MPHA's internal control. We considered the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 07-1 through 07-4 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the MPHA's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 07-3 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the MPHA'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 six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories, except that we did not test for compliance in public indebtedness and claims and disbursements because they are not applicable to the MPHA.

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

Also included in the Schedule of Findings and Questioned Costs is an other item for consideration. We believe this information to be of benefit to the MPHA, and it is reported for that purpose.

The MPHA's written responses to the significant deficiencies and the material weakness identified in our audit have been included in the Schedule of Findings and Questioned Costs. We did not audit the MPHA's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Commissioners, management, others within the MPHA, 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 13, 2008

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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
Minneapolis Public Housing Authority

Compliance

We have audited the compliance of the Minneapolis Public Housing Authority (MPHA) 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 each of its major federal programs for the year ended September 30, 2007. The MPHA's major federal programs are 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 each of its major federal programs is the responsibility of the MPHA's management. Our responsibility is to express an opinion on the MPHA'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 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. Our audit does not provide a legal determination on the MPHA's compliance with those requirements.

In our opinion, the MPHA complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2007.

Internal Control Over Compliance

The management of the MPHA 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 MPHA'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, 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the MPHA's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A control deficiency in internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the MPHA's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the MPHA's internal control. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 03-2 and 03-3 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the MPHA's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs, we consider item 03-3 to be a material weakness.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the MPHA as of and for the year ended September 30, 2007, and have issued our report thereon dated June 13, 2008. Our audit was performed for the purpose of forming an opinion on the MPHA'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.

The MPHA's corrective action plans to the federal award findings identified in our audit are included in the accompanying Schedule of Findings and Questioned Costs. We did not audit the MPHA's corrective action plans and, accordingly, we express no opinion on them.

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

June 13, 2008

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

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**MINNEAPOLIS PUBLIC HOUSING AUTHORITY
MINNEAPOLIS, MINNESOTA**

Schedule 2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2007**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Housing and Urban Development		
Direct Funding		
Public and Indian Housing Program		
Operating Subsidy (Low Rent)	14.850	\$ <u>20,405,457</u>
Section 8 Project-Based Programs		
N/C S/R Section 8 Program	14.182	\$ 899,060
Section 8 Moderate Rehabilitation	14.856	<u>859,110</u>
Total Section 8 Project-Based Cluster		\$ <u>1,758,170</u>
Section 8 Housing Choice Vouchers Program	14.871	\$ <u>40,873,762</u>
Revitalization of Severely Distressed Public Housing	14.866	\$ <u>112,936</u>
Public Housing Capital Fund Program		
Replacement Housing Factor FFY 2004	14.872	\$ 131,196
Replacement Housing Factor FFY 2005	14.872	583,829
Replacement Housing Factor FFY 2006	14.872	225,891
Capital Fund FFY 2004	14.872	887,646
Capital Fund FFY 2005	14.872	7,994,022
Capital Fund FFY 2006	14.872	<u>2,990,215</u>
Total CFDA #14.872		\$ <u>12,812,799</u>
Passed Through the City of Minneapolis		
Community Development Block Grant (CDBG)		
CDBG-Funded Low-Rent Housing Program	14.218	\$ <u>492,147</u>
Total U.S. Department of Housing and Urban Development		\$ <u>76,455,271</u>
Corporation for National and Community Service		
Direct Funding		
Volunteers in Service to America	94.013	\$ <u>10,000</u>
Total Federal Awards		\$ <u><u>76,465,271</u></u>

Notes to Schedule of Expenditures of Federal Awards

1. The Schedule of Expenditures of Federal Awards presents the activity 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. The expenditures on this schedule are on the accrual basis of accounting.
3. For the year ended September 30, 2007, the MPHA did not pass any federal money to a subrecipient.