

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

MANAGEMENT AND COMPLIANCE REPORT

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

YEAR ENDED DECEMBER 31, 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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**OLMSTED COUNTY HOUSING
AND REDEVELOPMENT AUTHORITY
ROCHESTER, MINNESOTA**

Year Ended December 31, 2007



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, 2007**

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. Deficiencies in internal control were disclosed by the audit of financial statements of the Olmsted County HRA 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*." None were material weaknesses.
- C. No instances of noncompliance material to the financial statements of the Olmsted County HRA were disclosed during the audit.
- D. A significant deficiency relating to the audit of the major federal award program is 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." It is not a material weakness.
- E. The Auditor's Report on Compliance for the major federal award program for the Olmsted County HRA 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 HRA 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 Internal Controls Relating to Disbursements

Olmsted County is the fiscal agent of the Olmsted County HRA. This contract with Olmsted County includes the processing of HRA disbursements. We reviewed a representative sample of 40 Olmsted County disbursements for six attributes and noted the following exceptions:

- eight of the claims did not contain evidence of review and cancellation (all eight were related to HRA rental assistance disbursements), and
- nine of the claims did not contain evidence of authorized signer approvals (eight of which were related to HRA rental assistance disbursements).

Per step 9 of the County Payment Process Flowchart, department authorized staff must approve claims. The audit label includes the following information: GAX number, initials and date verified goods received, initial and date extended and footed, approved for payment, GAX total, vendor number, and account coding. All claims should have the appropriate documentation to support the payment.

We recommend monitoring of policies and procedures for the disbursing process to ensure internal controls are being followed and disbursements are made only for properly authorized and documented claims.

Client's Response:

The following changes have been made regarding authorization:

- *A hard copy of the Payment Review or Payment History List will be printed and attached to the HAP Totals Signature spreadsheet.*
- *Housing administrator (Gary) will sign the audit stamp. Backups are Planning Supervisor and Director.*

- *The signature sheet will be attached to the first GAX in the run and will cover all payments.*
- *The detail on the Payment Review or Payment History Listing is confidential and will be stored in PW Finance.*

07-2 Segregation of Duties

Management is responsible for establishing and maintaining internal controls. Adequate segregation of duties is a key internal control in an organization's accounting system. Rental Assistance Technicians use the HAPPY software system to process eligibility determination, process rental assistance payments, and process rent related receivables. Two Rental Assistance Technicians have access to all three of these functions on the HAPPY software system. There is no supervisory review of the information processed by these two staff members. The same individuals perform quality control reviews. One of these Rental Assistance Technicians determines the level of staff access to the HAPPY software system.

We recommend Olmsted County HRA management implement and monitor oversight procedures to create proper internal controls.

Client's Response:

Staff will implement a quarterly review to monitor oversight procedures. The review process will be conducted by staff with read only access to the HAPPY system. The monitoring that takes place will be documented and adjusted if the need arises. For more detail see 07-03 finding action plan.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

INTERNAL CONTROL

ITEM ARISING THIS YEAR

07-3 Internal Controls Over Rental Assistance Payments (CFDA #14.871)

Management is responsible for establishing and maintaining internal controls. Adequate segregation of duties is a key internal control in an organization's accounting system. Rental Assistance Technicians use the HAPPY software system to process the Section 8 Housing Choice Voucher program eligibility determinations and rental assistance

payments. Two Rental Assistance Technicians have access to all functions on the HAPPY software system. The same individuals perform quality control reviews. Section 8 Housing Choice Voucher Assistance Payments are not reviewed or approved by someone independent of the HAPPY software system.

Section 8 Housing Choice Voucher Grant reports are submitted by the HRA electronically via the Voucher Management System. The Accountant prepares and submits these reports. The reports are not reviewed or approved by management.

We recommend the Olmsted County HRA implement and monitor oversight procedures for internal controls over Section 8 Housing Choice Voucher rental assistance payments, including reporting, based on eligibility determinations.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

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

Corrective Action Planned:

OCHRA disbursements are processed using HAPPY software data interfaced into our CGI accounting system. At this time, HAPPY duties are not completely segregated. A review process will be put into place to confirm the information in the HAPPY System and CGI match the tenant file.

- *Timing of testing will be quarterly.*
- *Finance will pull 20 random files across all programs and rentals included in HAPPY occupancy and TARS.*
- *The Rental Assistance Coordinator (RAC) will be limited to READ ONLY ACCESS to HAPPY.*
- *The RAC will pull the hard copy files and trace data from the file to HAPPY to ensure that the information matches (whether it is HAP payment amount, rent charged, or amount collected).*

Schedule 1
(Continued)

- *Finance staff will then ensure that any outgoing payments match or incoming receipts match what is in CGI to what is in HAPPY and the file.*

The Section 8 Housing Choice Voucher Grant reports that are submitted via the Voucher Management System will be prepared by the Accountant and submitted by the Housing Administrator.

Anticipated Completion Date:

Ongoing

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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, 2007, and have issued our report thereon dated July 7, 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 Olmsted County HRA'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 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 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 HRA'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 HRA's financial statements that is more than inconsequential will not be prevented or detected by the HRA's internal control. We considered the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 07-1 and 07-2 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 Olmsted County HRA'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, we believe neither of the significant deficiencies described above is a material weakness.

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 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 deposits and investments and 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.

The Olmsted County HRA's written responses to the significant deficiencies 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 Board of Commissioners, management, others within the Olmsted County 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

July 7, 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
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, 2007. The 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 the 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, 2007.

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, 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.

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 Olmsted County HRA's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency.

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 HRA'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 HRA's internal control. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 07-3 to be a significant deficiency.

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 Olmsted County HRA's internal control. We did not consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs to be a material weakness.

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, 2007, and have issued our report thereon dated July 7, 2008. 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.

The Olmsted County HRA's corrective action plan to the federal award finding identified in our audit is included in the accompanying Schedule of Findings and Questioned Costs. We did not audit the HRA's corrective action plan and, accordingly, we express no opinion on it.

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

July 7, 2008

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

Schedule 2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Direct		
Rural Rental Housing Loans	10.415	\$ <u>42,258</u>
U.S. Department of Housing and Urban Development		
Direct		
Shelter Plus Care	14.238	\$ 44,224
Public and Indian Housing Operating Subsidy (Low Rent)	14.850A	190,574
Section 8 Housing Choice Vouchers	14.871	3,033,505
Public Housing Capital Fund Program	14.872	<u>204,044</u>
Total U.S. Department of Housing and Urban Development		\$ <u>3,472,347</u>
Total Expenditures of Federal Awards		\$ <u><u>3,514,605</u></u>

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). 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 2007, the Olmsted County HRA did not pass any federal money to subrecipients.