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DATE: February 17, 2022
TO: Minnesota Housing Board Members
FROM: Jennifer Ho, Commissioner
SUBJECT: **FINANCE AND AUDIT COMMITTEE MEETING**

A meeting of the **Finance and Audit Committee** has been scheduled for **12:15 p.m.** on **Thursday, February 24** via Conference Call (info below).

The topics for discussion at this meeting are:

- A. Presentation of FY 2021 Single Audit
- B. Adjournment

This committee is a committee of the whole and all members are encouraged to attend. If you have questions, please call Rachel Franco at (651) 296-2172.

Conference Call Information:

Toll-free dial-in number (U.S. and Canada):

1 877 568 4108

Access code:

604-977-453

The Agency may conduct a meeting by telephone or other electronic means, provided the conditions of Minn. Stat. §462A.041 or Minn. Stat. 13D.021 are met. The Agency shall, to the extent practical, allow a person to monitor the meeting electronically and may require the person making a connection to pay for documented marginal costs that the Agency incurs as a result of the additional connection.

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Committee Agenda Item A
Date: 2/24/2022

Item: Presentation of FY 2021 Single Audit

Staff Contact(s):

Kevin Carpenter, 651.297.4009, kevin.carpenter@state.mn.us
Jessica Deegan, 651-297-3120, Jessica.deegan@state.mn.us
Debbi Larson, 651.296.8183, debbi.larson@state.mn.us

Request Type:

- | | |
|-------------------------------------|--|
| <input type="checkbox"/> Approval | <input checked="" type="checkbox"/> No Action Needed |
| <input type="checkbox"/> Motion | <input checked="" type="checkbox"/> Discussion |
| <input type="checkbox"/> Resolution | <input type="checkbox"/> Information |

Summary of Request:

FY 2021 Single Audit Results and Discussion

Fiscal Impact:

None

Meeting Agency Priorities:

- Improve the Housing System
- Preserve and Create Housing Opportunities
- Make Homeownership More Accessible
- Support People Needing Services
- Strengthen Communities

Attachment(s):

- Compliance Report

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Minnesota Housing Finance Agency

Single Audit Report
June 30, 2021

Contents

Independent auditor's report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with <i>Government Auditing Standards</i>	1-2
Independent auditor's report on compliance for each major federal program; report on internal control over compliance; and report on schedule of expenditures of federal awards required by the Uniform Guidance	3-4
Schedule of expenditures of federal awards	5
Notes to the schedule of expenditures of federal awards	6
Schedule of findings and questioned costs	7-9
Summary schedule of prior-year findings	10



RSM US LLP

**Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance With Government Auditing Standards**

Independent Auditor's Report

Board of Directors
Minnesota Housing Finance Agency

We have audited, in accordance with the 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 business-type activities and each major fund of Minnesota Housing Finance Agency (the Agency), a component unit of the State of Minnesota, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated November 18, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Agency's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances 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 Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

A *deficiency in internal control* 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 a 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2021-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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*.

The Agency's Response to the Finding

The Agency's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Agency's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Agency's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RSM US LLP

Duluth, Minnesota
November 18, 2021



RSM US LLP

**Report on Compliance for Each Major Federal Program;
Report on Internal Control Over Compliance; and Report on Schedule of
Expenditures of Federal Awards Required by the Uniform Guidance**

Independent Auditor's Report

Board of Directors
Minnesota Housing Finance Agency

Report on Compliance for Each Major Federal Program

We have audited Minnesota Housing Finance Agency's (the Agency), a component unit of the State of Minnesota, compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Agency's major federal programs for the year ended June 30, 2021. The Agency's major federal programs are identified in the summary of independent auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Agency's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Agency's compliance.

Opinion on Each Major Federal Program

In our opinion, the Agency complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2021.

Report on Internal Control Over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the business-type activities and each major fund of the Agency as of and for the year ended June 30, 2021, and have issued our report thereon dated November 18, 2021, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

RSM US LLP

Duluth, Minnesota
February 10, 2022

Minnesota Housing Finance Agency

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2021

Federal Funding Source	Grant Name	Assistance Listing Number	Pass-through Entity Number	Passed Through to Subrecipients	Federal Expenditures
U.S. Department of Housing and Urban Development:					
Direct:					
Section 8 Project-Based Cluster					
	Section 8 New Construction and Substantial Rehabilitation	14.182	N/A	\$ -	\$ 1,145,258
	Section 8 Housing Assistance Payments Program for Low Income Families (MHFA Portfolio)	14.195	N/A	-	12,801,261
	Total Section 8 Project-Based Cluster			<u>-</u>	<u>13,946,519</u>
	Performance-Based Contract Administrator Program	14.327	N/A	-	207,143,115
	COVID-19 - Performance Based Contract Administrator	14.327	N/A	-	940,695
	Total Assistance Listing Number 14.327			<u>-</u>	<u>208,083,810</u>
	HOME Investment Partnerships Program	14.239	N/A	-	55,620,373
	National Housing Trust Fund	14.275	N/A	-	5,528,605
	Housing Opportunities for Persons with AIDS	14.241	N/A	232,460	1,040,211
	COVID-19 - Housing Opportunities for Persons with AIDS	14.241	N/A	-	3,728
	Total Assistance Listing Number 14.241			<u>232,460</u>	<u>1,043,939</u>
	Section 811 Project Rental Assistance Program	14.326	N/A	1,062,344	1,062,344
	Total U.S. Department of Housing and Urban Development			<u>1,294,804</u>	<u>285,285,592</u>
U.S. Department of Treasury:					
Direct:					
	COVID-19 - Emergency Rental Assistance Program (Round 1)	21.023	N/A	-	18,042,273
	COVID-19 - Homeowner Assistance Fund	21.026	N/A	-	9,196
Passed through Minnesota Management and Budget:					
	COVID-19 - Coronavirus Relief Fund	21.019	SLT0016	80,010,989	81,764,758
	Total U.S. Department of Treasury			<u>80,010,989</u>	<u>99,816,228</u>
	Total expenditures of federal awards			<u>\$ 81,305,793</u>	<u>\$ 385,101,819</u>

See notes to the schedule of expenditures of federal awards

Minnesota Housing Finance Agency

Notes to the Schedule of Expenditures of Federal Awards

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Minnesota Housing Finance Agency (the Agency) under programs of the federal government for the year ended June 30, 2021. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. Because the Schedule presents only a selected portion of the operations of the Agency, it is not intended to, and does not, present the financial position, changes in net position, or cash flows of the Agency.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Agency has elected to not use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

Note 3. Loans Receivable

The Agency provides rental rehabilitation and new construction loans to approved properties via funding provided through Assistance Listing Number (ALN) 14.239 HOME Investment Partnerships Program (the HOME Program). These loans have continuing compliance requirements during the period of affordability, as defined by the HOME Program requirements, which vary depending on the number of HOME Program units at each property. The balance of rental rehabilitation loans outstanding totaled \$51,521,859 at June 30, 2021.

The Agency provided loans to approved properties via funding provided through ALN 14.241 Housing Opportunities for Persons with AIDS (HOPWA). These capital loans have continuing compliance requirements during the period of affordability, as defined by the HOPWA program requirements. The balance of the capital loans outstanding totaled \$409,631 at June 30, 2021.

The Agency provided loans to approved properties via funding provided through ALN 14.275 National Housing Trust Fund. These capital loans have continuing compliance requirements during the period of affordability, as defined by the program requirements. The balance of the capital loans outstanding totaled \$6,148,368 at June 30, 2021.

Note 4. Reconciliation to the Financial Statements

The reconciliation of the schedule of expenditures of federal awards to the Agency's basic financial statements for the year ended June 30, 2021, is as follows:

Total federal awards per the schedule of expenditures of federal awards	\$ 385,101,819
Beginning balance of loans included in total federal awards	(51,246,186)
Administration fees received, included in fees earned and other income in the general reserve fund	(9,399,648)
CHAP/CRF funds paid back to State of MN	18,000,000
CHAP/CRF funds paid back to MH from subrecipients	12,554,120
Total federal appropriations disbursed per federal appropriated fund of the Agency	<u>\$ 355,010,105</u>

Minnesota Housing Finance Agency

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2021**

Section I. SUMMARY OF INDEPENDENT AUDITOR'S RESULTS

A. Financial Statements

1. Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified
2. Internal control over financial reporting:
 - Material weakness(es) identified? Yes X No
 - Significant deficiency(ies) identified? X Yes None Reported
3. Noncompliance material to financial statements noted? Yes X No

B. Federal Awards

1. Internal control over major programs:
 - Material weakness(es) identified? Yes X No
 - Significant deficiency(ies) identified? Yes X None Reported
2. Type of auditor's report issued on compliance for major programs: Unmodified
 - Any audit findings that are required to be reported in accordance with section 2 CFR 200.516(a)? Yes X No

C. Identification of Major Programs

1. Name of Federal Program Assistance Listing Number

Coronavirus Relief Fund	21.019
Emergency Rental Assistance Program	21.023
2. Dollar threshold used to distinguish between Type A and Type B programs: \$3,000,000
3. Auditee qualified as low-risk auditee? X Yes No

(Continued)

Minnesota Housing Finance Agency

**Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2021**

Section II. FINANCIAL STATEMENT FINDINGS

A. Internal Control Findings

See item 2021-001.

B. Compliance Findings

No matters to report.

Section III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

A. Internal Control Findings

No matters to report.

B. Compliance Findings

No matters to report.

Minnesota Housing Finance Agency

**Schedule of Findings and Responses (Continued)
Year Ended June 30, 2021**

Item 2021-001: Financial Reporting and Schedule of Expenditures of Federal Awards (SEFA)

Criteria: The Uniform Guidance requires the auditee to prepare a schedule of expenditures of federal awards for the period covered by the auditee's financial statements. Timely reconciliation and review of the SEFA should be completed to ensure complete and accurate reporting.

Condition: There was a breakdown in the Agency's procedures related to preparation and review of the SEFA.

Context: The Agency's expenditures of federal awards reported on the SEFA were understated \$5,534,531.

Cause: The Agency did not complete their reconciliation of the expenditures reported on the SEFA to the expenses reported the statement of revenue, expenses and changes in net position.

Effect: The Agency's SEFA was misstated for the items noted above.

Recommendation: The Agency should complete their reconciliation of the expenditures reported on the SEFA to the expenses reported the statement of revenue, expenses and changes in net position. Completing this reconciliation provides a tool to identify differences between the two financial statements that then can be evaluated whether they are appropriately reported.

Views of responsible officials of the auditee: We agree with the above finding and our response is included in the corrective action plan.



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Minnesota Housing Finance Agency

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

FOR THE YEAR ENDED JUNE 30, 2021

Per 2 C.F.R. §200.511(a), an auditee must prepare a summary schedule of prior audit findings. A summary schedule of prior audit findings must report the status of all audit findings (which encompass those defined in 2 C.F.R. 200.516(a)) included in the prior audit's schedule of findings and questioned costs.

Prior-year findings: None reported.

A handwritten signature in black ink, appearing to read 'Kevin D. Carpenter'.

Signature

Kevin D. Carpenter / CFO

Print Name/Title

7-19-21

Date

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MINNESOTA HOUSING FINANCE AGENCY PRESENTATION TO THE AUDIT COMMITTEE

2021 Single Audit Results



February 24, 2022

Agenda

Summary of Required Communications	1
2021 Single Audit Report	2
Government Auditing Standards	3
Uniform Guidance	4
General comments and feedback	5

Summary of Required Communications

Significant Issues Discussed With Management

- Issuance of the single audit compliance report was delayed subject to the issuance of two addenda related to the 2021 Compliance Supplement

2021 Single Audit Report

Government Auditing Standards

- Compliance based on an audit of the financial statements
- Internal control over financial reporting

Uniform Guidance

- Compliance with requirements applicable to the major programs
- Internal control over compliance

Schedule of expenditures of federal awards

- \$385.1 million spent on federal awards
- Increase of \$119.8 million from 2020

Schedule of current-year findings and questioned costs

Summary schedule of prior audit findings

Government Auditing Standards

Internal control over financial reporting

- Significant deficiency related to preparation of the SEFA. Federal expenditures on the SEFA were understated \$5.5 million.

Compliance with laws and regulations

- No findings identified.

Uniform Guidance

2021 major programs

- Coronavirus Relief Fund
 - ALN 21.019
 - \$81.8 million spent in 2021
- Emergency Rental Assistance
 - ALN 21.023
 - \$18.0 million spent in 2021

Internal control over compliance

- No findings identified

Major program compliance

- No findings identified

General comments and feedback

**Thank you for allowing us to serve
Minnesota Housing Finance Agency.
Our goal is to not only meet, but exceed,
your expectations.
Your feedback is important to us in
achieving that goal.**

Presented by: Bart Rodberg and Rebekah Box

QUESTIONS AND ANSWERS