

Minnesota Housing Finance Agency

Compliance Report
June 30, 2022

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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, 2022, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated October 11, 2022.

Report on 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 were not identified. We identified a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2022-001, that we consider to be a material weakness.

Report on 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

Government Auditing Standards requires the auditor to perform limited procedures on the Agency's response to the finding identified in our audit and described in the accompanying schedule of findings and questioned costs. The Agency's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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
October 11, 2022



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

Opinion on 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 identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of Agency's major federal programs for the year ended June 30, 2022. The Agency's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Agency complied, in all material respects, with the 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, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Agency and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Agency's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Agency's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Agency's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Agency's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards* and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Agency's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Agency's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the Agency's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 a 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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, 2022, and have issued our report thereon dated October 11, 2022, which contained an unmodified opinion on those financial statements. Our audit was performed 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
October 11, 2022

Minnesota Housing Finance Agency

Schedule of Expenditures of Federal Awards Year Ended June 30, 2022

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	\$ -	\$ 2,449,058
	Section 8 Housing Assistance Payments Program	14.195	N/A	-	3,605,546
	Total Section 8 Project-Based Cluster			<u>-</u>	<u>6,054,604</u>
	Performance Based Contract Administrator Program	14.327	N/A	-	226,714,163
	COVID-19—Performance Based Contract Administrator Program	14.327	N/A	-	832,637
	Total Assistance Listing Number 14.327			<u>-</u>	<u>227,546,800</u>
	HOME Investment Partnerships Program	14.239	N/A	-	58,460,371
	Housing Trust Fund	14.275	N/A	-	12,555,303
	Housing Opportunities for Persons with AIDS	14.241	N/A	225,953	512,735
	COVID-19—Housing Opportunities for Persons with AIDS	14.241	N/A	-	31,901
	Total Assistance Listing Number 14.241			<u>225,953</u>	<u>544,636</u>
	Section 811 Project Rental Assistance Program	14.326	N/A	1,100,940	1,100,940
	Community Development Block Grants	14.228	N/A	-	7,292
	Total U.S. Department of Housing and Urban Development			<u>1,326,893</u>	<u>306,269,946</u>
U.S. Department of Treasury:					
Direct:					
	COVID-19—Emergency Rental Assistance	21.023	N/A	3,132,104	482,677,014
	COVID-19—Homeowner Assistance Fund Program	21.026	N/A	96,681	5,241,024
Passed through Minnesota Management and Budget:					
	COVID-19—Coronavirus Relief Fund	21.019	SLT0016	-	583,461
	COVID-19—Coronavirus State and Local Fiscal Recovery Funds	21.027	Not available	-	7,000,000
	Total U.S. Department of Treasury			<u>3,228,785</u>	<u>495,501,499</u>
	Total expenditures of federal awards			<u>\$ 4,555,678</u>	<u>\$ 801,771,445</u>

See notes to 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, 2022. 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 \$49,322,332 at June 30, 2022.

The Agency provided loans to eligible homebuyers through the HOME Program. These down-payment and closing-cost loans have continuing compliance requirements during the period of affordability, as defined by the HOME Program requirements. The balance of down-payment and closing-cost loans outstanding totaled \$162,420 at June 30, 2022.

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 \$209,631 at June 30, 2022.

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 \$8,607,788 at June 30, 2022.

Minnesota Housing Finance Agency

Notes to the Schedule of Expenditures of Federal Awards

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, 2022, is as follows:

Total federal awards per the schedule of expenditures of federal awards	\$ 801,771,445
Beginning balance of loans included in total federal awards	(61,127,874)
Administration fees received, included in fees earned and other income in the general reserve fund	<u>(9,598,543)</u>
Total federal appropriations disbursed per federal appropriated fund of the Agency	<u><u>\$ 731,045,028</u></u>

Minnesota Housing Finance Agency

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2022**

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? X Yes No
 - Significant deficiency(ies) identified? Yes X 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

Section 8 Project-Based Cluster	14.182, 14.195
HOME Investment Partnerships Program	14.239
Emergency Rental Assistance	21.023
Homeowner Assistance Fund Program	21.026
Coronavirus State and Local Fiscal Recovery Funds	21.027
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, 2022

Section II. FINANCIAL STATEMENT FINDINGS

A. Internal Control Findings

See item 2022-001.

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 Questioned Costs (Continued) Year Ended June 30, 2022

Item 2022-001: State Appropriation-Back Bonds Activity

Criteria: Proceeds from the State appropriation-backed bonds issued by the Agency are provided to third-party beneficiaries for housing development projects. The Agency does not incur an obligation to the third-party beneficiaries until the beneficiaries meet the conditions to make a claim to the proceeds which is when executed loan agreement is in place and eligible construction/rehabilitation costs are incurred. Further, all activity related to the State appropriation-backed bonds, including premium and interest payable on the bonds, annual appropriation from the State of Minnesota, interest expense, and disbursements to third-party beneficiaries should be reported in appropriate accounts.

Condition: The proceeds from the State appropriation-backed bonds were reported as a liability titled Funds Held for Others at the time the bonds were issued which is prior to the beneficiaries meeting all the conditions to make a claim to the proceeds. Further, certain activity related to the State appropriation-backed bonds, including premium and interest payable on the bonds, annual appropriation from the State of Minnesota, interest expense, and disbursements to third-party beneficiaries were reported net in Funds Held for Others and Other Expense.

Cause: The Agency's interpretation of applicable accounting guidance, and prior advice and annual transaction review of its auditors, was that the obligation to the third-party beneficiaries existed when the State appropriation-backed bonds were issued. Further, the Agency was reporting certain State appropriation-backed bond activity net in Funds Held for Others and/or Other Expense rather than in appropriate separate accounts.

Effect: The Agency's prior-year financial statements contained a misstatement relating to the activity of the State appropriation-backed bonds for the amount of proceeds and other activity reported in Funds Held for Others and Other Expense. The summarized comparative financial statements for the year ended June 30, 2021, were retroactively restated resulting in an increase to the June 30, 2021, beginning net position of \$17,799,000 in both the business-type activities and State Appropriated Fund.

Recommendation: The Agency should continue its efforts to develop procedures to implement appropriate accounting guidance.

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, 2022

Prior-year findings:

Finding 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.

Status:

The Agency updated procedures for developing the SEFA in accordance with 2 C.F.R. 200.510 (b) to include the process improvements stated in the corrective action plan signed November 22, 2021 by Jessica Deegan Director of Federal Affairs. Corrective Action Plan is complete for this finding.

A handwritten signature in blue ink, appearing to read 'Michael Solomon', written over a horizontal line.

Signature

Michael Solomon, Chief Financial Officer 9/14/2022

Print Name/Title

Date