

# **Michigan State Housing Development Authority**

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**Federal Awards  
Supplemental Information  
June 30, 2014**

# Michigan State Housing Development Authority

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Report on Schedule of Expenditures of Federal Awards  
Required by OMB Circular A-133

Independent Auditor's Report

To Management, the Board of Directors, and Mr. Doug Ringler, CPA, CIA,  
Auditor General, State of Michigan  
Michigan State Housing Development Authority

We have audited the financial statements of the the business-type activities and the discretely presented component units of Michigan State Housing Development Authority (the "Authority") as of and for the year ended June 30, 2014 and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements. We issued our report thereon dated October 24, 2014, which contained unmodified opinions on the financial statements of the business-type activities and the discretely presented component units. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. We have not performed any procedures with respect to the audited financial statements subsequent to October 24, 2014.

The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic 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 information is fairly stated in all material respects in relation to the financial statements as a whole.

*Plante & Moran, PLLC*

March 6, 2015

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

To Management, the Board of Directors, and Mr. Doug Ringler, CPA, CIA,  
Auditor General, State of Michigan  
Michigan State Housing Development Authority

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the the business-type activities and the discretely presented component units of Michigan State Housing Development Authority (the "Authority") as of and for the year ended June 30, 2014 and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated October 24, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Michigan State Housing Development Authority's internal control over financial reporting (internal control) to determine the 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 Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 Authority'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as Finding 2014-001, that we consider to be a significant deficiency.

To Management, the Board of Directors, and Mr. Doug Ringler, CPA, CIA,  
Auditor General, State of Michigan  
Michigan State Housing Development Authority

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Michigan State Housing Development Authority'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 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*.

### **Michigan State Housing Development Authority's Response to Findings**

Michigan State Housing Development Authority's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Michigan State Housing Development Authority'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 Authority'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Plante & Moran, PLLC*

October 24, 2014

Report on Compliance for Each Major Federal Program;  
Report on Internal Control Over Compliance

Independent Auditor's Report

To Management, the Board of Directors, and Mr. Doug Ringler, CPA, CIA,  
Auditor General, State of Michigan  
Michigan State Housing Development Authority

**Report on Compliance for Each Major Federal Program**

We have audited Michigan State Housing Development Authority's (the "Authority") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014. Michigan State Housing Development Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Michigan State Housing Development Authority'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 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 Michigan State Housing Development Authority'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 Michigan State Housing Development Authority's compliance.

To Management, the Board of Directors, and Mr. Doug Ringler, CPA, CIA,  
Auditor General, State of Michigan  
Michigan State Housing Development Authority

### ***Opinion on Each Major Federal Program***

In our opinion, Michigan State Housing Development Authority 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, 2014.

### ***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as Findings 2014-002 through 2014-004. Our opinion on each major federal program is not modified with respect to these matters.

Michigan State Housing Development Authority's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs and corrective action plan. Michigan State Housing Development Authority's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **Report on Internal Control Over Compliance**

Management of Michigan State Housing Development Authority 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 Michigan State Housing Development Authority'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 OMB Circular A-133, 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 Authority's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

To Management, the Board of Directors, and Mr. Doug Ringler, CPA, CIA,  
Auditor General, State of Michigan  
Michigan State Housing Development Authority

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 of those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as Findings 2014-002 and 2014-003 to be material weaknesses.

Michigan State Housing Development Authority's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs and corrective action plan. Michigan State Housing Development Authority's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Plante & Moran, PLLC*

March 6, 2015

# Michigan State Housing Development Authority

## Schedule of Expenditures of Federal Awards Year Ended June 30, 2014

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Pass-through Entity Project/		Federal Expenditures
		Grant Number		
U.S. Department of Housing and Urban Development:				
Passed through the State of Michigan Economic Development Corporation				
CDBG - State-administered CDBG Cluster:				
Community Development Block Grant	14.228	Various		\$ 7,163,048
Neighborhood Stabilization Program I	14.228	B-08-DN-26-0001		1,502,215
Neighborhood Stabilization Program III	14.228	B-11-DN-26-0001		21,845
Total CDBG State-Administered CDBG Cluster				<u>8,687,108</u>
Section 8 Project-based Cluster:				
Section 8 - Contract Administration	14.182	Various		217,929,904
Section 8 - New Construction/Substantial Rehabilitation	14.182	Various		103,222,253
Section 8 - Lower Income Housing Assistance Program - Moderate Rehabilitation	14.856	Various		1,196,816
Total Section 8 Project-based Cluster				<u>322,348,973</u>
Housing Voucher Cluster - Section 8:				
Housing Choice Voucher	14.871	Various		166,667,871
Mainstream Vouchers	14.879	Various		241,539
Total Housing Voucher - Section 8 Cluster				<u>166,909,410</u>
Total Clusters				497,945,491
Home Investment Partnership Program				
	14.239	M12-SG260100		754,252
	14.239	M13-SG260100		25,480,369
Total Home Investment Partnership Program				<u>26,234,621</u>
Technical Assistance				
	14.239	MI CH 002 08		24,908
	14.239	MI HM 002 09		41,496
Total Technical Assistance				<u>66,404</u>
Comprehensive Housing Counseling	14.169	HC-12-0341-004		400,191
Special Needs Assistance Program - Supportive Housing Program	14.235	MI0009B5F001003		652,700
Emergency Shelter Grant Program				
	14.231	S-10-DC-26-0001		20,000
	14.231	E-11-DC-26-0001		364,811
	14.231	E-12-DC-26-0001		1,443,339
	14.231	E-13-DC-26-0001		2,154,492
Total Emergency Shelter Grant Program				<u>3,982,642</u>
ARRA - Neighborhood Stabilization Program	14.256	B-09-CN-MI-0035		4,189,554
Total U.S. Department of Housing and Urban Development				<u>533,471,603</u>
U.S. Department of Treasury - Passed through Neighborhood Works -				
National Foreclosure Mitigation Counseling	21.000	PL113-6X1350		459,210
U.S. Department of Transportation - Passed through Michigan Department				
of Transportation - Highway Planning and Construction Cluster -				
Highway Planning and Construction	20.205	ENH200500043/ STP 0884 (048)/ ENH200700037		23,139
U.S. Department of the Interior -				
Historic Preservation Fund Grants-in-Aid	15.904	26-12-41929		96,588
	15.904	PI3AF00044		155,702
	15.904	PA14AF00081		1,040,310
Total U.S. Department of Interior				<u>1,292,600</u>
Total federal awards				<u><b>\$ 535,246,552</b></u>

See Notes to Schedule of Expenditures  
of Federal Awards.

# Michigan State Housing Development Authority

## Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2014

### Note 1 - Basis of Presentation and Significant Accounting Policies

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Michigan State Housing Development Authority under programs of the federal government for the year ended June 30, 2014. Expenditures reported on the Schedule are reported on the same basis of accounting as the basic financial statements, although the basis for determining when federal awards are expended is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. In addition, expenditures reported on the Schedule are recognized following the cost principles contained in OMB Circular A-87, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Therefore, some amounts presented in this 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 Michigan State Housing Development Authority, it is not intended to and does not present the net position; changes in revenue, expenses, and net position; or cash flows of Michigan State Housing Development Authority. Pass-through entity identifying numbers are presented where available.

### Note 2 - Subrecipient Awards

Of the federal expenditures presented in the Schedule, federal awards were provided to subrecipients as follows:

<u>Federal Program Title</u>	<u>CFDA Number</u>	<u>Amount Provided to Subrecipients</u>
Section 8 Contract Administration	14.182	\$ 211,230,600
Section 8 New Construction	14.182	103,222,253
Section 8 Lower Income Housing Assistance Program	14.856	1,196,816
Housing Choice Voucher	14.871	153,180,958
Mainstream Vouchers	14.879	241,539
Home Investment Partnership Program	14.239	26,057,104
Technical Assistance	14.239	66,404
Supporting Housing Program	14.235	652,700
Emergency Shelter Grant Program	14.231	3,982,642
ARRA Neighborhood Stabilization Program	14.256	1,755,056
Community Development Block Grant	14.228	7,098,990
Neighborhood Stabilization Program I	14.228	1,163,984
National Foreclosure Mitigation Counseling	21.000	419,814
Highway Planning and Construction	20.205	23,139
Historic Preservation Fund Grants-in-Aid	15.904	95,183
	Total	<u>\$ 510,387,182</u>

# Michigan State Housing Development Authority

## Schedule of Findings and Questioned Costs Year Ended June 30, 2014

### Section I - Summary of Auditor's Results

#### Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?  Yes  No
- Significant deficiency(ies) identified that are not considered to be material weaknesses?  Yes  None reported

Noncompliance material to financial statements noted?  Yes  No

#### Federal Awards

Internal control over major programs:

- Material weakness(es) identified?  Yes  No
- Significant deficiency(ies) identified that are not considered to be material weaknesses?  Yes  None reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?  Yes  No

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
14.182 and 14.856	Section 8 Project-Based Cluster
14.228	CDBG-State-Administered CDBG Cluster
14.231	Emergency Shelter Grants Program
14.239	Home Investment Partnerships Program/Technical Assistance
14.256	ARRA Neighborhood Stabilization Program

Dollar threshold used to distinguish between type A and type B programs: \$3,000,000

Auditee qualified as low-risk auditee?  Yes  No

# Michigan State Housing Development Authority

## Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2014

### Section II - Financial Statement Audit Findings

Reference Number	Finding
2014-001	<p><b>Finding Type</b> - Significant deficiency</p> <p><b>Criteria</b> - Good business practices require the general ledger to be complete and free of misstatements before financial statement audits begin.</p> <p><b>Condition</b> - Since the audit and year-end close were performed simultaneously, the audit team identified adjustments and the Authority provided the audit team with several client-prepared journal entries.</p> <p><b>Context</b> - We understand the Authority had a significant amount of activity related to operations, especially near year end. Consequently, the Authority was performing its year-end close process during the start of the audit fieldwork.</p> <p><b>Cause</b> - There is a high level of operational activity performed at year end with limited staff.</p> <p><b>Effect</b> - There were several adjustments made by the Authority after fieldwork began and many were identified by the Authority's staff; however, there were several immaterial adjustments identified by the auditors.</p> <p><b>Recommendation</b> - We recommend delaying the audit until after the year-end close process. Due to the strict deadline on issuing the audit, it is important that the trial balance and supporting schedules are ready to audit at the beginning of fieldwork.</p> <p><b>Views of Responsible Officials and Planned Corrective Actions</b> - The Authority agrees that the audit fieldwork should not begin until after the year-end closing process. A number of general ledger changes related to federal reporting requirements were being contemplated during the year-end closing process. When the Authority has the ability to control the federal reporting requirements, it will address them prior to the year-end closing process.</p>

# Michigan State Housing Development Authority

## Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2014

### Section III - Federal Program Audit Findings

Reference Number	Finding
2014-002	<p><b>Program Name</b> - CFDA #14.231 Emergency Shelter Grants Program</p> <p><b>Pass-through Entity</b> - N/A</p> <p><b>Finding Type</b> - Material weakness and material noncompliance with laws, regulations, contractors, or grant agreements</p> <p><b>Criteria</b> - A-102 Common Rule requires that the required suspension and debarment certifications be received for contracts and subawards greater than \$25,000.</p> <p><b>Condition</b> - The required suspension and debarment certifications were not received for subawards granted under the Emergency Shelter Grants Program (ESG) for the year under audit.</p> <p><b>Questioned Costs</b> - None</p> <p><b>Context</b> - The Authority did not receive the required suspension and debarment certifications when the Authority entered into subawards for goods or services greater than \$25,000. Subsequently, program personnel have confirmed that none of the current contractors were listed on the System for Award Management electronic database as being debarred or suspended.</p> <p><b>Cause and Effect</b> - Internal control procedures over suspension and debarment requirements were not in place, as required compliance requirements were not addressed and adequately documented. Inadequate monitoring of suspension and debarment could cause funds to be disbursed to vendors or subrecipients who are not eligible to have goods or services purchased with federal monies.</p> <p><b>Recommendation</b> - Internal control procedures should be enforced to ensure that the appropriate suspension and debarment certifications are received.</p> <p><b>Views of Responsible Officials and Planned Corrective Actions</b> - Verbiage has been drafted to be included in future ESG applications: "I certify that our Agency is registered with the System for Award Management (SAM) and is not excluded from receiving federal contracts, subcontracts, and financial assistance (commonly known as suspensions and debarments)." The request to have this language added to the ESG application was submitted to AGATE, software vendor for MATT system, on January 6, 2015.</p>

# Michigan State Housing Development Authority

## Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2014

### Section III - Federal Program Audit Findings (Continued)

Reference Number	Finding
2014-003	<p><b>Program Name</b> - CFDA #14.231 Emergency Shelter Grants Program, CFDA #14.239 Home Investment Partnerships Program</p> <p><b>Pass-through Entity</b> - N/A</p> <p><b>Finding Type</b> - Material weakness and material noncompliance with laws, regulations, contractors, or grant agreements</p> <p><b>Criteria</b> - Per the Federal Funding Accounting and Transparency Act of 2006, "Prime Contractors awarded a federal contract or order that is subject to Federal Acquisition Regulation clause 52.204-10, <i>Reporting Executive Compensation and First-Tier Subcontract Awards</i> are required to file a FFATA subaward report by the end of the month following the month in which the prime contractor awards any subcontract greater than \$25,000." This requirement applies when a grantee passes through funds (over \$25,000 per contract) from any non-ARRA awards received October 1, 2010 and later.</p> <p><b>Condition</b> - In some instances, the Authority did not fully comply with FFATA reporting requirements.</p> <p><b>Questioned Costs</b> - N/A</p> <p><b>Context</b> - Related to the Emergency Shelter Grants Program (ESG), the Authority did not submit FFATA reports timely for three of the subawards included in our sample. Related to the Home Investment Partnerships Program (HOME), the Authority did not file a FFATA subaward report for three subrecipient awards during the year under audit.</p> <p><b>Cause and Effect</b> - Because FFATA reporting guidelines are fairly new and the Authority is involved in a significant number of sub-award contracts, there was not an effective process in place for data collection. As a result, some required FFATA reports were not filed or were not filed timely.</p> <p><b>Recommendation</b> - As always, we recommend investing the time to thoroughly understand new federal regulations as they are published, especially considering the Authority's significant volume of federally funded activity. Procedures should be implemented to ensure that FFATA reporting is done for all applicable subawards on a timely basis.</p>

# Michigan State Housing Development Authority

## Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2014

### Section III - Federal Program Audit Findings (Continued)

Reference Number	Finding
2014-003 (Cont.)	<p><b>Views of Responsible Officials and Planned Corrective Actions - ESG</b> - The three reports that were not submitted timely were all going to be submitted in October 2013; however, the 2013 ESG grant was not available on the FFATA website for reporting until November 2013. The grant was available in the system around mid-November and should have been entered at this time; however, the grants were not entered at this time. All three grants were entered December 4, 2013. The ESG staff is aware of the FFATA reporting requirements and will make every effort to meet the deadlines for future reporting.</p> <p><b>HOME</b> - The errors in FFATA reporting were due to the process MSHDA had in place for data collection, but MSHDA has since improved the way in which grants from 2012 HOME funds onward are reported. The analyst responsible for funding these grants in IDIS will also report the grants in FSRS, which should minimize the chance for error in the future.</p> <p>Because of the idiosyncrasy of the FSRS.gov system, the reporting requirements are divided as follows:</p> <ul style="list-style-type: none"><li>- Reporting 2011 funds and prior remains with Community Development.</li><li>- Reporting 2012 funds and prior has been shifted to the Business Systems team.</li><li>- The Business Systems team will review all HOME award activity at the end of each month. If activity has taken place with 2011 money, Community Development will be notified; Business Systems staff will report for 2012 money and beyond.</li></ul> <p>For the three grants that were missed, they will be added to FSRS through an edit to the existing report.</p>

Reference Number	Finding
2014-004	<p><b>Program Name</b> - CFDA #14.182 and #14.856 Section 8 Project-Based Cluster</p> <p><b>Pass-through Entity</b> - N/A</p> <p><b>Finding Type</b> - Material noncompliance with laws, regulations, contractors, or grant agreements</p>

# Michigan State Housing Development Authority

## Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2014

### Section III - Federal Program Audit Findings (Continued)

Reference Number	Finding
2014-004 (Cont.)	<p><b>Criteria</b> - During fiscal year 2013, the Office of the Inspector General (OIG) of the United States Department of Housing and Urban Development (HUD) performed a review of the Section 8 Project Based Cluster for compliance with Housing Notice H 2012 14, Section V.C. which directed Section 8 contract administrators to use excess residual receipts (account balances in excess of \$250 per revenue generating unit) to offset Section 8 housing assistance payments up to the full amount of the monthly subsidy request, depending upon the amount of residual receipts available for the offset.</p> <p><b>Condition</b> - The OIG monitoring report from fiscal year 2013 concluded that the Authority did not comply with HUD requirements for the administration of the multifamily project-based Section 8 program by failing to use more than \$31.1 million in residual receipts to reduce or offset housing assistance for new regulation projects.</p> <p><b>Questioned Costs</b> - N/A</p> <p><b>Context</b> - The OIG's monitoring report indicated that during the period November 2012 through May 2013, the Authority maintained excess residual receipts accounts for 15 of the 37 new regulation projects originally financed by the Authority. However, during this time period, HUD paid more than \$4.6 million in housing assistance for the projects instead of using excess residual receipts held by the Authority to reduce or offset those payments. The residual receipts accounts in question are maintained by the Authority as lender and/or contract administrator for the benefit of the new regulation projects and are not considered an asset of the Authority, and it is extremely unlikely that this finding will have any effect on the Authority's financial situation. The Authority is actively disputing this finding with HUD and the matter has not been fully resolved as of the date of this report.</p> <p><b>Cause and Effect</b> - Based on HUD's interpretation of Notice H 2012 14, the OIG's monitoring report alleged the Authority lacked an understanding of HUD's requirements regarding its role as the contract administrator. HUD and the OIG acknowledged; however, that "neither the regulatory provision nor the corresponding contract provision explicitly state that the determination to use residual receipts to reduce housing assistant payments rests with HUD, as opposed to the Authority." The Authority's interpretation of the applicable regulatory provisions and corresponding contract provisions between HUD and the Authority caused the Authority to believe that it, not HUD, had the sole power to determine whether surplus project funds (residual receipts) may be used to reduce or offset housing assistance payments or for other project purposes.</p>

# Michigan State Housing Development Authority

## Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2014

### Section III - Federal Program Audit Findings (Continued)

Reference Number	Finding
2014-004 (Cont.)	<p><b>Recommendation</b> - The Authority should continue to work with HUD to reach an agreement regarding the implementation of Notice H 2012 14.</p> <p><b>Views of Responsible Officials and Planned Corrective Actions</b> - Prior to the review being conducted by the OIG, the Authority consulted with its legal advisors having experience in HUD regulatory matters and determined that HUD's direction under Notice H 2012 14 was contrary to the laws and regulations regarding residual receipts. HUD notices do not have the effect of laws or regulations, but are merely guidance for implementing applicable laws and regulations. Although the Authority and its legal advisors do not agree with HUD's interpretation of the laws and regulations regarding residual receipts, after several months of discussion with HUD, the Authority agreed to use excess residual receipts to offset Section 8 housing assistance payments in accordance with Notice H 2012 14. The Authority has been in compliance with the notice since May of 2013, and will continue to work with HUD until the OIG's finding is closed.</p>

# Michigan State Housing Development Authority

## Summary Schedule of Prior Audit Findings Year Ended June 30, 2014

<u>Prior Year Finding Number</u>	<u>Federal Program</u>	<u>Original Finding Description</u>	<u>Status</u>	<u>Planned Corrective Action</u>
2013-002	CFDA #14.239 Home Investment Partnership Program	For several years, adequate records were not maintained to demonstrate compliance with matching requirements.	Corrected	n/a
2013-003	CFDA #14.231 Emergency Shelter Grants; CFDA #14.239 Home Investment Partnership Program	In some instances, the Authority did not fully comply with FFATA reporting requirements.	Repeat finding	See Finding 2014-003