

# Office of the Auditor General

---

## **Michigan State Housing Development Authority** (A Discretely Presented Component Unit of the State of Michigan) **Single Audit Report**

Fiscal Year Ended June 30, 2020

---

State of Michigan Auditor General  
Doug A. Ringler, CPA, CIA

---

The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.

The auditor general may make investigations pertinent to the conduct of audits.

*Article IV, Section 53 of the Michigan Constitution*

---



# OAG

Office of the Auditor General

## Report Summary

### Single Audit Report

### Michigan State Housing Development Authority (MSHDA)

(A Discretely Presented Component Unit of the State of Michigan)

Fiscal Year Ended June 30, 2020

**Report Number:**  
000-0800-21

**Released:**  
March 2021

A single audit is designed to meet the needs of all financial report users, including an entity's federal grantor agencies. The audit determines if the financial statements are fairly presented, considers internal control over financial reporting and internal control over federal program compliance, determines compliance with requirements material to the financial statements, and assesses compliance with direct and material requirements of the major federal programs.

#### Audit Results for MSHDA's Basic Financial Statements

Fairly presented, in all material respects	Internal Control Over Financial Reporting		No instances of noncompliance or other matters required to be reported
	No material weaknesses identified	1 significant deficiency	

#### Audit Results for the Schedule of Expenditures of Federal Awards

Fairly presented in all material respects.
--

#### Audit Results for the Federal Awards

Federal Awards Expended	Unmodified Opinion	Qualified Opinion	Adverse Opinion	Total Known Questioned Costs (Net)	Internal Control Over Compliance Findings	
					Material Weaknesses	Significant Deficiencies
\$614,444,072	2 programs	No programs	No programs	\$0	No material weaknesses identified	2
Number of findings repeated from the prior audit					0	0

**Identification of Major Federal Programs, Type of Opinion Issued on Compliance, Known Questioned Costs, and Audit Finding Numbers:**

<b>CFDA Number(s)</b>	<b>Name of Major Federal Program or Cluster</b>	<b>Opinion</b>	<b>Known Questioned Costs</b>	<b>Audit Finding Number(s)</b>
14.182 and 14.856	Section 8 Project-Based Cluster	Unmodified	\$0	2020-001
14.275	Housing Trust Fund	Unmodified	\$0	2020-002

**Obtain Audit Reports**

Online: [audgen.michigan.gov](http://audgen.michigan.gov)

Phone: (517) 334-8050

Office of the Auditor General  
201 N. Washington Square, Sixth Floor  
Lansing, Michigan 48913

**Doug A. Ringler, CPA, CIA**  
Auditor General

**Laura J. Hirst, CPA**  
Deputy Auditor General



# OAG

Office of the Auditor General

201 N. Washington Square, Sixth Floor • Lansing, Michigan 48913 • Phone: (517) 334-8050 • [audgen.michigan.gov](http://audgen.michigan.gov)

**Doug A. Ringler, CPA, CIA**  
Auditor General

March 19, 2021

Ms. Susan Corbin, Chair  
Michigan State Housing Development Authority Board  
and  
Mr. Gary Heidel, Acting Executive Director  
Michigan State Housing Development Authority  
735 East Michigan Avenue  
Lansing, Michigan

Dear Ms. Corbin and Mr. Heidel:

This is our single audit report for the Michigan State Housing Development Authority, a discretely presented component unit of the State of Michigan, for the fiscal year ended June 30, 2020.

Findings and recommendations are contained in Section II and Section III of the schedule of findings and questioned costs. Management's corrective action plan is included within the auditee section of this report. The *Michigan Compiled Laws* and administrative procedures require an audited agency to develop a plan to comply with the recommendations and to submit it to the State Budget Office upon completion of an audit. Within 30 days of receipt, the Office of Internal Audit Services, State Budget Office, is required to review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan.

We appreciate the courtesy and cooperation extended to us during this audit.

Sincerely,

Doug Ringler  
Auditor General



## TABLE OF CONTENTS

### **MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY (A Discretely Presented Component Unit of the State of Michigan) SINGLE AUDIT REPORT**

	<u>Page</u>
INTRODUCTION	
Report Summary	1
Report Letter	3
SUPPLEMENTAL FINANCIAL SCHEDULE	
Schedule of Expenditures of Federal Awards	8
Notes to the Schedule of Expenditures of Federal Awards	9
INDEPENDENT AUDITOR'S REPORTS	
Independent Auditor's Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance	12
Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance	14
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	
Section I: Summary of Auditor's Results	18
Section II: Findings Related to the Financial Statements	19
Section III: Findings and Questioned Costs Related to Federal Awards	19
2020-001 Section 8 Project-Based Cluster, <i>CFDA</i> 14.182 and 14.856, Special Tests and Provisions - Vacant Units - Quality Control Reviews	19
2020-002 Housing Trust Fund, <i>CFDA</i> 14.275, Eligibility - Monitoring of Property Developers' Eligibility Determinations	20

## AUDITEE SECTION

Summary Schedule of Prior Audit Findings	25
Management Views and Corrective Action Plan	27

## GLOSSARY

Glossary of Abbreviations and Terms	32
-------------------------------------	----



# SUPPLEMENTAL FINANCIAL SCHEDULE

MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY  
(A Discretely Presented Component Unit of the State of Michigan)  
Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ended June 30, 2020

<u>Federal Agency/Program or Cluster Title</u>	<u>CFDA *</u> <u>Number</u>	<u>Pass-Through</u> <u>Entity</u>	<u>Pass-Through</u> <u>Identification Number</u>	<u>Distributed to</u> <u>Subrecipients</u>	<u>Total Federal</u> <u>Expenditures</u>
<b>U.S. Department of Housing and Urban Development</b>					
Section 8 Project-Based Cluster:					
Section 8 - Contract Administration	14.182			\$	\$ 255,580,234
Section 8 - New Construction/Substantial Rehabilitation	14.182				123,120,937
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	14.856				985,485
Total Section 8 Project-Based Cluster				<u>\$ 0</u>	<u>\$ 379,686,656</u>
Housing Voucher Cluster:					
COVID-19 - Section 8 Housing Choice Vouchers	14.871			\$	\$ 1,400,737
Section 8 Housing Choice Vouchers	14.871				207,961,970
COVID-19 - Mainstream Vouchers	14.879				5,252
Mainstream Vouchers	14.879				462,393
Total Housing Voucher Cluster				<u>\$ 0</u>	<u>\$ 209,830,352</u>
Housing Counseling Assistance Program	14.169			\$ 745,561	\$ 804,398
Emergency Solutions Grants Program	14.231			5,495,566	5,495,566
ARRA - Neighborhood Stabilization Program (Recovery Act Funded)	14.256			(743)	(743)
Home Investment Partnerships Program	14.239			1,088,800	10,960,819
Continuum of Care Program	14.267			1,199,943	1,209,910
Housing Trust Fund	14.275				5,210,999
Project Rental Assistance Demonstration (PRA Demo) Program of Section 811 Supportive Housing for Persons with Disabilities	14.326			151,952	207,119
Family Self-Sufficiency Program	14.896				979,824
<b>Total U.S. Department of Housing and Urban Development</b>				<u><b>\$ 8,681,079</b></u>	<u><b>\$ 614,384,900</b></u>
<b>U.S. Department of the Interior</b>					
Historic Preservation Fund Grants-in-Aid	15.904			\$ 59,172	\$ 59,172
<b>Total U.S. Department of the Interior</b>				<u><b>\$ 59,172</b></u>	<u><b>\$ 59,172</b></u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>				<u><b>\$ 8,740,251</b></u>	<u><b>\$ 614,444,072</b></u>

\* CFDA is defined as *Catalog of Federal Domestic Assistance*.

## Notes to the Schedule of Expenditures of Federal Awards

Note 1 Basis of Presentation

The accompanying schedule of expenditures of federal awards (financial schedule) includes the federal grant activity of the Michigan State Housing Development Authority (MSHDA) under programs of the federal government for the fiscal year ended June 30, 2020. The information in the financial 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). Because the financial schedule presents only a selected portion of the operations of MSHDA, it is not intended to and does not present the financial position, changes in net position, or cash flows of MSHDA.

Note 2 Summary of Significant Accounting Policies

Expenditures reported in the financial 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. Pass-through entity identifying numbers are presented where available.

MSHDA has elected not to use the 10% de minimis indirect cost rate to recover indirect costs as allowed under the Uniform Guidance.



# INDEPENDENT AUDITOR'S REPORTS



Independent Auditor's Report on the Schedule of  
Expenditures of Federal Awards Required by the Uniform Guidance

Ms. Susan Corbin, Chair  
Michigan State Housing Development Authority Board  
and  
Mr. Gary Heidel, Acting Executive Director  
Michigan State Housing Development Authority

**Report on the Schedule of Expenditures of Federal Awards**

We have audited the accompanying schedule of expenditures of federal awards (the financial schedule) of the Michigan State Housing Development Authority, a discretely presented component unit of the State of Michigan, for the fiscal year ended June 30, 2020 and the related notes to the financial schedule as listed in the table of contents.

***Management's Responsibility for the Financial Schedule***

Management is responsible for the preparation and fair presentation of the financial schedule in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial schedule that is free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

Our responsibility is to express an opinion on the financial schedule based on our audit. We conducted our audit 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 the financial schedule is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial schedule. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial schedule, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial schedule in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial schedule.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial schedule referred to in the first paragraph presents fairly, in all material respects, the expenditures of federal awards of the Michigan State Housing Development Authority for the fiscal year ended June 30, 2020 in accordance with accounting principles generally accepted in the United States of America.

Sincerely,

A handwritten signature in cursive script that reads "Doug Ringler".

Doug Ringler  
Auditor General  
March 15, 2021



## Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

Ms. Susan Corbin, Chair  
Michigan State Housing Development Authority Board  
and  
Mr. Gary Heidel, Acting Executive Director  
Michigan State Housing Development Authority

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

We have audited the Michigan State Housing Development Authority's (MSHDA's) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of MSHDA's major federal programs for the fiscal year ended June 30, 2020. MSHDA'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 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 MSHDA'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 the 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 MSHDA'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 MSHDA's compliance.

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

In our opinion, MSHDA 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 identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the fiscal year ended June 30, 2020.



## Report on Internal Control Over Compliance

Management of MSHDA 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 MSHDA'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 MSHDA'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 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 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 and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control over compliance, described in Findings 2020-001 and 2020-002 of the accompanying schedule of findings and questioned costs, that we consider to be significant deficiencies.

MSHDA's response to the internal control over compliance findings identified in our audit is presented in the accompanying corrective action plan and management views sections of the schedule of findings and questioned costs. MSHDA's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

Sincerely,



Doug Ringler  
Auditor General  
March 15, 2021



# SCHEDULE OF FINDINGS AND QUESTIONED COSTS

## Section I: Summary of Auditor's Results

### Financial Statements

Type of auditor's report issued: Unmodified\*

Internal control\* over financial reporting:

Material weaknesses\* identified? No

Significant deficiencies\* identified? Yes

Noncompliance or other matters material to the financial statements? No

### Federal Awards

Internal control over major programs:

Material weaknesses\* identified? No

Significant deficiencies\* identified? Yes

Any audit findings disclosed that are required to be reported in accordance with federal regulation 2 *CFR* 200.516(a)? Yes

### Identification of Major Federal Programs and Type of Opinion Issued on Compliance:

<i>CFDA</i> Number(s)	Name of Major Federal Program or Cluster*	Opinion
14.182 and 14.856	Section 8 Project-Based Cluster	Unmodified
14.275	Housing Trust Fund	Unmodified

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

Auditee qualified as a low-risk auditee\*? Yes

### Required Reporting Thresholds

Title 2, U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance\*) requires the auditor to test key controls at a level that would provide sufficient evidence that the established control structure would provide a high probability that material federal program noncompliance would be prevented or detected and corrected. This requires that the auditor set the tolerable exception rate of occurrence at a very low level. During the audit fieldwork, the auditor, in close consultation with the auditee, identifies the key controls that the auditee has established to ensure federal program compliance. In those cases in which the auditor's tests of key controls identify exception rates in excess of the tolerable exception rate of occurrence, the auditor must generally report the observed exception rate in the report finding.

Further, the Uniform Guidance requires the auditor to report in Section III of the audit report known questioned costs\* that are greater than \$25,000 for a type of compliance requirement for a major program and known questioned costs that are less than \$25,000 for a type of compliance requirement for a major program if it is likely that total questioned costs would exceed \$25,000.

As a result of these low required reporting thresholds, the reader may note that, in some cases, the observed exception rates of occurrence and reported known questioned costs appear insignificant in relation to the overall federal expenditures of the auditee. After the audit report is filed with the federal audit clearinghouse, the responsible federal agency is required to issue a

\* See glossary at end of report for definition.

management decision within six months of acceptance of the audit report by the federal audit clearinghouse. The management decision may include a request for the return of the known questioned costs.

**Management's Corrective Action Plan**

Management's planned corrective action for the findings in Section II and Section III is located in the auditee section beginning on page 25.

**Section II: Findings Related to the Financial Statements**

Findings related to the basic financial statements, which were audited by other auditors, are reported in the Michigan State Housing Development Authority Financial Report for the Fiscal Year Ended June 30, 2020, located at: <audgen.michigan.gov/wp-content/uploads/2020/11/MSHDA-Financials-6.30.2020-Final.pdf>

**Section III: Findings and Questioned Costs Related to Federal Awards**

**FINDING 2020-001**

Section 8 Project-Based Cluster, CFDA 14.182 and 14.856, Special Tests and Provisions - Vacant Units - Quality Control Reviews\*

<b>Federal Agency</b>	U.S. Department of Housing and Urban Development
<b>Pass-Through Entity</b>	Not Applicable
<b>Assistance Listing and CFDA Number</b>	Section 8 Project-Based Cluster: CFDA 14.182 and 14.856
<b>Federal Award Identification Number (FAIN) and Year</b>	Not Applicable
<b>Total Expenditures of Federal Awards</b>	\$379,686,656
<b>Compliance Requirement(s)</b>	Special Tests and Provisions – Vacant Units
<b>Type of Finding</b>	Significant Deficiency
<b>Known Questioned Costs by FAIN</b>	\$0
<b>Repeat Finding</b>	Not Applicable
<b>State Agency</b>	Michigan State Housing Development Authority

Condition

The Michigan State Housing Development Authority (MSHDA) did not ensure that it completed quality control reviews for 3 (12%) of 25 sampled vendor-approved special claim payments.

Criteria

Title 24, Part 880, section 611(c) of the *Code of Federal Regulations*\* (CFR) and federal regulation 24 CFR 880.608(f) require the property owner to reduce claims for assistance on vacant units except in instances where special claims\* are allowed, such as for vacancy losses\*, unpaid rent, and tenant damages on eligible units. The U.S. Department of Housing and Urban Development's (HUD's) Annual Contributions Contract\* with MSHDA requires MSHDA to verify and authorize payments only on valid Section 8 special claims. MSHDA's contract with the vendor requires that the vendor process claims, approve where appropriate, and complete special claims for regular vacancy, unpaid rent, and tenant damages.

MSHDA's quality control process is to monthly sample and review special claim payments processed by the vendor, which includes matching the data from the back-up documentation to the submitted forms. As necessary, MSHDA notifies the vendor of claims that require correction.

\* See glossary at end of report for definition.

Cause

MSHDA stated that because of time constraints and competing priorities, it did not complete all of these reviews.

Effect

MSHDA limited its assurance that the payments to properties for special claims complied with federal regulations. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

None.

Recommendation

We recommend that MSHDA complete quality control reviews for vendor-approved special claim payments.

Management Views

MSHDA agrees with the finding.

**FINDING 2020-002**

**Housing Trust Fund, CFDA 14.275, Eligibility - Monitoring of Property Developers' Eligibility Determinations**

<b>Federal Agency</b>	U.S. Department of Housing and Urban Development
<b>Pass-Through Entity</b>	Not Applicable
<b>Assistance Listing and CFDA Number</b>	Housing Trust Fund: CFDA 14.275
<b>Federal Award Identification Number (FAIN) and Year</b>	F16-SG260100      08/01/2017 - 08/01/2024 F17-SG260100      10/19/2017 - 10/19/2024 F18-SG260100      09/19/2018 - 09/19/2025
<b>Total Expenditures of Federal Awards</b>	\$5,210,999
<b>Compliance Requirement(s)</b>	Eligibility
<b>Type of Finding</b>	Significant Deficiency
<b>Known Questioned Costs by FAIN</b>	\$0
<b>Repeat Finding</b>	Not Applicable
<b>State Agency</b>	Michigan State Housing Development Authority

Condition

MSHDA had not fully established its process to monitor the property developers' efforts to ensure that tenants of Housing Trust Fund (HTF) assisted units met the income eligibility requirements.

Criteria

Federal regulation 24 CFR 93.151 requires the grantee to determine that only income-eligible families occupy an HTF assisted unit. The grantee must initially determine annual income through the examination of at least two months of source documents, such as wage statements and interest statements. In subsequent years, the grantee may use one of three methods to determine the family's annual income.

MSHDA's regulatory agreement indicates that the property developer must obtain written third-party evidence to substantiate the tenant's certification of income; in subsequent years, the property developer shall require the tenant to annually recertify the family's income and size.

MSHDA informed us that property developers self-report tenant data into a system on a quarterly basis. The system identifies potential errors based on established criteria. When potential errors are identified, MSHDA contacts the property developers and requests additional documentation to confirm data accuracy.

Cause

MSHDA informed us that because fiscal year 2020 was the first year of the HTF program, some data and documentation was not available during the audit.

Effect

Failure to sufficiently monitor the property developers' tenant eligibility process increases the risk that the HTF assisted units are occupied by families that do not meet the annual income-targeting requirements. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

None.

Recommendation

We recommend that MSHDA fully establish a process to monitor the property developers' efforts to ensure that tenants of HTF assisted units meet the income eligibility requirements.

Management Views

MSHDA agrees with the finding.





# AUDITEE SECTION

# Summary Schedule of Prior Audit Findings



STATE OF MICHIGAN

MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY  
LANSING

GRETCHEN WHITMER  
GOVERNOR

GARY HEIDEL  
ACTING EXECUTIVE DIRECTOR

**Summary Schedule of Prior Audit Findings  
Fiscal Year Ended June 30, 2020**

**Prior Audit Findings Related to the Financial Statements**

**Audit Period:** July 1, 2018 through June 30, 2019  
**Finding Number:** 2019-001  
**Initial Year Written:** Fiscal Year 2019

**Finding:** Certain general ledger account balances were not appropriately stated on the trail balance received, and some reconciliation and review processes had not occurred prior to the beginning of the audit.

**Current Status:** MSHDA did not correct the deficiencies noted in the finding.

Reasons(s) For Recurrence: The uncertainty of the duration of time staff would be out of the office, and the immediate lack of access to accounting documents, resulted in the financial statements being created behind schedule.

Corrective Action: The MSDHA purchased new equipment, including laptops, monitors, printers, and other equipment necessary for the Finance/ Accounting department staff to perform their duties from home. The MSHDA also granted Finance/Accounting staff access to offices and work documents, as necessary, for the financial statements.

**Prior Audit Findings Related to Federal Awards**

None.

## Management Views and Corrective Action Plan



STATE OF MICHIGAN

MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY  
LANSING

GRETCHEN WHITMER  
GOVERNOR

GARY HEIDEL  
ACTING EXECUTIVE DIRECTOR

**Management Views and Corrective Action Plan**

**Findings Related to the Financial Statements**

**Finding 2020-001**

Management Views

The MSHDA agrees that it was not prepared when the auditors began their audit procedures and will take steps to ensure preparedness going forward. The MSHDA had been producing its monthly and quarterly financials in a timely fashion until COVID forced staff to begin working from home. The uncertainty of the duration of time staff would be out of the office, and the immediate lack of access to accounting documents, resulted in the financial statements being created behind schedule.

Planned Corrective Action

The MSDHA purchased new equipment, including laptops, monitors, printers, and other equipment necessary for the Finance/ Accounting department staff to perform their duties from home. The MSHDA also granted Finance/Accounting staff access to offices and work documents, as necessary, for the financial statements.

Anticipated Completion Date

Completed

Responsible Individual(s)

Jeff Sykes, Chief Financial Officer

**Findings Related to the Federal Awards**

**Finding 2020-001**

**Section 8 Project-Based Cluster, CFDA 14.182 and 14.856, Special Tests and Provisions - Vacant Units - Quality Control Reviews**

Management Views

The MSHDA agrees with this finding. The condition of ‘three sampled vendor approved special claim payments that MSHDA did not ensure quality control (QC) reviews were completed’ were from the Traditional Contract Administration (TCA) portfolio.

As noted in the Criteria Section, HUD’s Annual Contributions Contract (ACC) with the MSHDA requires the MSHDA to verify and authorize payments only on valid Section 8 special claims. The ACC pertains directly to the Project Based Contract

Administration (PBCA) portfolio and as good practice, the MSHDA tends to carry the requirements over to the TCA portfolio. Due to competing priorities and the fact that the ACC requirements are passed down to the vendor through our sub-contract, the MSHDA elected to limit our review of the May 2020 Special Claims in the TCA portfolio. Our vendor is also responsible for the work and that task provided the lowest risk when compared to the competing priorities.

Competing priorities began to compound as the COVID pandemic continued to challenge how we completed our routine tasks. This includes staff being detailed to work remotely, mandated layoff days, and lack of technology at remote worksites for the first few months. Staff re-assignments due to a hiring freeze further compounded the competing priorities during this time.

#### Planned Corrective Action

The removal of some of the time constraints cited above, mainly, the State of Michigan mandated layoff days ending in July 2020 and the second analyst no longer working out of class, have allowed the MSHDA to meet the Criteria even though other constraints still exist.

In addition to the above corrective actions, the MSHDA is working with the software vendor to provide a solution that will result in faster processing times. The software vendor is rolling out a new product line and anticipates an implementation date in the Summer 2021. The MSHDA is also in the planning phase of bringing on a third analyst to assist in the voucher and special claim quality control process. Providing proper approvals, the third analyst will begin training in March 2021.

#### Anticipated Completion Date

Complete Quality Control Reviews: Completed July 2020  
Update software system: Anticipated completion August 2021  
Onboarding a third analyst: Anticipated start date of March 2021

#### Responsible Individual(s)

Jeffrey Fedewa, Federal Contracts Manager

**Finding 2020-002**

**Housing Trust Fund, CFDA 14.275, Eligibility - Monitoring of Property Developers' Eligibility Determinations**

Management Views

The MSHDA agrees with this finding. The MSHDA's position is that tenant income eligibility can be properly monitored through established processes and controls to ensure developer's efforts comply with the requirements of the HTF program; however, as the MSHDA's administration of the HTF program is in the first year, some data and documentation was not available during the audit.

The MSHDA has existing processes which include reviewing and certifying tenant income at varying intervals. These processes include: Tenant Data Collection, which are used as a tool to ensure property income eligibility; Annual Owner Certification, which are used as a tool to ensure property income determinations and eligibility; and Tenant File Audits, which are used as a tool to ensure compliance with income determinations. Ongoing reviews of tenant income information are an integral part of these processes.

Planned Corrective Action

MSHDA is within the first year of administering the HTF program. Owner certifications for the AOC process are due March 1<sup>st</sup>, 2021. The AOC form and review process have been updated to reflect HTF requirements, and to align the process with the recommendation of this preliminary audit finding. All changes are now completed and fully implemented.

Anticipated Completion Date

Completed.

Responsible Individual(s)

Nate Thelen, Multifamily Compliance Manager.





# GLOSSARY

## GLOSSARY OF ABBREVIATIONS AND TERMS

---

adverse opinion	A type of modified opinion in which the auditor states that the audited entity did not comply, in all material respects, with the cited compliance requirements that are applicable to each major federal program.
Annual Contributions Contract	A contract between HUD and MSHDA that describes MSHDA's administration services for units receiving Section 8 Project-Based housing assistance.
ARRA	American Recovery and Reinvestment Act of 2009.
assistance listing	A publicly available listing of federal assistance programs managed and administered by the U.S. General Services Administration, formerly known as <i>CFDA</i> .
<i>Catalog of Federal Domestic Assistance (CFDA)</i>	The catalog that provides a full listing, with detailed program descriptions, of all federal programs available to state and local governments.
cluster	A grouping of closely related federal programs that have similar compliance requirements. Although the programs within a cluster are administered as separate programs, a cluster of programs is treated as a single program for the purpose of meeting the audit requirements of the Uniform Guidance.
<i>Code of Federal Regulations (CFR)</i>	The codification of the general and permanent rules published by the departments and agencies of the federal government.
deficiency in internal control over federal program compliance	The design or operation of a control over compliance that 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.
deficiency in internal control over financial reporting	The design or operation of a control that 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.
FAIN	Federal Award Identification Number.
financial audit	An audit that is designed to provide reasonable assurance about whether the basic financial statements and/or financial schedules of an audited entity are presented fairly, in all material respects, in accordance with the applicable financial reporting framework.

HTF	Housing Trust Fund.
HUD	U.S. Department of Housing and Urban Development.
internal control	A process, effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance about the achievement of the entity's objectives with regard to the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.
known questioned costs	Questioned costs that are specifically identified by the auditor.
low-risk auditee	As provided for in the Uniform Guidance, an auditee that may qualify for reduced federal audit coverage if it receives an annual single audit and it meets other criteria related to prior audit results.
material misstatement	A misstatement in the basic financial statements that causes the statements to not present fairly the financial position or the changes in financial position, and, where applicable, cash flows thereof, in accordance with the applicable financial reporting framework.
material noncompliance	Violations of laws, regulations, contracts, and grants that could have a direct and material effect on major federal programs or on basic financial statement and/or financial schedule amounts.
material weakness in internal control over federal program compliance	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.
material weakness in internal control over financial reporting	A deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the basic financial statements will not be prevented, or detected and corrected, on a timely basis.
modified opinion	A qualified opinion, an adverse opinion, or a disclaimer of opinion.
MSHDA	Michigan State Housing Development Authority.
other noncompliance	Violations of contracts or grant agreements that are not material to the basic financial statements but should be communicated to management in accordance with <i>Government Auditing Standards</i> . Other noncompliance also includes violations of laws, regulations, contracts, or grant agreements; fraud; or other internal control deficiencies that may be communicated to

management in accordance with *Government Auditing Standards*.

pass-through entity	A nonfederal entity that provides a federal award to a subrecipient to carry out a federal program.
qualified opinion	A type of modified opinion in which the auditor identifies a scope limitation or material noncompliance with one or more of the cited compliance requirements that are applicable to each major federal program.
quality control review	A review completed by MSHDA of a sample of special claims approved or denied by the contractor to ensure that claims are appropriate. The review is to ensure that special claims are supported and appropriately approved.
questioned cost	A cost that is questioned by the auditor because of an audit finding: (1) which resulted from a violation or possible violation of a statute, regulation, or the terms and conditions of a federal award, including for funds used to match federal funds; (2) where the costs, at the time of the audit, are not supported by adequate documentation; or (3) where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances.
significant deficiency in internal control over federal program compliance	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.
significant deficiency in internal control over financial reporting	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.
single audit	A financial audit, performed in accordance with the Single Audit Act Amendments of 1996 and the Uniform Guidance, which is designed to meet the needs of all federal grantor agencies and other financial report users. In addition to performing the audit in accordance with the requirements of auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in <i>Government Auditing Standards</i> issued by the Comptroller General of the United States, a single audit requires the assessment of compliance with requirements that could have a direct and material effect on a major federal program and the consideration of internal control over compliance in accordance with the Uniform Guidance.
special claims	A reimbursement from MSHDA for vacancy losses, unpaid rent, or tenant damages on covered units.

subrecipient	A nonfederal entity that receives a subaward from a pass-through entity to carry out part of a federal program but does not include an individual that is a beneficiary of such program. A subrecipient may also be a recipient of other federal awards directly from a federal awarding agency.
Uniform Guidance	Title 2, U.S. <i>Code of Federal Regulations</i> Part 200, <i>Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards</i> . The Uniform Guidance, which was officially implemented in December 2014 by the Council on Financial Assistance Reform, establishes uniform cost principles and audit requirements for federal awards to nonfederal entities and administrative requirements for all federal grants and cooperative agreements. The Uniform Guidance supersedes guidance from earlier OMB circulars.
unmodified opinion	<p>The opinion expressed by the auditor when the auditor, having obtained sufficient appropriate audit evidence, concludes:</p> <ul style="list-style-type: none"> <li>a. The basic financial statements or financial schedules are presented fairly, in all material respects, in accordance with the applicable financial reporting framework.</li> <li>b. The audited entity complied, in all material respects, with the cited compliance requirements that are applicable to each major federal program.</li> </ul>
U.S. Office of Management and Budget (OMB)	A cabinet-level office that assists the President in overseeing the preparation of the federal budget and in supervising its administration in executive branch agencies.
vacancy losses	A special claim to compensate property owners for the loss of rental income of a unit that was previously occupied by an assisted tenant but has been vacant for circumstances beyond the owner's control.







**Report Fraud/Waste/Abuse**

Online: [audgen.michigan.gov/report-fraud](http://audgen.michigan.gov/report-fraud)

Hotline: (517) 334-8070