

NORTH IOWA REGIONAL HOUSING AUTHORITY

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
COMMENTS AND RECOMMENDATIONS

SEPTEMBER 30, 2006

- Prepared By -

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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
of North Iowa Regional Housing Authority:

I was engaged to audit the accompanying financial statements of the North Iowa Regional Housing Authority as of and for the years then ended September 30, 2006 and 2005 as listed in the table of contents. These financial statements are the responsibility of the North Iowa Regional Housing Authority.

Except as explained in the following paragraph, I conducted my audits 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. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial presentation. I believe that my audits provide a reasonable basis for my opinion.

As discussed in Note 5, the Authority has expended certain Housing and Urban Development grant funds in a manner that may have violated certain restrictions of the related grants. These matters have been reported to the appropriate officials. I have been unable to obtain sufficient evidential matter relating to the outcome of these violations.

In my opinion, except for the effect of an unfavorable outcome of the Housing and Urban Development grant provision violations, as described in the above paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the North Iowa Regional Housing Authority as of September 30, 2006 and 2005 and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, I have also issued my reports dated June 19, 2007, on my consideration of the North Iowa Regional Housing Authority's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of my audit.

Management's Discussion and Analysis on pages 3 through 7 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. I did not audit the information and express no opinion on it.

My audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the North Iowa Regional Housing Authority's basic financial statements. The Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133 and the Financial Data Schedule required by the Department of Housing and Urban Development, Real Estate Assessment Center, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As discussed in Note 15, certain errors resulting in the understatement of accounts receivable and revenue were reported to management subsequent to June 19, 2007, the original date of issuance of the financial statements.

Douglas E Krauloge

June 19, 2007

November 15, 2007 as related to Note 15

MANAGEMENT'S DISCUSSION AND ANALYSIS

North Iowa Regional Housing Authority (NIRHA) provides this "*Management's Discussion and Analysis*" of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended September 30, 2006, with comparative data from the fiscal years ended September 30, 2005 and 2004 respectively. We encourage readers to consider this information in conjunction with the housing authority's audited financial statements.

NIRHA operates under two Department of Housing and Urban Development (HUD) programs, providing income-based housing and rental assistance to lower income residents in the northern Iowa counties of Cerro Gordo, Floyd, Franklin, Hancock, Kossuth, Mitchell, Winnebago, and Worth. A governing board, consisting of delegates appointed by Supervisors of each of the eight counties, oversees the management of the housing authority.

The Public Housing Program provides assistance for low income families and elderly and disabled persons in rental units owned and managed by NIRHA. Properties of varying bedroom sizes are located in ten northern Iowa communities. All of the multi-family units blend into their respective surrounding communities, reducing any stigma of federally assisted housing. Tenant rents are based upon income, generally approximately 30% of income. Since income based public housing rents are not sufficient for NIRHA to operate the properties, HUD subsidies provide a significant portion of the income gap.

The Section 8 – Housing Choice Voucher program is designed to enable low income families and elderly and disabled persons to rent decent, safe, and sanitary housing. The voucher program allows participants to find an apartment or house in the private rental market. Participants' rent is income based and does not exceed 40% of their adjusted monthly income. The balance of the rent is paid by NIRHA directly to the landlord. HUD subsidizes 100% of the landlord payments. HUD also provides a subsidy to NIRHA to defray costs of administering the program.

Operating and financial data is closely monitored by HUD via monthly and quarterly reporting for both programs. HUD reporting also includes tenant income eligibility and family data. Compliance reviews are periodically scheduled by HUD to insure program integrity.

2006 FINANCIAL HIGHLIGHTS

- Combined operating revenues of the two programs operated by NIRHA increased 53%, or approximately \$712,000 from fiscal year 2005 to fiscal year 2006. This was mainly due to a HUD approved reclassification of capital improvement grants as operating revenues. HUD allows this revenue classification for small housing agencies. HUD has changed its method of providing revenue to the authority. Due to this change, the Authority has recognized \$161,670 of revenue that it had not received at the end of the fiscal year. This amount is included in accounts receivable.

Vacancy rates in public housing units had been higher than desired in prior years, but began to improve during fiscal year 2006 compared to the prior year. Capital improvement projects in process during the current year and additional improvements planned at all sites are expected to improve the desirability of the units and thereby reduce future vacancy rates.

Units served by the Housing Choice Voucher program during fiscal year 2006 were the lowest of the three year comparison period. Management revamped tenant screening processes, invested in staff training programs, and realigned staffing responsibilities in an attempt to reduce errors and reporting problems. The result has been a decline in qualified tenants; however, management expects a positive turn-around in the next fiscal year with additional tenants being added to the program.

- Combined program operating expenses decreased 11%, or approximately \$188,000 from fiscal year 2006 compared to fiscal year 2005. There had been a 9% decrease from fiscal year 2005 compared to fiscal year 2004. The decreases were beneficial in the public housing sector, but detrimental in the voucher program, as noted below.

The cause of the public housing decline in operating expenses during fiscal year 2006 was two-fold. Fiscal year 2005 had increased maintenance expenditures due to the catch-up of previously postponed routine maintenance activities, while fiscal year 2006 benefited from the implementation of maintenance efficiencies compared to the previous years.

Voucher payments to landlords declined by 15% in fiscal year 2006 compared to fiscal year 2005. There had been a 20% drop in fiscal year 2005 compared to fiscal year 2004. Again, this was due to the reduction in the number of assisted Housing Choice Voucher tenants. The impact of the decline in voucher payments could result in HUD recouping the unspent voucher dollars recorded as revenue. There is a waiting list of potential program applicants, and the agency continues to actively pursue offering vouchers to those applicants. NIRHA further plans to aggressively enlist new qualified voucher participants in the upcoming year. The impact of these actions will be to increase voucher payment expenditures, thereby assisting low income families and utilizing the available funding sources.

- Assets exceeded liabilities by approximately \$5,029,000 as of September 30, 2006. The major component of assets is the investment in buildings and other capital assets, net of depreciation, of \$3,906,861. Current assets of \$1,252,000 comprise the other major asset component. Included in the large dollar of current assets is cash drawn down from HUD for the on-going capital improvement projects at two public housing sites, as well as a receivable from HUD for the same projects. The Section 8 program current assets are large because cash received from HUD has not been spent for voucher program rents. Total liabilities are approximately \$144,000 and are comprised mostly of accounts payable, construction contract retentions payable, and accrued expenses. NIRHA is fortunate to have no long-term debt.

Overall, combined net assets increased 19% or approximately \$797,000 from September 30, 2005 to September 30, 2006. The increase was the result of NIRHA drawing down available HUD capital fund grants and using the funds as operating assets as permitted by HUD for small agencies. However, NIRHA fully intends to use the funds for major capital improvement projects. Net assets decreased 18% from 2004 to 2005 mainly as a result of a prior period adjustment made to correct cumulative depreciation accounting errors over several previous years.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

“Management’s Discussion and Analysis” introduces the basic financial statements and provides an analytical overview of the housing authority’s financial activities.

The section containing basic financial statements consists of a *“Statements of Net Assets”*, a *“Statements of Revenues, Expenses, and Changes in Net Assets”*, and a *“Statements of Cash Flows.”* These provide information about the activities of NIRHA as a whole and present an overall view of the housing authority’s finances.

“Notes to Financial Statements” provides additional information essential to a full understanding of the data provided in the basic financial statements.

“Other Supplemental Information” contains information in addition to the basic financial statements themselves, and further explains federal awards and grant activity of federal programs benefiting the housing authority.

CONDENSED FINANCIAL INFORMATION

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Current and other assets	\$1,265,911	\$ 816,211	\$ 991,781
Capital assets	<u>3,906,861</u>	<u>3,701,359</u>	<u>4,500,015</u>
Total assets	<u>\$5,172,772</u>	<u>\$4,517,570</u>	<u>\$5,491,796</u>
Short-term liabilities	\$ 143,691	\$ 285,630	\$ 265,464
Other liabilities	<u>-</u>	<u>-</u>	<u>41,481</u>
Total liabilities	<u>\$ 143,691</u>	<u>\$ 285,630</u>	<u>\$ 306,945</u>
Net assets:			
Invested in capital assets, net of related debt	\$3,906,861	\$3,701,359	\$4,500,015
Restricted	-	4,795	43,787
Unrestricted	<u>1,122,220</u>	<u>525,786</u>	<u>641,049</u>
Total net assets	<u>\$5,029,081</u>	<u>\$4,231,940</u>	<u>\$5,184,851</u>

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Revenue by source:			
Rents	\$ 139,655	\$ 193,458	\$ 230,285
Grants and contributions	1,916,445	1,153,825	1,347,849
Miscellaneous	<u>12,336</u>	<u>9,462</u>	<u>11,250</u>
Total revenues	<u>\$2,068,436</u>	<u>\$1,356,745</u>	<u>\$1,589,384</u>
Expenditures:			
Administration	\$ 389,440	\$ 414,074	\$ 405,617
HAP payments	690,447	811,270	1,018,681
Depreciation	173,600	167,715	185,115
Maintenance and other	215,950	296,798	188,717
Miscellaneous	<u>36,760</u>	<u>4,505</u>	<u>57,845</u>
Total expenses	<u>\$1,506,197</u>	<u>\$1,694,362</u>	<u>\$1,855,975</u>
Non-operating revenues (expenses):			
Capital contributions	\$ 46,332	\$ 53,590	\$ 181,790
Other	<u>22,880</u>	<u>7,198</u>	<u>(50,867)</u>
Total nonoperating revenues	<u>\$ 69,212</u>	<u>\$ 60,788</u>	<u>\$ 130,923</u>
Extraordinary item	<u>\$ 165,690</u>	<u>\$ -</u>	<u>\$ -</u>
Change in net assets	<u>\$ 797,141</u>	<u>\$ (276,829)</u>	<u>\$ (135,668)</u>
Net assets at beginning of year	\$4,231,940	\$5,184,851	\$5,320,519
Prior period adjustments	<u>-</u>	<u>(676,082)</u>	<u>-</u>
Net assets at end of year	<u>\$5,029,081</u>	<u>\$4,231,940</u>	<u>\$5,184,851</u>

REPORTING THE HOUSING AUTHORITY'S FINANCIAL ACTIVITIES

The financial statements include all assets and liabilities using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

The *Statements of Net Assets* present all of the housing authority's assets and liabilities, with the difference between the two reported as "net assets." Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of NIRHA is improving or deteriorating.

The *Statements of Revenues, Expenses, and Changes in Net Assets* present information showing how net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

Rental income from tenants residing in the public housing units owned by the housing authority and grants from the Department of Housing and Urban Development (HUD) comprise the majority of the operating revenue of NIRHA. Likewise, payments to landlords (HAP) for tenants participating in the Housing Choice Voucher program constitute the single largest operating expense. Administrative and maintenance expenses, along with depreciation comprise most of the remaining operating expenses.

CAPITAL ASSETS AND DEBT ADMINISTRATION

North Iowa Regional Housing Authority's capital assets include land, buildings and improvements, construction in process, and equipment. There is no current or long-term debt of the housing authority for capital assets.

CONTACTING THE HOUSING AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to present our citizens, taxpayers, customers, investors, and creditors, and other users with a general overview of the housing authority's finances and operating activities. If you have any questions or require additional information, please contact the Finance Director, 202 1st St., S.E., Suite 203, Mason City, Iowa 50401. The contact telephone number is 641-423-0897.

NORTH IOWA REGIONAL HOUSING AUTHORITY
 Statements of Net Assets
 Years Ended September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
ASSETS:		
Current assets:		
Cash	\$ 439,043	\$ 591,965
Investments	305,504	-
Receivables:		
Accounts receivable-Trade	3,839	7,998
Accounts receivable-HUD	493,607	187,020
Accrued interest	888	-
Prepaid expenses	8,756	5,906
Total current assets	<u>\$1,251,637</u>	<u>\$ 796,093</u>
Non-current assets:		
Restricted assets:		
Security deposits	<u>\$ 14,274</u>	<u>\$ 20,118</u>
Capital assets:		
Land and land improvements	\$ 940,738	\$ 940,738
Buildings	5,058,028	4,869,551
Equipment	140,646	140,977
Construction in progress	327,138	151,593
Total capital assets	<u>\$6,466,550</u>	<u>\$6,102,859</u>
Less accumulated depreciation	<u>(2,559,689)</u>	<u>(2,401,500)</u>
Net capital assets	<u>\$3,906,861</u>	<u>\$3,701,359</u>
Total non-current assets	<u>\$3,921,135</u>	<u>\$3,721,477</u>
Total assets	<u>\$5,172,772</u>	<u>\$4,517,570</u>
LIABILITIES:		
Current liabilities:		
Accounts payable	\$ 6,453	\$ 188,985
Contracts payable	79,838	-
Accrued expenses		
Payroll	10,563	11,331
Compensated absences	17,946	26,089
Other	12,077	37,158
Prepaid rent	2,540	6,744
Security deposits	14,274	15,323
Total current liabilities	<u>\$ 143,691</u>	<u>\$ 285,630</u>
Total liabilities	<u>\$ 143,691</u>	<u>\$ 285,630</u>
NET ASSETS:		
Invested in capital assets, net of related debt	\$3,906,861	\$3,701,359
Restricted for:		
Security deposits	-	4,795
Unrestricted	<u>1,122,220</u>	<u>525,786</u>
Total net assets	<u>\$5,029,081</u>	<u>\$4,231,940</u>

See Notes to Financial Statements.

NORTH IOWA REGIONAL HOUSING AUTHORITY
 Statements of Revenues, Expenses, and Changes in Net Assets
 Years Ended September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Operating Revenues:		
Rent	\$ 139,655	\$ 193,458
Grants and contributions	1,916,445	1,153,825
Miscellaneous	12,336	9,462
Total operating revenue	<u>\$2,068,436</u>	<u>\$1,356,745</u>
Operating Expenses:		
Administrative	\$ 389,440	\$ 414,074
Utilities	37,803	35,524
Maintenance	178,147	261,274
Depreciation	173,600	167,715
HAP payments	690,447	811,270
Miscellaneous	36,760	4,505
Total operating expenses	<u>\$1,506,197</u>	<u>\$1,694,362</u>
Operating income (loss)	<u>\$ 562,239</u>	<u>\$ (337,617)</u>
Non-operating revenues:		
Interest	\$ 19,284	\$ 9,588
Capital contributions	46,332	53,590
Gain on sale of capital assets	4,233	(2,390)
Loss on sale of investment houses	(637)	-
Total non-operating revenues	<u>\$ 69,212</u>	<u>\$ 60,788</u>
Income before extraordinary item	\$ 631,451	\$ (276,829)
Extraordinary item	<u>165,690</u>	<u>-</u>
Change in net assets	\$ 797,141	\$ (276,829)
Net assets beginning of year	4,231,940	5,184,851
Prior period adjustments	<u>-</u>	<u>(676,082)</u>
Net assets end of year	<u>\$5,029,081</u>	<u>\$4,231,940</u>

See Notes to Financial Statements.

NORTH IOWA REGIONAL HOUSING AUTHORITY
Statements of Cash Flows
Years Ended September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cash Flows from Operating Activities:		
Cash received from rental receipts	\$ 146,797	\$ 200,818
Cash received from HUD	1,422,838	1,319,450
Cash paid to employees for services	(275,188)	(280,801)
Cash paid to suppliers of goods or services	(269,959)	(570,707)
Cash paid for HAP payments	(692,217)	(811,270)
Proceeds from miscellaneous items	-	8,471
Proceeds from tenant security deposits	(5,844)	1,615
Net cash provided (used) by operating activities	<u>\$ 326,427</u>	<u>\$ (132,424)</u>
Cash Flows from Capital and Related Financing Activities:		
Capital contribution	\$ 46,332	\$ -
Principal payments	-	(67,827)
Interest payments	-	(661)
Net cash used by financing activities	<u>\$ 46,332</u>	<u>\$ (68,488)</u>
Cash Flows from Investing Activities:		
Purchase of investments	\$ (326,275)	\$ -
Interest received	18,396	9,588
Proceeds from sale of capital assets	4,233	27,511
Proceeds from sale of investment houses	2,567	190,911
Purchase of capital assets	(76,805)	(21,452)
Capital improvements	(167,915)	(40,584)
Net cash provided by investing activities	<u>\$ (545,799)</u>	<u>\$ 165,974</u>
Net increase (decrease) in cash	\$ (173,040)	\$ (34,938)
Cash beginning of year	<u>612,083</u>	<u>647,021</u>
Cash end of year	<u>\$ 439,043</u>	<u>\$ 612,083</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ 562,239	\$ (337,617)
Adjustments to reconcile operating income (loss) to net cash from operating activities:		
Miscellaneous	26,281	8,471
Depreciation expense	173,600	167,715
Bad debt expense	10,477	6,757
Change in assets and liabilities:		
(Increase) decrease in receivables	(302,428)	(47,051)
(Increase) decrease in prepaid expenses	(2,851)	(3,219)
Increase (decrease) in accounts and contracts payable	(102,694)	76,988
Increase (decrease) in accrued expenses	(33,993)	(11,212)
Increase (decrease) in other liabilities	(4,204)	6,744
Net cash provided (used) by operating activities	<u>\$ 326,427</u>	<u>\$ (132,424)</u>

See Notes to Financial Statements.

NORTH IOWA REGIONAL HOUSING AUTHORITY
Notes to Financial Statements
September 30, 2006

(1) Summary of Significant Accounting Policies

A. Reporting Entity

The North Iowa Regional Housing Authority is a special purpose government organization organized under Iowa Code Chapters 28E, Joint Exercise of Governmental Powers, and 403A, Municipal Housing Projects. The Authority is located in Mason City, Iowa, and serves an eight county area. The Authority has an elected governing body from the eight county area. The Authority's revenue is generated by rents from their 121 conventional low rent units and an additional 381 Section 8 Housing Choice Voucher units. The Authority is subject to Section 8 Housing Assistance Payments agreements with the U.S. Department of Housing and Urban Development (HUD). The Authority's major program is its Section 8 subsidies.

For financial reporting purposes, North Iowa Regional Housing Authority has included all funds, organizations, agencies, boards, commissions and authorities. The Authority has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Authority are such that exclusion would cause the Authority's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Authority to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Authority. North Iowa Regional Housing Authority has no component units which meet the Governmental Accounting Standards Board criteria.

B. Measurement Focus and Basis of Accounting

The North Iowa Regional Housing Authority maintains its financial records on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of proprietary funds are user fees and charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Authority has elected not to follow subsequent private-sector guidance.

NORTH IOWA REGIONAL HOUSING AUTHORITY
Notes to Financial Statements
September 30, 2006

(1) Summary of Significant Accounting Policies - (continued)

C. Assets, Liabilities and Net Assets

Cash Management and Investments

The Authority maintains two primary demand deposit accounts through which the majority of the Authority's cash resources are processed. The Authority's cash and cash equivalents include amounts in demand deposits as well as short-term investments with an original maturity date within three months of the date acquired by the Authority.

Trade Receivables

Trade receivables as of September 30, 2006 and 2005, are net of \$3,283 and \$3,185 allowance for doubtful accounts, respectively.

Inventories

Inventories are recognized only in those funds in which they are material to the extent of affecting operations. All inventories are carried at lower of cost or market (first-in, first-out). The consumption method of accounting is applied to the inventories.

Restricted Assets

Assets which can be designated by the Board of Commissioners for any use within the Authority's purpose are considered to be unrestricted assets. Assets which are restricted for specific uses by debt requirements, grant provisions, or other requirements are classified as restricted assets. Liabilities which are payable from restricted assets, are classified as such.

Capital Assets

Capital assets, which include land, buildings, improvements other than buildings, and equipment are reported by the Authority. Capital assets are defined by the Authority as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost. Donated capital assets are recorded at estimated fair-market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Buildings, improvements other than buildings, and equipment are depreciated using the straight-line method over the following estimated useful lives:

Buildings and structures	40 years
Improvements other than buildings	15 years
Equipment	3 to 10 years

Accrued Expenses

Authority employees earn paid days off (PDO) at rates dependent on years of service up to a maximum of 65. Accumulation of more than 65 days will be forfeited if not used. This liability has been computed based on rates of pay in effect at September 30, 2006.

NORTH IOWA REGIONAL HOUSING AUTHORITY
Notes to Financial Statements
September 30, 2006

(1) Summary of Significant Accounting Policies - (continued)

Since the Authority is a government agency, it does not pay property tax on the public housing properties it owns. The Authority accrues 10% of the dwelling rent less utilities as payment in lieu of taxes (PILOT) to be remitted to each city where property is located.

(2) Cash and Investments

The Authority's deposits in banks at September 30, 2006 were entirely covered by Federal depository insurance or by the State Sinking fund in accordance with Chapter 12C of the Code of Iowa. This Chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Authority is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Authority; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Authority had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

(3) Capital Assets

Capital asset activity for the year ended September 30, 2006 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 915,269	\$ -	\$ -	\$ 915,269
Construction in progress	151,593	352,292	176,747	327,138
Total capital assets, not being depreciated	<u>\$1,066,862</u>	<u>\$ 352,292</u>	<u>\$ 176,747</u>	<u>\$1,242,407</u>
Capital assets, being depreciated:				
Buildings and structures	\$4,869,551	\$ 188,477	\$ -	\$5,058,028
Improvements other than buildings	25,469	-	-	25,469
Equipment	140,977	15,080	15,411	140,646
Total capital assets being depreciated	<u>\$5,035,997</u>	<u>\$ 203,557</u>	<u>\$ 15,411</u>	<u>\$5,224,143</u>
Less accumulated depreciation	<u>2,401,500</u>	<u>173,600</u>	<u>15,411</u>	<u>2,559,689</u>
Total capital assets being depreciated, net	<u>\$2,634,497</u>	<u>\$ 29,957</u>	<u>\$ -</u>	<u>\$2,664,454</u>
Total capital assets, net	<u><u>\$3,701,359</u></u>	<u><u>\$ 382,249</u></u>	<u><u>\$ 176,747</u></u>	<u><u>\$3,906,861</u></u>

Depreciation expense charged to operations for the year ended September 30, 2006 was \$173,600.

NORTH IOWA REGIONAL HOUSING AUTHORITY
Notes to Financial Statements
September 30, 2006

(4) **Pension and Retirement Benefits**

IPERS - The Authority contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the Authority is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Authority's contribution to IPERS for the years ended September 30, 2006, 2005 and 2004 were \$14,844, \$16,104 and \$14,380 respectively, equal to the required contribution for each of the years.

(5) **Contingencies**

The Authority is under rules and regulations of HUD and is listed as a troubled agency. Due to the amount of questioned costs within the Authority, there exists a possibility that HUD, within its regulations, will terminate the operations of the Authority or alternatively require repayment of grant funds provided to the Authority.

(6) **Related Party Transactions**

The Authority had no business transactions between the Authority and Authority officials and employees during the year ended September 30, 2006.

(7) **Risk Management**

The North Iowa Regional Housing Authority is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Authority assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(8) **Litigation**

On June 17, 2005, the Authority was notified of a complaint in violation of the age discrimination section of the Mason City Human Rights Code. Three additional related complaints were subsequently filed by the same individual. The complaints were closed with the execution of a consent agreement dated February 6, 2007 between the Authority, the individual and the Mason City Human Rights Commission. Any monetary payments as a result of this consent agreement have been paid by the Authority's insurance carrier, other than the Authority deductible. A non-disclosure agreement is in place between the involved parties.

NORTH IOWA REGIONAL HOUSING AUTHORITY
Notes to Financial Statements
September 30, 2006

(9) Operating Lease Activity

The Authority leases office space under a five-year lease expiring February 1, 2008. By its terms, the lease is automatically extended for five additional years. Monthly lease payment is \$2,219. Lease expense amounted to \$26,883 for the year ended September 30, 2006. Future minimum lease payments under this lease are as follows:

<u>FYE</u>	
2007	\$26,630
2008	<u>11,095</u>
	<u>\$37,725</u>

Subsequent to year-end, the Authority negotiated a new five year lease beginning January 1, 2007, at the current minimum lease payment of \$1,498 per month plus common area costs estimated at \$721 per month. The lease provides for two five year extensions at \$1,498 per month plus common area costs.

(10) Manly Houses

The Authority has purchased land and constructed six houses in Manly, Iowa. Since the land purchase in 2002, the Authority has incurred \$634,351 in construction costs, including the land. All six houses were sold prior to the current year. During the year, the remaining lot with total cost, including selling expenses, of \$3,204, was sold for \$2,567.

(11) Current Vulnerability Due to Certain Concentrations

The Authority's operations are concentrated in the multi-family real estate market. In addition, the Authority operates in a heavily regulated environment. The operations of the Authority are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, HUD. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by HUD. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden to comply with a change.

(12) Extraordinary Item

At the end of the prior fiscal year ended September 30, 2005, the Authority was liable to HUD in the amount of \$165,690, due to HUD over-funding the Section 8 - Housing Choice Voucher program. Due to unusual circumstances at the Authority, HUD forgave the amount due and allowed the Authority to use the funds for operations during fiscal year ended September 30, 2006.

(13) Termination Benefits

As of September 30, 2006, the Authority had no terminated employees participating in COBRA health care coverage available from the Authority. COBRA participants pay 100% of the premium for continuing coverage. COBRA continuation coverage benefits are available for eligible employees for 18 months. Upon termination, employees are paid for compensated absences that have been accrued up to termination date.

(14) Commitments

At September 30, 2006, the following construction commitments had been made:

	<u>Total</u>	<u>Costs</u>
	<u>Contracts</u>	<u>Incurred</u>
Hampton project	\$554,000	\$239,755
Manly project	75,000	72,300
	<u>\$629,000</u>	<u>\$312,055</u>

NORTH IOWA REGIONAL HOUSING AUTHORITY
Notes to Financial Statements
September 30, 2006

(15) Restated 2006 Financial Statements

Subsequent to the original issuance of the financial statements as of and for the year ended June 30, 2006, management was notified that errors had been made in the recognition of income related to the Housing Choice Voucher (HCV) Program. In addition, certain grants were reclassified as capital grants rather than operating grants.

	Accounts Receivable - HUD	Accounts Payable	Operating Revenues - Grants and Contributions
As originally stated	<u>\$331,937</u>	<u>\$120,141</u>	<u>\$1,687,421</u>
Correct recognition of HCV program income	161,670	(113,688)	275,358
Reclassify operating grants to capital grants	<u> -</u>	<u> -</u>	<u> (46,334)</u>
As restated	<u>\$493,607</u>	<u>\$ 6,453</u>	<u>\$1,916,445</u>

In addition, the liability for security deposits was reclassified as a current liability rather than a long-term liability.

NORTH IOWA REGIONAL HOUSING AUTHORITY
 Schedule of Expenditures of Federal Awards
 Year Ended September 30, 2006

<u>Grantor/Program</u>	<u>CFDA Number</u>	<u>Agency or Pass-Through Number</u>	<u>Program Expenditures</u>
<u>Federal Awards</u>			
Direct:			
Department of Housing and Urban Development:			
Public and Indian Housing	14.850	IA00200104J	\$ 209,669
Section 8 Housing Choice Vouchers	14.871	IA127VO	867,213
Public Housing Capital Fund:			
Fiscal Year 2002	14.872	IA05P12750102	-
Fiscal Year 2003	14.872	IA05P12750103	76,805
Fiscal Year 2003	14.872	IA05P12750203	34,103
Fiscal Year 2004	14.872	IA05P12750104	198,167
Fiscal Year 2005	14.872	IA05P12750105	-
Fiscal Year 2006	14.872	IA05P12750106	-
			<u> -</u>
Total federal expenditures			<u>\$1,385,957</u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the North Iowa Regional Housing Authority. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Normally, expenditure of the Public Housing Capital funds are shown as program expenditures above but are recorded as construction in progress until the project or an identifiable construction portion of the total project is complete and in service. At that point, the related funds are transferred to an appropriate capital asset account and are depreciated over its estimated useful life. During the current year, HUD has allowed the Authority to reallocate the capital funds to operations to finance deficits that occurred in prior years. The following table demonstrates how the capital funds were expended to finance operations.

<u>Capital Fund Year</u>	<u>Amount Received</u>	<u>Amount Expended</u>
2003	\$ -	\$ 76,805
2003	34,103	34,103
2004	198,167	198,167
2005	171,309	-
2006	160,628	-
	<u>\$564,207</u>	<u>\$309,075</u>

2005 and 2006 Capital Fund amounts are recorded as operating revenue and a receivable, but have not been expended as of September 30, 2006.

See accompanying independent auditor's report.



Certified Public Accountant
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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

To the Board of Commissioners
North Iowa Regional Housing Authority:

I have audited the financial statements of the North Iowa Regional Housing Authority as of and for the year ended September 30, 2006, and have issued my report thereon dated June 19, 2007. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the North Iowa Regional Housing Authority's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether the North Iowa Regional Housing Authority's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs.

Comments involving statutory and other legal matters about the North Iowa Regional Housing Authority's operations for the year ended September 30, 2006, are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the North Iowa Regional Housing Authority. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the North Iowa Regional Housing Authority and other parties to whom the North Iowa Regional Housing Authority may report. This report is not intended to be and should not be used by anyone other than these specified parties.

I would like to acknowledge the many courtesies and assistance extended to us by personnel of the North Iowa Regional Housing Authority during the course of my audit.

Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.

A handwritten signature in cursive script that reads "Douglas E. Krauloge".

June 19, 2007



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE**

To the Board of Commissioners
North Iowa Regional Housing Authority:

Compliance

I have audited the compliance of the North Iowa Regional Housing Authority with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended September 30, 2006. The North Iowa Regional Housing Authority's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the North Iowa Regional Housing Authority's management. My responsibility is to express an opinion on the North Iowa Regional Housing Authority's compliance based on my audit.

I conducted my audit of compliance 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 and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the North Iowa Regional Housing Authority's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on the North Iowa Regional Housing Authority's compliance with those requirements.

As described in items III-06-01 through III-06-08 in the accompanying schedule of findings and questioned costs, the North Iowa Regional Housing Authority did not comply with requirements regarding allowable costs, eligibility and special tests and provisions requirements that are applicable to its Section 8 Housing Choice Voucher program. Compliance with such requirements is necessary, in my opinion, for the North Iowa Regional Housing Authority to comply with requirements applicable to that program.

In my opinion, because of the effects of the noncompliance described in the preceding paragraph, the North Iowa Regional Housing Authority did not comply, in all material respects, with the requirements referred to above that are applicable to its Section 8 Housing Choice Voucher program. Also, in my opinion, the North Iowa Regional Housing Authority, complied, in all material respects, with the requirements referred to above that are applicable to its other major federal program for the year ended September 30, 2006. The results of my auditing procedures also disclosed other instances of noncompliance with those requirements, 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 items III-06-09 through III-06-13.

Internal Control Over Compliance

The management of the North Iowa Regional Housing Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered the North Iowa Regional Housing Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

I noted certain matters involving the internal control over compliance and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in my judgment, could adversely affect the North Iowa Regional Housing Authority's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in Part III of the accompanying Schedule of Findings and Questioned Costs as items III-06-01 to III-06-08.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I believe the reportable conditions described above, which are items III-06-01 to III-06-08 are material weaknesses.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the North Iowa Regional Housing Authority and other parties to whom the North Iowa Regional Housing Authority may report, including federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



June 19, 2007

NORTH IOWA REGIONAL HOUSING AUTHORITY
Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

Part I: Summary of the Independent Auditor's Results:

- (a) A qualified opinion was given on the financial statements.
- (b) No reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit disclosed no noncompliance which is material to the financial statements.
- (d) Reportable conditions in internal control over major programs were disclosed by the audit of the financial statements, which were also material weaknesses.
- (e) An adverse opinion was issued on compliance with requirements applicable to the major program, Section 8 Housing Choice Vouchers. An unqualified opinion was issued on requirements applicable to the major program, Public Housing Capital Fund.
- (f) The audit disclosed audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Programs tested as major programs were as follows:
 - CFDA Number 14.871 - Section 8 Housing Choice Vouchers
 - CFDA Number 14.872 - Public Housing Capital Fund
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The Authority does not qualify as a low-risk auditee.

Part II: Findings Related to the Financial Statements:

PRIOR YEAR REPORTABLE CONDITIONS:

II-05-01 Checks are being Written Without Proper Authorization - Checks have been written without proper approval of the Executive Director documented on the invoices.

Recommendation - All distributions should be approved and authorized for payment by a responsible individual, such as the Executive Director, prior to checks being prepared. The individual approving and authorizing the payment should review invoices for appropriate vendor, supplies or services and correct pricing.

Current Status - Noted no instances of noncompliance.

II-05-02 Paid Invoices not Effectively Cancelled - Invoices supporting disbursements have no indication on the invoice that they have been paid.

Recommendation - All invoices and all pages of invoices used to support a disbursement should be stamped "Paid" with the date of payment after payment has been made. No invoices showing the stamp should be allowed to support a future disbursement.

Current Status - Noted no instances of noncompliance.

NORTH IOWA REGIONAL HOUSING AUTHORITY
Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

Part II: Findings Related to the Financial Statements: (continued)

PRIOR YEAR REPORTABLE CONDITIONS:

II-05-03 Checks Issued Prior to Performance of Work - Various checks were issued to a housing specialist for mileage reimbursements. These checks were supported by an unapproved expense report which included estimated mileage for services to be performed in the future.

Recommendation - No checks should be issued prior to services being rendered and an invoice being submitted.

Current Status - Noted no instances of noncompliance.

II-05-04 Frequency of Deposits - Rent receipts are currently being deposited only once or twice a month, although most receipts are received in the first week of the month or the last week of the previous month.

Recommendation - All funds received by the Authority should be deposited no later than the day after the funds are received or when substantial amounts have been accumulated. I would anticipate with the Authority's cash flow, that there would be a minimum of three deposits in the first ten days of each month and no less than two deposits in the last week of each month.

Current Status - Deposit frequency has increased to approximately 20 times per month.

II-05-05 Untimely Recording of Rent Receipts - Rent receipts are received and receipted prior to the end of the month for a subsequent month's rent but not entered into the rent register until the subsequent month.

Recommendation - All rent receipts should be entered into the rent register as of the date of receipt. At the end of each month, the amount of receivables shown on the rent register should be reconciled to the general ledger account. This will allow the financial statements to be properly reported and will allow for the tracking of receipts and reconciliation to the rent register at a later date.

Current Status - Rent receipts are recorded in the rent register when received. HAPPY accounts receivable is reconciled to rent register and general ledger.

II-05-06 Computer Data Backups - All Quicken data supporting disbursements prior to January 2006 was thought to be lost. No backups were available to restore the information that had presumably been lost.

Recommendation - The Authority should review its computer processes as soon as possible with the intent to upgrade to a network system with one server. The server should be incrementally backed up on a daily basis with a full backup at least weekly. These backups should be stored offsite to prevent any problems associated with physical damage at the computer site and should be tested periodically to ensure information is actually being backed up and can be used to restore.

Current Status - The computer programs are backed up Monday through Friday with a full backup completed the last day of each month on all systems. The most recent backup tapes are stored offsite.

NORTH IOWA REGIONAL HOUSING AUTHORITY
Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

Part II: Findings Related to the Financial Statements: (continued)

PRIOR YEAR REPORTABLE CONDITIONS:

II-05-07 Non-Compliant Check Signatures - The signature cards for the Authority's bank accounts are marked as not allowing facsimile signatures. The board chairman and the treasurer both have and use signature stamps to sign checks.

Recommendation - The Board has previously approved the use of signature stamps. The signature cards should be updated to allow the use of the existing signature stamps.

Current Status - The signature cards have been updated to allow facsimile signatures.

INSTANCES OF NONCOMPLIANCE:

Instances of noncompliance with grants, contracts and regulations affecting the current year financial statements exist and are included in Part III: Findings and Questioned Costs for Federal Awards of this report.

REPORTABLE CONDITIONS:

There were no current year reportable conditions.

Part III: Findings and Questioned Costs for Federal Awards:

III-06-01 Failed Inspection Not Corrected - Inspection was failed due to heaving concrete. An extension was granted to the spring to correct the problem. There is no documentation to show that the problem was corrected and the problem is noted on the next year's inspection report.

Criteria - Tenant units are to be inspected on an annual basis to ensure safety and adequacy of unit. Failed inspection items have to be corrected prior to the payment of HAP. If an extension is granted, it must be corrected as soon as possible. If it is not corrected, HAP is to be abated until the problem is corrected.

Effect - The HAP is paid when it should have been abated. HAP is questioned from the date of inspection. \$1,671

Cause - There was no appropriate follow-up to the failed inspection and extension of the repair period.

Recommendation - A means of tracking failed inspections with an extension should be developed.

Response - We have developed a follow-up system and the administrative assistant is in charge of keeping it updated.

Conclusion - Response accepted.

III-06-02 Declaration of Citizenship - Four of the 32 files tested did not have properly completed or signed Declaration of Citizenship forms at the date HAP payments began for the certification period. I was able to determine from other documentation that one form was prepared prior to the date HAP payments began. The other three were completed subsequent to the start of the HAP payments.

NORTH IOWA REGIONAL HOUSING AUTHORITY
Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

Part III: Findings and Questioned Costs for Federal Awards: (continued)

Criteria - HUD requires that a completed Declaration of Citizenship be presented prior to the payment of HAP.

Effect - HAP was paid when HUD policies prohibited the payment. HAP prior to procuring a valid Declaration of Citizenship is questioned. \$325

Cause - These omissions were for recertifications performed in the early part of the year when staff was still learning and instituting new methods.

Recommendation - Specialists should be reminded of the need to have all required procedures completed prior to the first HAP disbursement.

Response - We will do this.

Conclusion - Response accepted.

III-06-03 Comparables - Six of the 32 items tested used comparables that used inappropriate types of housing (duplex vs. apartment) or units in inappropriate geographical locations (resort/lake area vs. small rural). This resulted in rents being as much as 67% higher than the units selected as comparables.

Criteria - HUD requires that rent paid for a unit be reasonable and comparable to the same type of unit in a similar location and similar amenities.

Effect - Rental units may be priced over what comparable units are being rented for, thereby increasing the market price for all tenants whether or not they are subsidized. Costs are questioned for the fiscal year for non-comparable rents. \$9,608

Cause - Housing specialist did not know how to use the HAPPY software effectively in pulling comparables or understand the need for the units to be comparable and reasonable. Some miscommunication between staff and the executive director regarding acceptable levels of reasonableness and location may have contributed to this problem.

Recommendations - The housing specialists should be reminded of the need for the units selected as comparable to be similar in location, type of unit and amenities.

Response - We will do this.

Conclusion - Response accepted.

III-06-04 Waiting List - Staff is unable to locate the waiting list records for the period December 11, 2004 to June 20, 2005.

Criteria - HUD requires that participants be selected from the waiting list in the order that they submit their application to participate in the program.

Effect - I am unable to determine that the individual selected for testing was appropriately placed on the waiting list or appropriately selected from the waiting list. All costs are questioned until the next recertification. \$1,737

NORTH IOWA REGIONAL HOUSING AUTHORITY
Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

Part III: Findings and Questioned Costs for Federal Awards: (continued)

Cause - During the period involved and thereafter, the agency was in turmoil with a turnover of most staff and being classified as a troubled agency. Staff did not always comply with Authority procedures during this period. Records may also have been misfiled.

Recommendation - The agency should continue to maintain the waiting list in the HAPPY program and maintain adequate records of the selection process.

Response - We will do this.

Conclusion - Response accepted.

III-06-05 Over Income Participant - A participant was added to the program whose income was verified as being \$23,608 when the income limitation for participation in the program was \$22,150.

Criteria - HUD requires that participants in the program have income that does not exceed certain limits determined on size of household and geographic location of the rental property.

Effect - Individuals who are not qualified for the program are allowed to participate and reduce the amount of funds that are available to other individuals who meet the low-income requirements.

Cause - Unable to determine as the responsible housing specialist is no longer employed by the agency.

Recommendation - Housing specialists should be reminded of the need to verify income and determine that only qualified individuals are allowed to participate in the program.

Response - We will do this.

Conclusion - Response accepted.

III-06-06 Administrative Plan Preference Conflicts - The administrative plan includes conflicting information in regard to the use of preferences for selection of families from the waiting list. Section VII and Section VIII include sections for order of selection from waiting lists with different preferences. Section VII of the administrative plan says selection is first by date of application, then displaced person (including public housing tenant) and then all other applicants. Section VIII states preferences are first displacement and then single, elderly and/or disabled.

Criteria - The administrative plan is to include information delineating how families are selected from the waiting list.

Effect - Noncompliance with the administrative plan or errors in the selection of families from the waiting list can occur because of discrepancies within the administrative plan.

NORTH IOWA REGIONAL HOUSING AUTHORITY
Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

Part III: Findings and Questioned Costs for Federal Awards: (continued)

INSTANCES OF NONCOMPLIANCE:

Cause - Failure to compare information three pages apart in the plan by the housing administrator preparing the plan; failure by the housing administrator to enter information in the plan that is in actuality being used in the selection process. It appears that the administrative plan has not been reviewed by the housing specialists that are actually making the selection and determining the order on a waiting list.

Recommendation - The entire administrative plan should be reviewed in depth to find all examples of conflicting information. The administrative plan should reflect only the preferences that are actually being used in the selection of families. In addition, all members of the staff should review the administrative plan for the areas that they are directly involved in and determine whether the administrative plan actually reflects the reality of the selection process.

Response - Staff is now required to look in the administrative plan before asking Executive Director for answers to their questions. In reviewing and searching for information, staff should find discrepancies that will be addressed. Regardless, efforts will be made to find and make necessary corrections. A new administrative plan is being prepared.

Conclusion - Response accepted.

III-06-07 Comparability Discrepancies - The administrative plan includes Section XI that addresses reasonableness and comparability of rents. The administrative plan states that reasonable rents will be based on a market survey and the condition and amenities in the unit and previous rent charged for the dwelling. This section also states that the Authority will establish minimum base rents for each class and size of unit to which the Authority will add or subtract a dollar value for each different amenity. The Authority does not follow this method of determining comparability and, per the housing specialist, never has. In practice, similar units within the eight-county area are selected for comparative purposes.

Criteria - The processes used by the Authority are to be those shown in the annual administrative plan approved by HUD.

Effect - Non-compliance with the administrative plan leads to non-compliance with HUD regulations. Therefore, all rents determined using the incorrect method are unallowable and all costs associated with those rents should be questioned costs. Therefore, all costs are questioned due to the requirement for comparability in setting rents in compliance with the HUD approved administrative plan.

Cause - The writing of the administrative plan was done by the housing administrator without regard to how things were actually being accomplished in the Authority. Other members of the Authority did not read the administrative plan for the sections affecting their job and, therefore, were not able to make corrections to the plan.

NORTH IOWA REGIONAL HOUSING AUTHORITY
Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

Part III: Findings and Questioned Costs for Federal Awards: (continued)

INSTANCES OF NONCOMPLIANCE:

Recommendation - The administrative plan should be reviewed and compared to the actual procedures being used in the Authority. Any conflicts should be resolved. All staff members should be briefed on the Authority plan as it reflects on their job.

Response - Staff will review the policy and make appropriate corrections and all staff will be required to read and understand the requirements. Comparables of units in the immediate area will be made when possible. However, if there are no comparables available in the immediate area, staff will use units closest to the assisted unit for comparison. Data is now being obtained for unassisted units from families who apply for rental assistance. This information is then added to the data source for comparison of assisted units. A new administrative plan is being prepared.

Conclusion - Response accepted.

III-06-08 Utility Allowance Computation - Four of the 32 files tested had errors in the calculation of the utility allowance. Errors include incorrectly transferring the allowance from the utility sheet to the 50058, using a rate for the wrong type of fuel and using utilities paid by landlord.

Criteria - Utility allowances are to be determined based on the size and type of rental unit, fuel type used and actual utilities paid by the tenant. This calculation can reduce the amount of rent a participant is required to pay.

Effect - The errors noted resulted in the agency paying higher utility allowances than required. HAP overstated by \$235.

Cause - Errors appear to be inattention to the information that is in the participant's file and not transferring that information correctly to the HAP computation.

Recommendation - Housing specialists should be reminded of the need to be accurate in the computation of the utility allowances.

Response - We will remind the housing specialists of the need to be attentive to the information in the tenant files. We believe that our new utility allowance sheets will help us be more accurate in the determination of the utility allowance.

Conclusion - Response accepted.

REMARKS: I tested 32 individual tenant files for compliance with various HUD requirements including such items as income levels, waiting list compliance, rent comparability, etc. Due to the number of errors detected, we terminated testing with these 32 tenant files. Potential HAP payments during the fiscal year for these HAP files totaled \$70,218. I identified \$14,516 of unallowable or questioned costs from these 32 files without double counting for multiple errors with individual tenant files. Total HAP payments reported for the year were \$686,200. Projecting our error rate to the entire universe of

NORTH IOWA REGIONAL HOUSING AUTHORITY
Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

Part III: Findings and Questioned Costs for Federal Awards: (continued)

INSTANCES OF NONCOMPLIANCE:

HAP payments results in \$141,856 of projected questioned or unallowable HAP payments. (These errors and projections do not include the comparability issues cited in III-06-07. If III-06-07 were included, questioned costs would be \$686,200.

I noted that 19 of the 32 files tested contained no discrepancies and that 8 files contained discrepancies greater than \$100. Only one error was detected in the 15 files selected for a period ended after March 31, 2006.

PUBLIC AND INDIAN HOUSING - CFDA 14.850

III-06-09 Lease Discrepancies - The public housing leases include erroneous information related to the tenant's responsibility for utilities. The lease states that the tenant is responsible for trash pickup, but the Authority provides the service at no cost to the tenant.

Criteria - The lease agreement should accurately state the responsibilities of each party to the lease.

Effect - The lease, a legal document, does not accurately reflect the terms of the agreement between the tenant and the landlord. There is no monetary effect in the situation tested as the utility allowance reflected the reality of the situation.

Cause - Public housing lease has not been updated to reflect changes made in the manner the Authority manages the public housing units and the services it provides to the tenants.

Recommendation - The Authority should review the public housing lease and update the lease for all changes in policies and services in recent years.

Response - We will review the lease agreement and update it for all changes.

Conclusion - Response accepted.

III-06-10 Income Computed Incorrectly - Annual income was overstated, resulting in the tenant paying a higher rent than the amount that should have been calculated with the correct procedures.

Criteria - Income is to be calculated based on the most recent information available.

Effect - Tenant income was overstated and, therefore, the tenant rent amount was overstated by \$15 per month.

Cause - The housing specialist used an inappropriate divisor in calculating the amount of anticipated annual income.

Recommendations - Housing specialists should be reminded to review their work and recheck computations before finalizing the rent amounts. The Authority should reimburse the tenant \$120 for the period that he was overcharged.

NORTH IOWA REGIONAL HOUSING AUTHORITY
Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

Part III: Findings and Questioned Costs for Federal Awards: (continued)

INSTANCES OF NONCOMPLIANCE:

Response - We will review with the housing specialists the procedures to determine tenant income. We will reimburse the tenant for the overcharged rent.

Conclusion - Response accepted.

III-06-11 Utility Allowance Computed Incorrectly - Tenant utility allowance did not include an allowance for trash bags required by the city to be purchased.

Criteria - Utility allowances are to reflect all utility costs required to be paid by the tenant.

Effect - Utility allowance is understated by \$10 per month, which overstates the amount of rent the tenant should have paid.

Cause - The housing specialist failed to include the \$10 cost as part of the utility allowance even though it was included on the allowance documentation sheet.

Recommendation - Housing specialists should be reminded of the utility services that are provided by the Authority and the intricacies of City requirements at each public housing facility. The Authority should reimburse the tenant \$80 for the period he was overcharged.

Response - The new location specific utility documentation sheets we are already using will make it easier to determine the appropriate utility charges for each tenant. We will reimburse the tenant for the overcharged rent.

Conclusion - Response accepted.

III-06-12 Incorrect Computation of Income from Assets - Housing specialist included the selling price of participant's house as an asset and calculated imputed income on the amount. Specialists included the gross selling price rather than the amount after selling expenses. Housing specialist did not investigate the use of the proceeds which were used to pay bills and purchase a burial trust. No amount should have been listed as an asset.

Criteria - HUD requires that all assets of a tenant be listed and income from the asset be used in determining a participant's annual income. Proceeds of sales should not be included as an asset if the participant no longer has the proceeds and has used the proceeds in an allowable manner.

Effect - Income was imputed to the sale proceeds and as a result, the tenant's rent was overstated by \$23 per month.

Cause - Housing specialist failed to fully investigate the use of the proceeds of the sale and determine that there was not an installment agreement or note and that the proceeds were no longer available to the tenant.

NORTH IOWA REGIONAL HOUSING AUTHORITY
Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

Part III: Findings and Questioned Costs for Federal Awards: (continued)

INSTANCES OF NONCOMPLIANCE:

Recommendation - Housing specialists should be retrained in the procedures necessary to accurately classify items as assets subject to the income imputation requirements of the program. The Authority should reimburse the tenant \$230 for the overcharged amount.

Response - We will review this as part of our weekly staff meeting. We will reimburse the tenant for the overpayment.

Conclusion - Response accepted.

III-06-13 Participant's Rent not Increased - A tenant's rent was not increased at recertification as required.

Criteria - Participants are required to recertify their income annually and have their rent adjusted as a result of the recertification process.

Effect - Rent was underpaid \$70 per month until the tenant went through the recertification procedure. The Authority did not collect \$490 of rent that it should have.

Cause - The housing specialist did not follow-up and insure that the new rent was instituted in a timely manner. The Authority had instituted procedures to terminate the tenant and the change was being held until the grievance process was completed.

Recommendation - A procedure should be developed so that changes such as this and all procedures that have been placed on hold pending the outcome of some other process are tracked until the process is completed.

Response - We believe that this is an unusual situation due to the fact that we were in the grievance process at the time. We will revise our procedures.

Conclusion - Response accepted.

Part IV: Summary Schedule of Prior Audit Findings:

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Section 8 Housing Choice Vouchers - CFDA 14.871

III-05-01 Old Utility Allowances - Utility allowance sheets last updated June 1, 1999 were being used to calculate housing assistance payments (HAP) for a significant number of files tested.

Recommendation - Management needs to establish a written time table to accomplish annual HUD requirements. Responsibility should be delegated and then followed up by the Executive Director.

Current Status - Utility allowances were reviewed during the year and new utility allowance schedules were adopted as of October, 2004 and again July, 2006.

NORTH IOWA REGIONAL HOUSING AUTHORITY
Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

Part IV: Summary Schedule of Prior Audit Findings: (continued)

INSTANCES OF NONCOMPLIANCE:

III-05-02 Incorrect Utility Responsibilities - Tenant files included different utility responsibilities on the lease agreement, the HAP contract and the request for tenancy approval. Discrepancies between the listed documents exist in three of the 18 tenants selected for testing.

Recommendation - All files need to be reviewed to determine the lease, HAP contract and request for tenancy approval agree as to the utility responsibilities.

Current Status - Special attention was given to this area at the time of certification and recertification. No similar findings were found in the current year audit.

III-05-03 Failure of Quality Control Inspections - Quality control inspections were not performed during the fiscal year as required.

Recommendation - The Executive Director needs to schedule an appropriate amount of time to meet the HUD requirements. Alternatively, the agency could contract with another agency to perform the quality control inspections.

Current Status - The Executive Director performed the required quality control inspections during the current year.

III-05-04 HQS Inspection not Performed - The tested file did not contain any evidence that an HQS inspection had been performed for the annual recertification. No inspection report was found in the tenant file for the period being tested. The file contained inspection reports for prior periods.

Recommendation - Each file should contain a quality control check-off sheet to document that all required forms and reports are included in the file prior to completing the certification.

Current Status - All files tested during the current year included evidence of a timely HQS inspection.

III-05-05 HAP Payments Continued on Failed HQS - HAP payments were paid on units that had not been passed within 30 days of having been notified of a failed annual inspection. HAP payments were continued on two of the 11 failed units after the 30 day period for completion of repairs was past.

Recommendation - Additional training is required so that housing specialists are aware of the rules for suspension of HAP when the inspection has not received a pass rating. Also, a method of notifying the specialist that the inspection was not passed needs to be developed and communications improved between the inspector, housing specialist and HAP disbursing officer.

Current Status - All staff attended training via video tapes ranging from eligibility through lease-up, rent calculation, rent reasonableness, portability, etc. In July, 2006, the housing specialists and administrative assistant attended a training seminar on these same subjects. In addition, a checklist has been developed to show when a failed unit has passed inspection. This finding was also noted during the current testing period.

NORTH IOWA REGIONAL HOUSING AUTHORITY
Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

Part IV: Summary Schedule of Prior Audit Findings: (continued)

INSTANCES OF NONCOMPLIANCE:

III-05-06 Waiting List Documentation - The waiting list documentation did not provide sufficient information to determine if participants were selected in the order of application.

Recommendation - Continue to use the HAPPY waiting list system, but document on the month-end reports when a group is notified to begin the briefing and certification process.

Current Status - The HAPPY month-end reports now document which individuals are being sent briefing notifications and whether they respond or continue to be eligible for assistance.

III-05-07 Social Security Number and Citizenship Documentation - Five of 18 files tested did not include verification of tenant social security numbers as required since approximately 2002, at the time of certification or recertification. Nine of the 18 files tested did not have a properly completed declaration of citizenship included in the file at the time of certification or recertification. Approximately half of the questioned files had documentation that was received after the end of the fiscal year.

Recommendation - Housing specialists need to be retrained in the documentation that they need to obtain to justify placing someone on the program. All HCV tenants should be required to provide this information as soon as possible. If the social security card needs to be removed from the tenant's possession to copy it, a signed receipt should be obtained from the tenant when it is returned to them.

Current Status - Staff has been obtaining these documents as files are pulled or come up for annual recertification. A positive response on the new section 8 checklist is required for these items prior to completion of the certification process. All files tested had the required documentation of the social security numbers and a properly signed Declaration of Citizenship. Several files, however, had a Declaration of Citizenship that was not signed until December, 2005.

III-05-08 Rent Comparability Not Performed - Contract rent adjustments were approved at annual recertification, but a new rent comparability was not performed on the new rate. Three of 18 units tested were missing comparability information.

Recommendation - The Executive Director needs to review files on a quality control basis to ensure that the process is taking place. Staff needs additional training in the responsibilities of their job.

Current Status - All files tested included a comparability determination.

III-05-09 Rent Increases not Requested - Two of the 18 files tested were granted rent increases without a request from the landlord included in the tenant file.

Recommendation - Staff should be reminded of their responsibilities and landlords should be reminded that rent increase requests need to be dated and submitted 60 days prior to the new effective date of the HAP contract.

NORTH IOWA REGIONAL HOUSING AUTHORITY
Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

Part IV: Summary Schedule of Prior Audit Findings: (continued)

INSTANCES OF NONCOMPLIANCE:

Current Status - No rent increases were allowed without a written request or notification from the landlord.

III-05-10 HAP Prior to Signed Lease - One instance was found where HAP payments were made prior to the signing of a HAP contract and lease. HAP assistance was paid beginning February 18, 2005. There was no signed HAP contract or lease until June 1, 2005.

Recommendation - Specialists need to be reminded of the responsibilities of their job. Use a checklist to document receipt of required completed documents.

Current Status - No instances of HAP payment prior to the signing of the lease were noted in the items tested this year.

III-05-11 Tenant Lease has No Rent Amount - The lease copy in the tenant file does not contain an amount for rent.

Recommendation - All specialists need to review all documents for correctness before approving a HAP contract and payment.

Current Status - Specialists were reminded of the need to review documents prior to authorizing HAP payments. No instances were noted this year.

III-05-12 New Owner Affirmation of HAP Agreement - Eleven of the 18 tenants tested had a new owner during the period tested. Two of these files did not contain an affirmation of the existing lease and HAP agreement by the new owner.

Recommendation - Retraining of all specialists in all the requirements of their job appears to be appropriate.

Current Status - This matter has been discussed with staff. In July, 2005, the housing specialists and administrative assistant attended a training seminar on subjects related to this issue and many others. No discrepancies were noted during the current year testing.

III-05-13 Administrative Plan Preference Conflicts - The administrative plan includes conflicting information in regard to the use of preferences for selection of families from the waiting list. Section VII and Section VIII include sections for order of selection from waiting lists with different preferences. Section VII of the administrative plan says selection is first by date of application, then displaced person (including public housing tenant) and then all other applicants. Section VIII states preferences are first displacement and then single, elderly and/or disabled.

Recommendation - The entire administrative plan should be reviewed in depth to find all examples of conflicting information. The administrative plan should reflect only the preferences that are actually being used in the selection of families. In addition, all members of the staff should review the administrative plan for the areas that they are directly involved in and determine whether the administrative plan actually reflects the reality of the selection process.

NORTH IOWA REGIONAL HOUSING AUTHORITY
Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

Part IV: Summary Schedule of Prior Audit Findings: (continued)

INSTANCES OF NONCOMPLIANCE:

Current Status - This is still a finding in the current year. The administrative plan is in the process of being rewritten.

- III-05-14 Comparability Discrepancies - The administrative plan includes Section XI that addresses reasonableness and comparability of rents. The administrative plan states that reasonable rents will be based on a market survey and the condition and amenities in the unit and previous rent charged for the dwelling. This section also states that the Authority will establish minimum base rents for each class and size of unit to which the Authority will add or subtract a dollar value for each different amenity. The Authority does not follow this method of determining comparability and, per the housing specialist, never has. In practice, similar units within the eight-county area are selected for comparative purposes.

Recommendation - The administrative plan should be reviewed and compared to the actual procedures being used in the Authority. Any conflicts should be resolved. All staff members should be briefed on the Authority plan as it reflects on their job.

Current Status - This is still a finding in the current year. The administrative plan is in the process of being rewritten.

- III-05-15 Declaration of Income and Assets - Three of the 18 files tested did not include a personal Declaration of Income and Assets at the time of recertification.

Recommendation - All files should contain a personal declaration. This item should be checked off of a checklist and properly secured in the tenant file.

Current Status - This is included on the Agency's internal section 8 checklist. All files tested in the current year included a Declaration of Income and Assets.

- III-05-16 Income and Assets Incorrectly Computed - Income and assets shown on the pre-application or declaration of income and assets at certification or recertification are ignored or treated incorrectly. Five of 18 files tested had errors involving the calculation of assets or income.

Recommendation - Housing specialists should receive additional training in the calculation of tenant income and the processes used to determine assets and related income.

Current Status - This matter has been discussed with staff. All staff have gone through training via video tapes ranging from eligibility through lease-up, rent calculation, rent reasonableness, portability, etc. In July, 2006, the housing specialists and administrative assistant attended a training seminar on these same subjects. There continues to be problems with the calculation of income.

NORTH IOWA REGIONAL HOUSING AUTHORITY
Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

Part IV: Summary Schedule of Prior Audit Findings: (continued)

INSTANCES OF NONCOMPLIANCE:

III-05-17 Self-Employment Income Incorrectly Computed - Determination of self-employment income from child care activities is inadequate. The files did not contain a copy of Schedule C, Profit or Loss from Business, from the most recent income tax return. Reported revenue was sufficient to require that a Schedule C be filed. Absent a Schedule C, there was no listing and independent verification of revenue from day care customers. There was no reduction of revenue for the associated expenses of providing the child care service.

Recommendation - Housing specialists need to be trained in the requirements and methods of obtaining an accurate portrayal of tenant income.

Current Status - This matter has been discussed with staff. All staff have gone through training via video tapes ranging from eligibility through lease-up, rent calculation, rent reasonableness, portability, etc. In July, 2006, the housing specialists and administrative assistant attended a training seminar on these same subjects.

III-05-18 Medical Allowance Improperly Calculated - Three of the 18 files tested had incorrect calculations of the medical allowance. Errors included incorrect computation of over-the-counter medical costs, including life insurance premiums as medical expenses and understating the cost of insurance and prescriptions.

Recommendation - Additional training is required for the housing specialists. Additional supervision and review of tenant files by the executive director.

Current Status - This matter has been discussed with staff. All staff have gone through training via video tapes ranging from eligibility through lease-up, rent calculation, rent reasonableness, portability, etc. In July, 2006, the housing specialists and administrative assistant attended a training seminar on these same subjects. Minor errors were noted in one of the files tested this year.

III-05-19 Child Miscoded as Spouse - One file contained a tenant's child coded as tenant spouse in the software system.

Recommendation - Housing specialists should be reminded to review information prior to finalizing HAP certification. The Authority should reimburse the tenant for the error.

Current Status - No coding errors were noted in the current files tested.

III-05-20 Utility Allowance Rates not Supported - The utility rates adopted during October 2004 are not documented. When requested to provide the documentation for the utility rates, the Executive Director stated that she was unable to provide it. She stated that she had requested the file from the housing specialist who prepared it and was told there was no file and she had guessed at the numbers.

NORTH IOWA REGIONAL HOUSING AUTHORITY
Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

Part IV: Summary Schedule of Prior Audit Findings: (continued)

INSTANCES OF NONCOMPLIANCE:

Recommendation - Utility allowances should be recalculated as soon as possible to determine if the rates adopted in 2004 are within HUD guidelines. Utility allowances should be adequately documented to allow another person to be able to audit the results.

Current Status - New utility allowances were adopted as of July 21, 2006.

III-05-21 Checks are Being Written Without Proper Authorization - As discussed at Finding II-05-01 checks are being written without the authorization of the Executive Director being documented. All disbursements should be approved and authorized for payment by a responsible individual.

Current Status - Noted no instances of noncompliance.

III-05-22 Paid Invoices not Effectively Cancelled - As discussed at Finding II-05-02, paid invoices have no indication that they have been paid. Invoices should be marked "paid" with the date of payment.

Current Status - Noted no instances of noncompliance.

III-05-23 Checks Issued Prior to Performance of Work - As discussed at Finding II-05-03, checks were issued by an employee to herself for mileage reimbursement prior to the expense being incurred by the employee. The Code of Iowa prohibits payment for services prior to performance.

Current Status - Noted no instances of noncompliance.

III-05-24 Lost Computer Data - As discussed at Finding II-05-06, adequate backups of computer data are not being performed. All computer data should be backed up on a regular basis.

Current Status - The computer programs are backed up Monday through Friday with a full backup completed the last day of each month on all systems. The most recent backup tapes are stored offsite.

III-05-25 Non-Compliant Check Signatures - As discussed at Finding II-05-07, check signatures are not in compliance with the policies and procedures agreed to with its depository. Bank signature cards should be changed to reflect the change in procedures authorized by the board.

Current Status - The signature cards have been updated to allow facsimile signatures.

PUBLIC AND INDIAN HOUSING - CFDA 14.850

III-05-26 Social Security Number and Declaration of Citizenship not Obtained - Seven of the 10 tenant files tested in the public housing area did not contain documentation of verification of social security numbers or declarations of citizenship as required at the time of certification or recertification. All of the individual files contained the required documentation at later dates from March 25, 2005 to November 15, 2005.

NORTH IOWA REGIONAL HOUSING AUTHORITY
Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

Part IV: Summary Schedule of Prior Audit Findings: (continued)

INSTANCES OF NONCOMPLIANCE:

Recommendation - The public housing specialist should be retrained in all aspects of admissions of individuals to public housing units. All public housing tenants should be required to provide this information as soon as possible.

Current Status - Staff has requested these documents from all tenants and is aware of the need to have the documentation. One of the nine files tested did not have a Declaration of Citizenship until three months after the effective date of the rental.

III-05-27 Waiting List Selection - We were unable to determine if individuals were selected appropriately from the waiting list. No written or electronic format waiting list is maintained for any of the site locations of public housing.

Recommendation - We suggest that a written waiting list be maintained by site showing name, housing requirements, date on list, date offered and whether the offer was accepted or the family went to the bottom of the list and started over.

Current Status - All applications are now entered into HAPPY and selection is made from the waiting list based on date, time and local preference of application.

III-05-28 Utility Allowances - Utility rates being used for the program were established in the early 1990's per discussions with the staff. The utility rates were not updated at the same time that HCV utility rates were updated in 1999. The 1999 HCV rates were at least 140% of the rates in use for public housing.

Recommendation - Utility rates should be reviewed at least annually to determine if a change is required per HUD regulations. I would recommend that management develop a schedule of required activities to be performed under HUD regulations on an annual basis and that these functions be assigned a timeframe in which to be completed.

Current Status - The utility allowance was updated October, 2004 and also July 21, 2006 to coincide with the change in the voucher utility allowances.

III-05-29 Social Security Income Computed Incorrectly - One of the 10 files computed Social Security income net of the Medicare component rather than at the gross amount.

Recommendation - Additional training is suggested for the specialists so they will be able to appropriately apply the information that is available in the tenant files.

Current Status - This matter has been discussed with staff. All staff have gone through training via video tapes ranging from eligibility through lease-up, rent calculation, rent reasonableness, portability, etc. In July, 2006, the housing specialists and administrative assistant attended a training seminar on these same subjects. No similar errors were noted in the current year items tested.

NORTH IOWA REGIONAL HOUSING AUTHORITY
Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

Part IV: Summary Schedule of Prior Audit Findings: (continued)

INSTANCES OF NONCOMPLIANCE:

III-05-30 Life Insurance Included as Medical Expense - One of the files tested included the premium for a life insurance policy as a medical expense.

Recommendation - Housing specialists need to determine through inquiry and confirmation the types of policies (life or health) that a tenant may have, especially with the same insurance company.

Current Status - This matter has been discussed with staff. All staff have gone through training via video tapes ranging from eligibility through lease-up, rent calculation, rent reasonableness, portability, etc. In July, 2005, the housing specialists and administrative assistant attended a training seminar on these same subjects and specialists are now making more detailed inquiries of tenants.

III-05-31 Zero Income Certification - One of the files tested included a zero income certification for college student tenants. The zero income certification showed in excess of \$7,000 annual living costs. None of the \$7,000 was included as income. There is no evidence in the file that the living costs were covered by grants, scholarships or loans.

Recommendation - Housing specialist needs to apply the information that is available to her to determine tenant rent under the regulations. Additional inquiry and verification should be performed to determine any grants, scholarships or loans that could account for the payment of the \$7,000 of living expenses.

Current Status - Housing specialists have received training in zero income situations and are making more detailed inquiries in zero income situations.

III-05-32 Failed HQS Inspection not Passed - One of the 10 files inspected included a failed inspection dated January 27, 2004. There is no evidence that the unit was re-inspected or obtained a pass rating.

Recommendation - A means of tracking failed inspections should be developed so that follow-up is done on all failed inspections.

Current Status - Inspections are now performed by individuals separate from the housing specialists. A system has been developed for follow-up to failed inspections.

III-05-33 Utility Allowance Computed Incorrectly - Two of the 10 files tested did not have the correct utility allowance computed. One tenant was not allowed a deduction for a trash allowance. This was corrected in an interim recertification two months later. A second tenant was not allowed a utility allowance she was entitled to have.

Recommendation - Supervisory review to ensure that all allowances are being included. I suggest that a utility allowance sheet specific to the housing project be developed and only include the utilities provided by the tenant for the size of the unit being rented. The housing specialist will only need to determine the location and size of the unit to determine the proper utility allowance. The Authority should write a check to the tenant for \$1,344 for the overcharged rent.

NORTH IOWA REGIONAL HOUSING AUTHORITY
Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

Part IV: Summary Schedule of Prior Audit Findings: (continued)

INSTANCES OF NONCOMPLIANCE:

Current Status - Utility allowance sheets specific to the location and size of the unit have been developed and are currently being used. The tenant was reimbursed for the overcharge in July, 2006.

III-05-34 Lease Agreement not Signed Timely - The lease agreement for a tenant's October 1, 2004 renewal was not signed until January 11, 2005 by the tenant and January 13, 2005 by the Authority.

Recommendation - A system should be developed that requires a positive affirmation that all requirements have been met before a tenant can take possession of a unit or remain in possession in a recertification procedure.

Current Status - Tenant file checklist confirms positive affirmation that all required documents have been obtained prior to effective date of lease.

III-05-35 Incorrect Address on Lease Agreement - One file contained the incorrect address on the lease agreement. The address on the lease was 133 Friendship Lane rather than 135 Friendship Lane.

Recommendation - Documents should be reviewed for discrepancies prior to finalization.

Current Status - Housing specialists have been reminded of the need for accuracy in preparing legal documents (leases, HAP agreements, etc.). No errors of this type were found in the files tested this year.

III-05-36 Checks are Being Written Without Proper Authorization - The reportable condition at Finding II-05-01 and III-05-21 also applies to this grant.

Current Status - Noted no instances of noncompliance.

III-05-37 Paid Invoices Not Adequately Cancelled - The reportable condition at Finding II-05-02 and III-05-22 also applies to this grant.

Current Status - Noted no instances of noncompliance.

III-05-38 Checks Issued Prior to Performance of Work - The reportable condition at Finding II-05-03 and III-05-23 also applies to this grant.

Current Status - Noted no instances of noncompliance.

III-05-39 Lost Computer Data - The reportable condition at Finding II-05-06 and III-05-24 also applies to this grant.

Current Status - The computer programs are backed up Monday through Friday with a full backup completed the last day of each month on all systems. The most recent backup tapes are stored offsite.

III-05-40 Non-Compliant Check Signatures - The reportable condition at II-05-07 and III-05-25 also applies to this grant.

NORTH IOWA REGIONAL HOUSING AUTHORITY
Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

Part IV: Summary Schedule of Prior Audit Findings: (continued)

INSTANCES OF NONCOMPLIANCE:

Current Status - The signature cards have been updated to allow facsimile signatures.

III-05-41 Frequency of Deposits - The reportable condition at Finding II-05-04 also applies to this grant.

Current Status - Deposit frequency has increased to approximately 20 times per month.

III-05-42 Untimely Recording of Rent Receipts - The reportable condition at II-05-05 also applies to this grant.

Current Status - HAPPY accounts receivable is reconciled to rent register and general ledger.

Part V: Other Findings Related to Required Statutory Reporting:

V-06-01 Official Depositories - A resolution naming official depositories has been approved by the Authority.

V-06-02 Questionable Expenditures - I noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

V-06-03 Travel Expense - No expenditures of Authority money for travel expenses of spouses of Authority officials or employees were noted. No travel advances to Authority officials or employees were noted.

V-06-04 Business Transactions - There were no business transactions between the Authority and Authority officials or employees.

V-06-05 Bond Coverage - Surety bond coverage of Authority officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

V-06-06 Deposits and Investments - I noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Authority's investment policy.

V-06-07 Commission Minutes - No transactions were found that I believe should have been approved in the Commission minutes but were not.

**NORTH IOWA REGIONAL HOUSING AUTHORITY
 Corrective Action Plan for Federal Audit Findings
 Year Ended September 30, 2006**

<u>Comment Number</u>	<u>Comment Title</u>	<u>Corrective Action Planned</u>	<u>Contact Person, Title, Phone Number</u>	<u>Anticipated Date of Completion</u>
III-06-01	Failed inspection not corrected	A follow-up program has been developed.	Deb Bullerman, Executive Director 641-423-0897	June 2007
III-06-02	Declaration of Citizenship	Staff has been obtaining this information at the initial certification for new participants and at recertification for existing participants.	Deb Bullerman, Executive Director 641-423-0897	January 2007
III-06-03	Comparables	Housing specialists have received additional training and been reminded of this in staff meetings.	Deb Bullerman, Executive Director 641-423-0897	July 2006
III-06-04	Waiting list	All applications are now placed on the waiting list in HAPPY software and selection is made from the waiting list based on date and time of application.	Deb Bullerman, Executive Director 641-423-0897	August 2005
III-06-05	Over income participant	Housing specialists have received training on this subject and have been reminded of the income limits.	Deb Bullerman, Executive Director 641-423-0897	June 2007
III-06-06	Administrative plan preference conflicts	These sections are being rewritten. In addition, staff is reviewing all areas of the administrative plan to determine if there are any other discrepancies.	Deb Bullerman, Executive Director 641-423-0897	July 2007
III-06-07	Comparability discrepancies	These sections are being rewritten. In addition, staff is reviewing all areas of the administrative plan to determine if there are any other discrepancies.	Deb Bullerman, Executive Director 641-423-0897	July 2007

NORTH IOWA REGIONAL HOUSING AUTHORITY
Corrective Action Plan for Federal Audit Findings
Year Ended September 30, 2006

<u>Comment Number</u>	<u>Comment Title</u>	<u>Corrective Action Planned</u>	<u>Contact Person, Title, Phone Number</u>	<u>Anticipated Date of Completion</u>
III-06-08	Utility allowance computation	New utility allowance sheets have been adopted which should make it easier to make the correct computation.	Deb Bullerman, Executive Director 641-423-0897	July 2006
III-06-09	Lease discrepancies	We are reviewing the public housing leases and will update them for any changes.	Deb Bullerman, Executive Director 641-423-0897	October 2007
III-06-10	Income computed incorrectly	Staff is receiving additional training at staff meetings addressing new and unique situations.	Deb Bullerman, Executive Director 641-423-0897	June 2007
III-06-11	Utility allowance computed incorrectly	New utility allowance sheets have been adopted which should make it easier to make the correct computation.	Deb Bullerman, Executive Director 641-423-0897	July 2006
III-06-12	Incorrect computation Of income from assets	Staff is receiving additional training staff meetings addressing new and unique situations.	Deb Bullerman, Executive Director 641-423-0897	June 2007
III-06-13	Participant's rent not increased	Staff now provides appropriate notices as required regardless of any pending termination or hearings.	Deb Bullerman, Executive Director 641-423-0897	July 2006

NORTH IOWA REGIONAL HOUSING AUTHORITY
 FINANCIAL DATA SCHEDULE
 September 30, 2006

Line Item Number	Account Description	Low- Rent Public Housing 14.850	Section 8 Housing Choice Vouchers 14.871	Public Housing Capital Fund Program 14.872	Total
111	Cash - Unrestricted	391,491	47,552	-	439,043
114	Cash - Tenant Security Deposits	-	-	-	-
100	Total Cash	391,491	47,552	-	439,043
122	Accounts Receivable - HUD Other Projects	-	161,670	331,937	493,607
125	Accounts Receivable - Other	739	2,342	-	3,081
126	Accounts Receivable - Tenants - Dwelling Rents	4,041	-	-	4,041
126.1	Allowance for Doubtful Accounts - Dwelling Rents	(3,283)	-	-	(3,283)
129	Interest Receivable	34	854	-	888
120	Total Receivables, Net of Allowances for Doubtful Accounts	1,531	164,866	331,937	498,334
131	Investments - Unrestricted	-	305,504	-	305,504
132	Investments - Restricted	14,274	-	-	14,274
142	Prepaid Expenses & Other Assets	2,961	5,795	-	8,756
144	Interprogram Due From	352,607	-	-	352,607
150	Total Current Assets	762,864	523,717	331,937	1,618,518
161	Land	940,738	-	-	940,738
162	Buildings	5,058,028	-	-	5,058,028
163	Furniture, Equipment & Machinery - Dwellings	35,850	-	-	35,850
164	Furniture, Equipment & Machinery - Administration	104,796	-	-	104,796
165	Leasehold Improvements	-	-	-	-
166	Accumulated Depreciation	(2,559,689)	-	-	(2,559,689)
167	Construction in Progress	327,138	-	-	327,138
160	Total Fixed Assets, Net of Accumulated Depreciation	3,906,861	-	-	3,906,861
180	Total Non-Current Assets	3,906,861	-	-	3,906,861
190	Total Assets	4,669,725	523,717	331,937	5,525,379
312	Accounts Payable <=90 Days	56,258	931	-	57,189
321	Accrued Wage/Payroll Taxes Payable	6,057	4,506	-	10,563
322	Accrued Compensated Absences - Current Portion	8,867	9,079	-	17,946
331	Accounts Payable - HUD PHA Programs	-	-	-	-
333	Accounts Payable - Other Governments	9,973	-	-	9,973
341	Tenant Security Deposits	14,274	-	-	14,274
342	Deferred Revenues	2,540	-	-	2,540
345	Other Current Liabilities	31,206	-	-	31,206

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Line Item Number	Account Description	Low- Rent Public Housing 14.850	Section 8 Housing Choice Vouchers 14.871	Public Housing Capital Fund Program 14.872	Total
347	Interprogram Due To	-	20,670	331,937	352,607
310	Total Current Liabilities	129,175	35,186	331,937	496,298
300	Total Liabilities	129,175	35,186	331,937	496,298
508.1	Invested in Capital Assets, Net of Related Debt	3,906,861	-	-	3,906,861
511.1	Restricted Net Assets	-	-	-	-
512.1	Unrestricted Net Assets	633,689	488,531	-	1,122,220
513	Total Equity/Net Assets	4,540,550	488,531	-	5,029,081
600	Total Liabilities & Equity/Net Assets	4,669,725	523,717	331,937	5,525,379
703	Net Tenant Rental Revenue	135,814	-	-	135,814
704	Tenant Revenue - Other	-	-	-	-
705	Total Tenant Revenue	135,814	-	-	135,814
706	HUD PHA Operating Grants	209,669	1,142,569	564,207	1,916,445
706.1	Capital Grants	-	-	46,332	46,332
711	Investment Income - Unrestricted	5,933	12,791	-	18,724
714	Fraud Recovery	-	370	-	370
715	Other Revenue	15,805	-	-	15,805
716	Gain/Loss on Sale of Fixed Assets	3,598	-	-	3,598
720	Investment Income - Restricted	560	-	-	560
700	Total Revenue	371,379	1,155,730	610,539	2,137,648
911	Administrative Salaries	101,124	99,699	-	200,823
912	Auditing Fees	4,674	14,802	-	19,476
915	Employee Benefit Contributions - Administrative	25,641	41,882	-	67,523
916	Other Operating - Administrative	24,631	74,603	-	99,234
924	Tenant Services - Other	1,990	-	-	1,990
931	Water	4,007	-	-	4,007
932	Electricity	12,898	-	-	12,898
933	Gas	15,907	-	-	15,907
938	Other Utilities Expense	4,990	-	-	4,990
941	Ordinary Maintenance & Operations - Labor	49,317	-	-	49,317
942	Ordinary Maintenance & Operations - Materials & Other	28,978	4,591	-	33,569
943	Ordinary Maintenance & Operations - Contract Costs	57,889	-	-	57,889
945	Employee Benefit Contributions - Ordinary Maintenance	12,629	-	-	12,629

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Line Item Number	Account Description	Low- Rent Public Housing 14.850	Section 8 Housing Choice Vouchers 14.871	Public Housing Capital Fund Program 14.872	Total
961	Insurance premiums	17,410	9,989	-	27,399
962	Other General Expenses	13,654	395	-	14,049
963	Payments in Lieu of Taxes	9,973	-	-	9,973
964	Bad Debts - Tenant Rents	10,477	-	-	10,477
969	Total Operating Expenses	396,189	245,961	-	642,150
970	Excess Operating Revenue Over Operating Expenses	(24,810)	909,769	610,539	1,495,498
973	Housing Assistance Payments	-	690,447	-	690,447
974	Depreciation Expense	173,600	-	-	173,600
900	Total Expenses	569,789	936,408	-	1,506,197
1001	Operating Transfers In	521,146	-	-	521,146
1002	Operating Transfers Out	-	-	(521,146)	(521,146)
1007	Extraordinary Items (Net Gain/Loss)	-	165,690	-	165,690
1010	Total Other Financing Sources (Uses)	521,146	165,690	(521,146)	165,690
1000	Excess (Deficiency) of Operating Revenue Over (Under) Expenses	322,736	385,012	89,393	797,141
1102	Debt Principal Payments - Enterprise Funds	-	-	-	-
1103	Beginning Equity	3,956,588	103,519	171,834	4,231,941
1104	Prior Period Adjustments, Equity Transfers & Correction of Errors	247,575	-	(261,227)	(13,652)
1120	Unit Months Available	1,452	4,572	-	6,024
1121	Number of Unit Months Leased	1,320	3,271	-	4,591
1117	Administrative Fee Equity	-	35,249	-	35,249
1118	Housing Assistance Payments Equity	-	453,282	-	453,282