

**City of Des Moines, Iowa
Municipal Housing Agency**

Financial and Compliance Report
Year Ended June 30, 2009

Contents

Financial Section

Independent Auditor's Report	1 – 2
Financial Statements	
Statement of net assets	3
Statement of revenues, expenses and change in net assets	4
Statement of cash flows	5
Notes to financial statements	6 – 12
Required supplementary information, other postemployment benefit plan schedule of funding progress	13

Compliance Section

Schedule of expenditures of federal awards	14
Notes to schedule of expenditures of federal awards	15
Summary schedule of prior audit findings	16
Independent auditor's report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with government auditing standards	17 – 18
Independent auditor's report on compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A-133	19 – 20
Schedule of findings and questioned costs	21 – 26
Corrective action plan	27

McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report

To the Public Housing Board and the
Honorable Mayor and Members of the City Council
City of Des Moines, Iowa
Des Moines, Iowa

We have audited the accompanying financial statements of the City of Des Moines, Iowa Municipal Housing Agency, an enterprise fund of the City of Des Moines, Iowa, as of and for the year ended June 30, 2009, as listed in the table of contents. These financial statements are the responsibility of the Public Housing Board and City of Des Moines, Iowa's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our 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. Those standards require that we 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 statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the City of Des Moines, Iowa Municipal Housing Agency, an enterprise fund of the City of Des Moines, Iowa, and do not purport to, and do not, present fairly the financial position of the City of Des Moines, Iowa as of June 30, 2009, and the changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America. Because the financial statements present only the City of Des Moines, Iowa Municipal Housing Agency, an enterprise fund, and do not purport to, and do not present the financial statements of the City of Des Moines, Iowa, management has chosen not to present a Management's Discussion and Analysis for the fund.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Des Moines, Iowa Municipal Housing Agency, an enterprise fund of the City of Des Moines, Iowa, as of June 30, 2009, and the changes in its financial position and its 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*, we have also issued our report dated November 24, 2009 on our consideration of the City of Des Moines, Iowa Municipal Housing Agency's, an enterprise fund of the City of Des Moines, Iowa, internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The other postemployment benefit plan schedule of funding progress on page 13 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the City of Des Moines, Iowa Municipal Housing Agency, an enterprise fund of the City of Des Moines, Iowa, taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

McGladrey & Pullen, LLP

Davenport, Iowa
November 24, 2009

**City of Des Moines, Iowa
Municipal Housing Agency**

**Statement of Net Assets
June 30, 2009**

Assets

Current assets:

Cash and pooled cash investments	\$ 2,934,628
Restricted cash and cash equivalents	2,072,531
Due from other governmental units	341,409
Accounts receivable (net of allowance for doubtful accounts of \$30,157)	28,807
Inventories	49,702
Prepaid items	23,577
Total current assets	<u>5,450,654</u>

Noncurrent assets:

Capital assets:

Nondepreciable, land	1,467,560
Depreciable:	
Buildings	30,295,182
Improvements other than buildings	5,682,083
Machinery and equipment	1,246,881
	<u>38,691,706</u>
Less accumulated depreciation	24,240,235

Total capital assets	<u>14,451,471</u>
Restricted cash and cash equivalents	13,207,209
Total noncurrent assets	<u>27,658,680</u>
Total assets	<u>33,109,334</u>

Liabilities

Current liabilities:

Accounts payable	179,153
Accrued payroll	139,597
Due to other funds of the City of Des Moines, Iowa	274,376
Compensated absences	92,605
Tenant security deposits	70,381
Unearned revenues	17,914
Total current liabilities	<u>774,026</u>

Noncurrent liabilities:

Self-sufficiency participation	82,572
Compensated absences	128,321
Post employment benefits	49,819
Total noncurrent liabilities	<u>260,712</u>

Total liabilities	<u>1,034,738</u>
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Net Assets

Invested in capital assets	14,451,471
Restricted for public housing program	13,207,209
Restricted for housing assistance payments	2,072,531
Unrestricted	2,343,385
Total net assets	<u>\$ 32,074,596</u>

See Notes to Financial Statements.

**City of Des Moines, Iowa
Municipal Housing Agency**

**Statement of Revenues, Expenses and Change in Net Assets
Year Ended June 30, 2009**

Operating revenues:	
Dwelling rental	\$ 986,957
Intergovernmental	15,256,554
Charges for services	979,547
Total operating revenues	<u>17,223,058</u>
Operating expenses:	
Personal services	4,474,435
Contractual services	15,542,770
Depreciation	1,539,872
Total operating expenses	<u>21,557,077</u>
Operating (loss)	<u>(4,334,019)</u>
Nonoperating revenues:	
Investment earnings	201,761
Gain on sale of capital assets	1,066,792
Nonoperating revenues	<u>1,268,553</u>
Capital grants	<u>955,405</u>
Change in net assets	(2,110,061)
Net assets, beginning	<u>34,184,657</u>
Net assets, ending	<u>\$ 32,074,596</u>

See Notes to Financial Statements.

**City of Des Moines, Iowa
Municipal Housing Agency**

**Statement of Cash Flows
Year Ended June 30, 2009**

Cash flows from operating activities:	
Cash received from rents and operating grants	\$ 17,007,367
Cash paid to suppliers	(15,452,112)
Cash paid to employees	(4,437,296)
Net cash (used in) operating activities	<u>(2,882,041)</u>
Cash flows from noncapital financing activities, payments on interfund accounts	<u>210,724</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(472,753)
Capital grants	955,405
Proceeds from the sale of capital assets	2,048,825
Net cash provided by capital and related financing activities	<u>2,531,477</u>
Cash flows from investing activities, interest collected	<u>201,761</u>
Net increase in cash and cash equivalents	61,921
Cash and cash equivalents, beginning	<u>18,152,447</u>
Cash and cash equivalents, ending	<u><u>\$ 18,214,368</u></u>
Reconciliation of operating (loss) to net cash (used in) operating activities:	
Operating (loss)	\$ (4,334,019)
Adjustments to reconcile operating (loss) to net cash (used in) operating activities:	
Depreciation	1,539,872
Decrease (increase) in:	
Accounts receivable	(20,383)
Due from other governmental units	(253,687)
Inventories	(10,915)
Prepaid items	16,995
Other noncurrent assets	16,017
Increase (decrease) in:	
Accounts payable	84,578
Accrued payroll	29,557
Compensated absences	(17,266)
Tenant security deposits	12,517
Other liabilities, self-sufficiency participation	22,312
Unearned revenue	7,533
Other postemployment benefits	24,848
Net cash (used in) operating activities	<u><u>\$ (2,882,041)</u></u>

See Notes to Financial Statements.

**City of Des Moines, Iowa
Municipal Housing Agency**

Notes to Financial Statements

Note 1. Nature of Business and Reporting Entity and Summary of Significant Accounting Policies

Nature of business and reporting entity:

The City of Des Moines, Iowa Municipal Housing Agency is an enterprise fund of the City of Des Moines, Iowa. The Agency was originally created as the Des Moines Public Housing Authority in 1969 as a separate legal entity in accordance with the laws of the state of Iowa. Effective April 1, 1994, the Des Moines City Council reorganized the Des Moines Public Housing Authority as a business-type fund of the City of Des Moines, Iowa renaming it the City of Des Moines, Iowa Municipal Housing Agency (Agency).

The Agency is not a legally separate entity. The Agency is an enterprise fund and business-type activity of the City of Des Moines, Iowa (the primary government) and the City assumes all rights, titles, interests, duties, covenants, obligations and liabilities of the Agency. Management decisions are the responsibility of the City Council, designated City employees and a seven member advisory board.

The purpose of the Agency is to administer the public housing programs authorized by the United States Housing Act of 1937, as amended. These programs are subsidized by the Federal Government through the U.S. Department of Housing and Urban Development (HUD).

Summary of significant accounting policies:

Basis of accounting and measurement focus: The economic measurement focus and the accrual basis of accounting is used by the Agency. Under the accrual basis of accounting, revenue is recognized when earned and expenses are recognized when the liability has been incurred. Under this basis of accounting, all assets and all liabilities associated with the operation of the Agency are included in the statement of net assets.

Proprietary fund type: The City of Des Moines, Iowa Municipal Housing Agency is a proprietary fund type. Proprietary funds are used to account for a government's business-type activities, which are similar to those often found in the private sector. The measurement focus is based upon income determination, financial position and cash flows. The Agency, as an enterprise fund, has elected to apply all applicable Financial Accounting Standards Board (FASB) pronouncements on or issued before November 30, 1989, unless the pronouncements conflict with or contradict Governmental Accounting Standards Board Statements. The Authority has elected not to apply FASB guidance subsequent to November 30, 1989.

Accounting estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and pooled cash equivalents: For purposes of reporting cash flows, the Agency considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

**City of Des Moines, Iowa
Municipal Housing Agency**

Notes to Financial Statements

**Note 1. Nature of Business and Reporting Entity and Summary of Significant Accounting Policies
(Continued)**

The Agency's deposits may be invested in the following HUD approved investments:

- Direct obligations of the federal government backed by full faith and credit of the United States
- Obligations of government agencies
- Securities of government sponsored agencies
- Demand and savings deposits
- Time deposits and repurchase agreements

Investments are reported at fair value. Securities traded on the national or international exchange are valued at the last reported sales price at current exchange rates. The cash and pooled cash equivalents consisted of checking accounts, savings accounts and certificates of deposits for the current year.

Inventories: Inventories are stated at cost and recorded as an expense at the time they are relieved from inventory for use. Inventories are valued on the first-in, first-out basis.

Compensated absences: Agency employees participate in benefit plans offered by the City of Des Moines, Iowa and, accordingly, accumulate sick leave hours for subsequent use or for payment upon death or retirement. Sick leave is payable when used, or upon death or retirement. If paid upon death or retirement, the total accumulated hours are paid at one-half of the then effective hourly rate for that employee. These compensated absences are accrued as a liability as they are earned.

Capital assets: Capital assets are defined by the Agency as assets with an initial, individual cost of more than \$500 and an initial useful life of one year or greater. All appliances are capitalized regardless of threshold as required by HUD. Capital assets of the Agency are stated at cost. Depreciation has been provided using the straight-line method over the estimated useful lives, as follows:

Buildings	40 years
Building improvements	10 years
Improvements other than buildings	10-15 years
Machinery and equipment	3-10 years

Operating and nonoperating revenues and expenses: Operating revenues result from exchange transactions of housing agency activities. Nonoperating revenues result from nonexchange transactions such as investment earnings and capital grants. Expenses associated with operating the housing agency are considered operating.

Net assets: Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by any outstanding balances of any borrowings, used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation adopted by the Authority or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the Agency first applies restricted resources. \$15,279,740 of net assets is restricted as of June 30, 2009. Of the restrictions, \$13,207,209 is on the cash generated from the sale of public housing properties and \$2,072,531 is for housing assistance payments. Proceeds from property sales are required by HUD to be reinvested in public housing properties.

**City of Des Moines, Iowa
Municipal Housing Agency**

Notes to Financial Statements

Note 2. Cash and Pooled Cash Equivalents

As of June 30, 2009, the Agency's deposits consisted of checking accounts, savings accounts and certificates of deposits. The Agency has no investments.

The Agency follows the City of Des Moines, Iowa's investment policy.

Authorized investments: The Agency 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 pursuant to Chapter 12C, Code of Iowa; 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. However, the City's investment policy additionally limits investments in commercial paper to obligations at the time of purchase rated within the two highest ratings, issued by nationally recognized statistical rating organizations with a maturity less than 270 days, provided that at the time of purchase no more than 10 percent of the investment portfolio be invested in commercial paper and no more than 5 percent of the investment portfolio shall be invested in securities of a single issuer. It also limits investments in prime bankers' acceptances to those that mature within 270 days and that are eligible for purchase by a federal reserve bank, provided that at the time of purchase no more than 5 percent of the investment portfolio shall be invested in the securities of a single issuer.

Interest rate risk: Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Agency has no investments.

Custodial credit risk: Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned.

As of June 30, 2009, the carrying amount of the Agency's deposits was \$18,214,368 and the bank balance was \$18,259,660 which was entirely covered by federal depository insurance or by a multiple financial institution collateral pool in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the members of the pool to ensure there will be no loss of public funds.

Note 3. Capital Assets

The following is a summary of changes in capital assets for the year ended June 30, 2009:

	June 30, 2008	Additions	Retirements	June 30, 2009
Nondepreciable assets, land	\$ 1,467,560	\$ -	\$ -	\$ 1,467,560
Depreciable assets:				
Buildings	31,903,506	244,173	(1,852,497)	30,295,182
Improvements other than buildings	5,534,407	147,676	-	5,682,083
Machinery and equipment	1,241,615	80,904	(75,638)	1,246,881
Total depreciable assets	38,679,528	472,753	(1,928,135)	37,224,146
Less accumulated depreciation for:				
Buildings	17,446,711	1,336,228	(871,234)	17,911,705
Improvements other than buildings	5,075,655	136,333	-	5,211,988
Machinery and equipment	1,124,099	67,311	(74,868)	1,116,542
Total accumulated depreciation	23,646,465	1,539,872	(946,102)	24,240,235
Capital assets, net	\$ 16,500,623	\$ (1,067,119)	\$ (982,033)	\$ 14,451,471

**City of Des Moines, Iowa
Municipal Housing Agency**

Notes to Financial Statements

Note 4. Forgivable Loans

The Home Ownership Program (5H) is intended to provide affordable home acquisition loans to eligible low-income families wishing to purchase designated single-family scattered site homes offered by the Agency. The homes are sold at fair value and are financed by conventional loans by area financial institutions. The down payment is financed by the Agency with a forgivable interest free loan to the purchasers. A portion of the loan is forgiven upon closing. The balance is forgiven over the next seven years. If the purchaser defaults on the terms of the forgivable loan, it will become due at the time of default with interest.

As of June 30, 2009, the unforgiven portion of forgivable loans was \$1,919,105. This amount is fully reserved as of June 30, 2009 as the City does not anticipate collection.

Note 5. Pension Plan

The Agency contributes, with other funds of the City, 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 4.10 percent of their annual covered salary and the Agency is required to contribute 6.35 percent of annual covered payroll. Contribution requirements are established by state statute. The Agency's contribution to IPERS for the years ended June 30, 2009, 2008 and 2007 was \$135,688, \$219,168 and \$125,901, respectively, which was equal to the required contribution for each year.

Note 6. Deferred Compensation

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code, Section 457. The plan, available to all City employees, permits an employee to defer a portion of his or her compensation until future years. This deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

In accordance with Federal legislation (the Small Business and Wage Protection Act of 1996), the City has confirmed or established trust arrangements for all of the assets in the plan, to ensure those assets are protected and used exclusively for plan participants and beneficiaries. As a result of these arrangements, the deferred compensation plan is not reported in the Agency's financial statements.

Note 7. Post-Retirement Benefits

Plan description: The City sponsors a single-employer health care plan that provides medical, prescription drugs and dental benefits to all active and retired employees and their eligible dependents. Employees who have attained age 55 and retire from active employment are eligible for retiree benefits. Eligible retirees and their dependents receive medical and prescription coverage through a fully insured plan with Wellmark BCBS and dental benefits through a self-insured plan. These are the same plans that are available for active employees.

Contributions are required for both retiree and dependent coverage. The contributions for each insured group is assumed to be the expected, composite per capita cost for the group. This composite is then disaggregated into an age-specific starting cost curve based on the average age of the group and for assumptions for age-based morbidity. The average age of the pre-65 retiree group is 59. Retiree expenses are then offset by monthly contributions.

**City of Des Moines, Iowa
Municipal Housing Agency**

Notes to Financial Statements

Note 7. Post-Retirement Benefits (Continued)

Funding policy: The City of Des Moines establishes and amends contribution requirements.

The current funding policy of the City is to pay health insurance premiums as they occur. This arrangement does not qualify as other post employment benefits (OPEB) plan assets under Governmental Accounting Standards Board (GASB) Statement No. 45 for current GASB reporting.

The required contribution is based on projected pay-as-you-go financing. For fiscal year 2009, the Agency contributed \$4,080.

Annual OPEB Cost and Net OPEB Obligation: The City's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance to the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the components of the City's annual OPEB cost for the year as it pertains to the City of Des Moines, Iowa Municipal Housing Agency enterprise fund, the amount actuarially contributed to the plan, and changes in the City's annual OPEB obligation:

Annual required contribution	\$ 27,804
Interest on net OPEB obligation	1,124
Adjustment to annual required contribution	-
Annual OPEB cost (expense)	<u>28,928</u>
Contributions and payments made	<u>4,080</u>
Increase in net OPEB obligation	24,848
Net OPEB obligation, July 1, 2007	<u>24,971</u>
Net OPEB obligation, June 30, 2008	<u><u>\$ 49,819</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2009 and 2008 follows. Fiscal year 2008 was the transition year of GASB Statement No. 45.

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2008	\$ 27,804	10.19%	\$ 24,971
June 30, 2009	28,928	14.10	49,819

Funded status and funding progress: As of July 1, 2007, the most recent actuarial valuation date, the plan was 0 percent funded. The Agency's portion of the City's actuarial accrued liability for benefits was \$155,776 and the actuarial value of assets is none resulting in an unfunded actuarial accrued liability (UAAL) of \$(155,776). The covered payroll (annual payroll of active employees covered by the plan) was \$3,105,543 and the ratio of the UAAL to the covered payroll was 5.0 percent.

**City of Des Moines, Iowa
Municipal Housing Agency**

Notes to Financial Statements

Note 7. Post-Retirement Benefits (Continued)

Actuarial estimates of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about the future employment, mortality and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial methods and assumptions: Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and included the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspectives of the calculations.

In the July 1, 2007 actuarial valuation, project unit credit method was used. The actuarial assumptions included a 4.5 percent discount rate, an annual health care cost trend rate of 10 percent reduced by decrements of .55 percent annually to an ultimate rate of 5 percent for medical and prescription costs, and annual health care cost trend rate of 6.5 percent for dental and related administrative costs. The UAAL is being amortized as a closed level dollar. The amortization of UAAL is done over a period of 30 years.

Note 8. Noncurrent Liabilities

The following is a summary of changes in noncurrent liabilities for the year ended June 30, 2009:

	June 30, 2008	Additions	Decreases and Payments	June 30, 2009	Amount Due in One Year
Compensated absences including sick leave	\$ 238,192	\$ 27,369	\$ 44,635	\$ 220,926	\$ 92,605
Due to self-sufficiency participation	\$ 60,260	\$ 128,103	\$ 105,791	\$ 82,572	\$ -

The above liabilities will be liquidated with resources available from the Agency's operations.

Note 9. Risk Management

The Agency is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Agency carries commercial insurance for risks. The Agency contracts with reputable carriers and utilizes deductibles ranging from \$250 to \$2,500.

Settled claims have not exceeded available coverage in the past three years. There has been no significant reduction in insurance coverage from the prior year.

**City of Des Moines, Iowa
Municipal Housing Agency**

Notes to Financial Statements

Note 10. Contingencies

The Agency is involved in various legal actions arising in the ordinary course of business. The Agency is vigorously contending these legal actions and, in the opinion of the Assistant City Attorney, the Agency has adequate legal defenses with respect to these actions and does not believe that they will materially affect the Agency's financial position.

Note 11. New Pronouncements

The Agency implemented the following Governmental Accounting Standards Board (GASB) Statements:

- GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This Statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities, such as site assessments and cleanups. This standard requires the Agency to estimate the components of expected pollution remediation outlays and determine whether the outlays for those components should be accrued as a liability or, if appropriate, capitalized when goods and services are acquired. This Statement had no effect on the financial statements in the current year.
- GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. This Statement established consistent standards for the reporting of land and other real estate held as investments. Endowments were previously required to report their land and other real estate held for investment purposes at historical cost. However, such investments are reported at fair value by similar entities, such as pension plans. The Statement requires endowments to report land and other real estate investments at fair value. This Statement had no effect on the financial statements.

As of June 30, 2009, the GASB has issued the following statements not yet implemented by the Agency. The statements which might impact the Agency are as follows:

- GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, issued July 2007, will be effective for the Agency beginning with its year ending June 30, 2010. This Statement provides guidance regarding how to identify, account for, and report intangible assets. The new standard characterizes an intangible asset as an asset that lacks physical substance, is nonfinancial in nature, and has an initial useful life extending beyond a single reporting period. Examples of intangible assets include easements, computer software, water rights, timber rights, patents and trademarks. This standard provides that intangible assets be classified as capital assets (except for those explicitly excluded from the scope of the new standard, such as capital leases). Relevant authoritative guidance for capital assets should be applied to these intangible assets.
- GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, issued June 2008, will be effective for the Agency beginning with its year ending June 30, 2010. This Statement will improve how state and local governments report information about derivative instruments in their financial statements. The Statement specifically requires governments to measure most derivative instruments at fair value in their financial statements that are prepared using the economic resources measurement focus and the accrual basis of accounting. The guidance in this Statement also addresses hedge accounting requirements.

The Agency's management has not yet determined the effect these statements will have on the Agency's financial statements.

**City of Des Moines, Iowa
Municipal Housing Agency**

**Required Supplementary Information
Other Postemployment Benefit Plan**

SCHEDULE OF FUNDING PROGRESS

Fiscal Year Ended	Actuarial Valuation Date	Actuarial Value of Net Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Over-funded) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAAL as a Percentage of Covered Payroll [(b-a)/c]
2009	7/1/2007	\$ -	\$ 155,776	\$ 155,776	- %	\$ 3,105,543	5.0%
2008	7/1/2007	-	155,776	155,776	-	3,064,325	5.1

NOTE: Fiscal year 2008 is the transition year for GASB Statement No. 45

The information presented in the required supplementary schedule was determined as part of the actuarial valuation as of July 1, 2007. Additional information follows:

1. The cost method used to determine the ARC is the Projected Unit Credit Actuarial Cost method.
2. There are no plan assets.
3. Economic assumptions are as follows: health care cost trend rates of 5.0-10.0 percent; discount rate of 4.5 percent.
4. The amortization method is closed, level dollar.

**City of Des Moines, Iowa
Municipal Housing Agency**

**Schedule of Expenditures of Federal Awards
Year Ended June 30, 2009**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Federal Expenditures
U.S. Department of Housing and Urban Development		
Direct Programs:		
Public and Indian Housing	14.850	\$ 1,082,228
Lower Income Housing Assistance Program Moderate Rehabilitation	14.856	74,220
Section 8 Housing Choice Vouchers	14.871	13,790,847
Public Housing Capital Fund	14.872	955,405
Resident Opportunity and Support Services	14.877	34,676
Section 8 Housing Choice Vouchers - VASH	14.871	162,786
Total U.S. Department of Housing and Urban Development		<u>16,100,162</u>
U.S. Department of Homeland Security Disaster Housing Assistance	97.109	<u>15,320</u>
Total federal awards expended		<u><u>\$ 16,115,482</u></u>

See Accompanying Notes to Schedule of Expenditures of Federal Awards.

**City of Des Moines, Iowa
Municipal Housing Agency**

**Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2009**

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Des Moines, Iowa Municipal Housing Agency, an enterprise fund of the City of Des Moines, Iowa, for the year ended June 30, 2009. All federal financial assistance received directly from federal agencies as well as federal financial assistance passed through other government agencies expended during the year is included in the schedule. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the fund's financial statements.

Note 2. Significant Accounting Policies

Revenue from federal awards is recognized when earned and expenses are recognized when the liability has been incurred.

**City of Des Moines, Iowa
Municipal Housing Agency**

**Summary Schedule of Prior Audit Findings
Year Ended June 30, 2009**

Finding Number	Comment	Status	Corrective Action or Other Explanation
Material Weakness in Internal Control Over Financial Reporting:			
08-II-A	The Agency was not calculating depreciation expense on capital assets correctly during the fiscal year.	Corrected	
Compliance Finding in Administering Federal Awards:			
08-III-A	The Agency made FSS escrow payments for an individual in the program at the incorrect amount.	Corrected	

McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Public Housing Board and the
Honorable Mayor and Members of the City Council
City of Des Moines, Iowa
Des Moines, Iowa

We have audited the financial statements of the City of Des Moines, Iowa Municipal Housing Agency, an enterprise fund of the City of Des Moines, Iowa, as of and for the year ended June 30, 2009, and have issued our report thereon dated November 24, 2009. We conducted our 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 our audit, we considered City of Des Moines, Iowa Municipal Housing Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Des Moines, Iowa Municipal Housing Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Des Moines, Iowa Municipal Housing Agency's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Des Moines, Iowa Municipal Housing Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City of Des Moines Iowa Municipal Housing Agency in a separate letter dated November 24, 2009.

This report is intended solely for the information and use of the Public Housing Board, City Council, management and federal awarding agencies and is not intended to be and should not be used by anyone other than those specified parties.

McGladrey & Pullen, LLP

Davenport, Iowa
November 24, 2009

McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

To the Public Housing Board and the
Honorable Mayor and Members of the City Council
City of Des Moines, Iowa
Des Moines, Iowa

Compliance

We have audited the compliance of the City of Des Moines, Iowa Municipal Housing Agency, an enterprise fund of the City of Des Moines, Iowa, 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 each of its major federal programs for the year ended June 30, 2009. The City of Des Moines, Iowa Municipal Housing Agency's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Des Moines, Iowa Municipal Housing Agency's management. Our responsibility is to express an opinion on the City of Des Moines, Iowa Municipal Housing Agency's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Des Moines, Iowa Municipal Housing Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Des Moines, Iowa Municipal Housing Agency's compliance with those requirements.

In our opinion, the Agency complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that 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 09-III-B through 09-III-D.

Internal Control Over Compliance

The management of the City of Des Moines, Iowa Municipal Housing Agency 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 our audit, we considered the City of Des Moines, Iowa Municipal Housing Agency's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance but, not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Des Moines, Iowa Municipal Housing Agency's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 09-III-A to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by any entity's internal control. We did not consider the deficiency described in the accompanying schedule of findings and questioned costs as item 09-III-A to be a material weakness.

The Agency's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Agency's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Public Housing Board, City Council, management and federal awarding agencies and is not intended to be and should not be used by anyone other than those specified parties.

McGladrey & Pullen, LLP

Davenport, Iowa
November 24, 2009

**City of Des Moines, Iowa
Municipal Housing Agency**

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2009**

I. Summary of the Independent Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes None Reported
- Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

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

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

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

Identification of major program:

CFDA Number	Name of Federal Program or Cluster
14.871	Section 8 Housing Choice Vouchers
14.871	Section 8 Housing Choice Vouchers - VASH
14.872	Public Housing Capital Fund
14.850	Public and Indian Housing

Dollar threshold used to distinguish between type A and type B programs: \$483,464

Auditee qualified as low-risk auditee? Yes No

(Continued)

City of Des Moines, Iowa
Municipal Housing Agency

Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2009

II. Findings Relating to the Financial Statements as Required to be Reported in Accordance with Generally Accepted Government Auditing Standards

A. Significant Deficiencies in Internal Control Over Financial Reporting

None

B. Compliance Findings

None

III. Findings and Questioned Costs for Federal Awards

A. Significant Deficiencies in Administering Federal Awards

09-III-A

**U.S. Department of Housing and Urban Development
Public Housing Capital Fund (CFDA 14.872)
Federal Award Year: 2009**

Finding: The Agency does not have an adequate system to ensure that vendors used for the program were not suspended or debarred from participation in federal programs.

Criteria: The Office of Management and Budget Circular A-133 dictates when a nonfederal entity enters into a contract or purchase order with an entity (vendor), the nonfederal entity must verify the entity is not suspended or debarred from participation in federal programs/grants when expending \$25,000 or more in a year with a vendor.

Condition: The Agency did not ensure that vendors used were not suspended or debarred from participation in federal programs. The Agency had two vendors where the Agency expended \$25,000 or more for these programs during the fiscal year.

Questioned Costs: None

Effect: Federal compliance requirements may not be met.

Recommendation: We recommend the Agency ensure vendors used have not been suspended or debarred prior to entering into contracts or purchase orders for all transactions (federal and nonfederal), including, but not limited to, implementing A-133 suspension and debarment training for all personnel in the procurement office.

(Continued)

**City of Des Moines, Iowa
Municipal Housing Agency**

**Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2009**

Response and Corrective Action Plan: Currently, the DMMHA requires owners to self certify that they have not now, nor have they ever been debarred from contracting with the United States Department of Housing and Urban Development. This self-certification form is located in the Request for Tenancy Approval (RFTA) packet and is completed for every unit and owner on the Section 8 Program. The DMMHA is also in the process of revising its Owner Eligibility Procedures with a target date of implementing the revisions effective December 1, 2009. These procedures have been revised to not only continue to have the owner self certify, as stated previously, but also to include a step requiring the Housing Case Manager to check the HUD Excluded Parties List (EPL). The results will be printed and placed in the file. In the event that an owner is on the EPL, the Housing Case Manager will forward the file to the Leasing Administrator for review. The Leasing Administrator will notify the owner that they are ineligible to participate and place them on the Agency's Ineligible Owner listing. The owner name will remain on the listing until such time as the owner is no long on HUD's EPL.

The accounting manager will check the HUD Excluded Parties List before a new vendor is added to the system. The results will be printed and added to the vendor file. If the new vendor is on the list then they will not be added to the system and will not be allowed to do any work for DMMHA as long as their name is on the list. Procedures will also be put into place to check any vendor/landlord that has received \$25,000 or more against the HUD Excluded Parties List. This will be done at calendar year-end.

B. Compliance Findings

09-III-B

**U.S. Department of Housing and Urban Development
Section 8 Housing Choice Vouchers (CFDA 14.871)
Federal Award Year: 2009**

**U.S. Department of Housing and Urban Development
Public and Indian Housing (CFDA 14.850)
Federal Award Year: 2009**

Finding: The Agency did not correctly add or select housing applicants from the waiting lists.

Criteria: OMB Circular A-133 requires that the PHA must have written policies in its HCVP administrative plan for selecting applicants from the waiting list and PHA documentation must show that the PHA follows these policies when selecting applicants for admission from the waiting list.

Condition: In the Public and Indian Housing program, we noted one instance of a tenant who was added to the waiting list with the wrong application date, as well as two instances of tenants selected from the waiting list in the incorrect order. In the Section 8 program, we noted one tenant selected from the waiting list in the incorrect order.

Questioned Costs: None

(Continued)

**City of Des Moines, Iowa
Municipal Housing Agency**

**Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2009**

Prevalence: In the Public and Indian Housing program, three out of 12 tested were incorrectly added to the waiting list or were incorrectly selected from the waiting list. In the Section 8 program, one out of 12 tested was incorrectly selected from the waiting list.

Effect: If tenants are not selected in accordance with the administrative plan, certain tenants could be unjustly delayed in their receipt of Federal assistance.

Recommendation: We recommend the Agency review its procedures for selecting applicants from the waiting list with staff and ensure all employees are following the procedures.

Response and Corrective Action Plan: THE DMMHA selects clients from the waiting list for the Public Housing Program by date and time of application and any applicable preference. Currently, all preference applications are being processed as they are received by the Agency. Nonpreference applications are selected in groups, by month, as necessary when the supply of preference applications is not adequate to lease all available units. Over the past several months, the Leasing Administrator has begun monitoring the waiting lists on a bi-weekly basis by reviewing the names on the waiting list and monitoring their "status" on the list to ensure that each file has been selected in the appropriate order and is being processed accordingly.

The DMMHA selects clients from the waiting list for the Section 8 Program by Random Lottery number. The Applications Specialist, as directed by the Leasing Administrator, selects applicants from the waiting list by number, in groups of 50 to 100 at a time and begins the screening process. The timing of the selections from the waiting list is dependent on funding availability. Over the past several months, the Leasing Administrator has begun reviewing the Section 8 Waiting list on a monthly basis and monitoring their "status" on the list to ensure that each file has been selected in the appropriate order and is being processed accordingly.

This additional quality control of the waiting list was implemented to ensure proper selection from the waiting list.

09-III-C

**U.S. Department of Housing and Urban Development
Public Housing Capital Fund (CFDA 14.872)
Federal Award Year: 2009**

Finding: The Agency is not in compliance with the Davis-Bacon requirements.

Criteria: OMB Circular A-133 requires that all laborers and mechanics employed by contractors or subcontractors to work on construction contracts in excess of \$2,000 financed by Federal assistance funds must be paid wages not less than those established for the locality of the project by the DOL.

(Continued)

**City of Des Moines, Iowa
Municipal Housing Agency**

**Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2009**

Nonfederal entities shall include in their construction contracts subject to the Davis-Bacon Act a requirement that the contractor or subcontractor comply with the requirements of the Davis-Bacon Act and the DOL regulations. This includes a requirement for the contractor or subcontractor to submit to the nonfederal entity, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance (certified payrolls).

Condition: The Agency did not include the required contract provision language with one contractor and also did not verify this contractor paid the prevailing wage rates.

Questioned Costs: \$19,590

Prevalence: One out of two contractors tested were not in compliance with Davis-Bacon requirements.

Effect: If the Agency does not properly monitor its contractors, they could unknowingly be providing federally received funds for projects that do not provide laborers with the required prevailing wage rates.

Recommendation: We recommend the Agency include provisions for the Davis-Bacon Act in all contracts over \$2,000. The Agency should also only select contractors for its projects that are willing to provide the weekly-certified payroll reports as required by the Federal grant.

Response and Corrective Action Plan: DMMHA staff will verify Davis-Bacon requirements are included in all contracts and payrolls are collected from contractors as required by the Davis-Bacon and Related Acts (DBRA) for all contracts that require Davis-Bacon certified payroll reports. The DMMHA Maintenance Supervisor and/or designated maintenance staff will monitor and verify Davis-Bacon payrolls are collected from contractors, prior to contractor payouts, as required by the Davis-Bacon and Related Acts (DBRA) for all contracts that required Davis-Bacon certified payroll reports.

09-III-D

**U.S. Department of Housing and Urban Development
Public and Indian Housing (CFDA 14.850)
Federal Award Year: 2009**

**U.S. Department of Housing and Urban Development
Public Housing Capital Fund (CFDA 14.872)
Federal Award Year: 2009**

Finding: The Agency is not in compliance with the reporting requirements.

Criteria: OMB Circular A-133 requires that for each public and Indian housing grant that involves development, operating or modernization assistance, the prime recipient must submit Form HUD 60002.

(Continued)

**City of Des Moines, Iowa
Municipal Housing Agency**

**Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2009**

Condition: The Agency did not submit the required performance report Form HUD 60002 for both the Public and Indian Housing federal grant and the Public Housing Capital Fund federal grant.

Questioned Costs: None

Prevalence: The Form HUD 60002 is an annual report.

Effect: Federal compliance requirements for timely reporting were not met.

Recommendation: We recommend the Agency submit all required reports to HUD in a timely manner or ensure an extension for late filing is granted if applicable.

Response and Corrective Action Plan: DMMHA will put procedures in place to ensure that Form 60002 is filled out correctly and filed annually before the deadline.

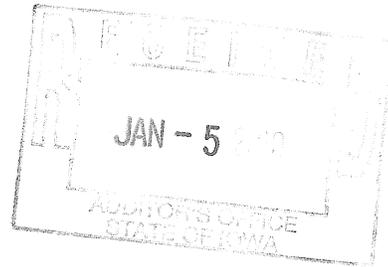
**City of Des Moines, Iowa
Municipal Housing Agency**

**Corrective Action Plan
Year Ended June 30, 2009**

Current Number	Comment	Corrective Action Plan	Anticipated Date of Completion	Contact Person
Significant Deficiencies in Administering Federal Awards:				
09-III-A	The Agency did not ensure that vendors used for Public Housing Capital Fund program were not suspended or debarred from participation in federal programs.	See corrective action plan at 09-III-A.	June 30, 2010	Scott Littell - Accounting Manager
Compliance Finding in Administering Federal Awards:				
09-III-B	The Agency did not correctly add or select housing applicants from the waiting lists.	See corrective action plan at 09-III-B.	June 30, 2010	Scott Littell - Accounting Manager
09-III-C	The Agency is not in compliance with the Davis-Bacon requirements.	See corrective action plan at 09-III-C.	June 30, 2010	Scott Littell - Accounting Manager
09-III-D	The Agency is not in compliance with the reporting requirements.	See corrective action plan at 09-III-D.	June 30, 2010	Scott Littell - Accounting Manager

McGladrey & Pullen

Certified Public Accountants



To the Public Housing Board and the
Honorable Mayor and Members of the City Council
City of Des Moines, Iowa
Des Moines, Iowa

In connection with our audit of the financial statements of the City of Des Moines Municipal Housing Agency, an enterprise fund of the City of Des Moines, Iowa, as of and for the year ended June 30, 2009, we identified deficiencies in internal control over financial reporting (control deficiencies).

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A deficiency in design exists when a control necessary to meet the control objective is missing, or when an existing control is not properly designed so that even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.

A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis.

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

Certain control deficiencies that have been previously communicated to you, in writing, by us or by others within your organization are not repeated herein.

Following are descriptions of other identified control deficiencies that we determined did not constitute significant deficiencies or material weaknesses:

Fixed Asset Depreciation: During testing of the Agency's capital assets, we identified two situations in which the Agency improperly recorded depreciation. First, a full year of depreciation was recorded on assets disposed of during the fiscal year. Per the Agency's capital asset policy, capital assets should only be depreciated up to date of sale. Second, the Agency incorrectly recorded an entry for depreciation as gain/loss on sale. The net effect of these situations was an entry of approximately \$30,000. We recommend the Agency properly apply its capital asset policy and review all entries carefully to ensure proper reporting.

Federal Grants (Reporting): Through testing of the Section 8 program, we noted the 2008 SEMAP report (submitted during fiscal year 2009) was improperly compiled. The report required the submission of families residing in census tracts at or below 10 percent. The Agency submitted families residing in census tracts at or above 10 percent. This did not result in a misstatement of the SEMAP report in the current year; however, if uncorrected, it could create reporting issues in the future.

Federal Grants (Fee-for-Service): During testing of the Agency's Public and Indian Housing federal grant program, we noted the Agency is expensing inspection costs charged by Agency employees to the individual projects (properties) under an allocation method. According to OMB A-133 guidance, inspection costs should be expensed to the projects under a fee-for-service model. The total cost of inspection expenditures charged to the grant was less than \$4,700. However, should the amount be material in a future year, the improper allocation method could result in a compliance finding. Therefore it is our recommendation that the Agency implement a fee-for-service method for this expense.

This communication is intended solely for the information and use of the Public Housing Board, City Council, management and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

McGladrey & Pullen, LLP

Davenport, Iowa
November 24, 2009