



A COMPONENT UNIT OF THE STATE OF INDIANA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND
OMB CIRCULAR A-133 AUDITORS' REPORTS

December 31, 2011

**INDIANA HOUSING & COMMUNITY DEVELOPMENT AUTHORITY
A COMPONENT UNIT OF THE STATE OF INDIANA**

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*Independent Auditors' 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*

Year Ended December 31, 2011

Board of Directors
Indiana Housing and Community Development Authority

We have audited the financial statements of the business-type activities and each major fund of Indiana Housing and Community Development Authority (Authority), a component unit of the State of Indiana, as of and for the year ended December 31, 2011, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated April 26, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States 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 the Authority'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 Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 the Authority'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 other matters that we reported to management of the Authority in a separate letter dated April 26, 2012.

This report is intended solely for the information and use of the Authority's management, Board of Directors and Audit Committee, others within the entity, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Katz, Sappun & Miller, LLP

Indianapolis, Indiana
April 26, 2012

INDIANA HOUSING AND COMMUNITY DEVELOPMENT AUTHORITY

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended December 31, 2011**

<u>Federal Grantor</u>	<u>CFDA Number</u>	<u>Amount Passed- Through to Subrecipients</u>	<u>Authority's Expenditures</u>	<u>Total Federal Expenditures</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:				
Community Development Block Grant	14.228	\$ 75,527,222	\$ 484,868	\$ 76,012,090
Section 8 - Project Based Contract Administration (a)	14.195	169,884,471	1,935,120	171,819,591
HOME Investment Partnership Program (b)	14.239	13,381,925	7,245,075	20,627,000
Housing Opportunities for Persons with AIDS	14.241	946,601	26,387	972,988
Section 8 - Housing Choice Voucher Program	14.871	22,933,250	562,467	23,495,717
Emergency Shelter Grant	14.231	1,670,285	95,279	1,765,564
Shelter Plus Care	14.238	2,170,233		2,170,233
ARRA - Tax Credit Assistance Program*	14.258	38,048,333		38,048,333
Supportive Housing Program	14.235		61,363	61,363
ARRA - Homelessness Prevention and Rapid Re-housing Program*	14.257	5,185,400	106,452	5,291,852
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:				
Community Services Block Grant (c)	93.569	10,676,794	448,315	11,125,109
ARRA - Community Services Block Grant* (c)	93.710	155,713		155,713
Low-Income Home Energy Assistance	93.568	22,140,861	78,788,371	100,929,232
Refugee and Entrant Assistance - Discretionary Grants	93.576	137,867		137,867
Assets for Independence Development Program	93.602	865,628		865,628
U.S. DEPARTMENT OF ENERGY				
Weatherization Assistance for Low Income Persons	81.042	3,301,151	95,394	3,396,545
ARRA - Weatherization Assistance for Low Income Persons*	81.042	60,296,892	295,175	60,592,067
U.S. DEPARTMENT OF TREASURY				
Indiana Foreclosure Prevention	21.000	1,282,680	19,346	1,302,026
U.S. DEPARTMENT OF AGRICULTURE				
Rural Rental Housing Loans	10.415		490,042	490,042
Total Expenditures of Federal Awards		<u>\$ 428,605,306</u>	<u>\$ 90,653,654</u>	<u>\$ 519,258,960</u>

* Grant relates to the American Recovery and Reinvestment Act of 2009

(a) The Amount Passed-Through to Subrecipients expenditures include \$164,308,031 of Housing Assistance Payments.

(b) The Authority's expenditures include \$6,320,259 of down payment assistance.

(c) Represents the Federal Program CSBG Cluster

See accompanying notes to schedule of expenditures of federal awards.

INDIANA HOUSING AND COMMUNITY DEVELOPMENT AUTHORITY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS December 31, 2011

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Indiana Housing and Community Development Authority (the Authority), a component unit of the State of Indiana, and is presented on the accrual basis of accounting. The amount passed-through to subrecipients represents the actual expenditures incurred by subrecipients and reimbursed by the Authority in 2011. The information in 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

NOTE 2 - PROGRAM INCOME AND RECAPTURED FUNDS

During 2011, the Authority generated program income and recaptured funds, including the repayment of loans, as follows:

Community Development Block Grant	\$ 3,185,723
Section 8 – Project Based Contract Administration	95
HOME Investment Partnership Program	516,250
Tax Credit Assistance Program	7,326,541
Community Services Block Grant	176,722
Low-Income Home Energy Assistance	223,380
Assets for Independence Development Program	84,051
Weatherization for Low Income Persons	73,001
ARRA – Weatherization for Low Income Persons	35,224

NOTE 3 – NON-CASH ASSISTANCE

Non-cash assistance expended in the form of loans made during the year are included in total federal expenditures on the accompanying schedule of expenditures of federal awards. During 2011, the Authority granted non-cash assistance in the form of loans as follows:

Community Development Block Grant	\$11,908,213
HOME Investment Partnership Program	775,349
Tax Credit Assistance Program	10,931,058

Non-cash assistance related to loans with continuing compliance requirements are included in the total federal expenditures on the accompanying schedule of expenditures of federal awards, whether made in the current or prior years. At December 31, 2011, the Authority has loans receivable outstanding with continuing compliance requirements as follows:

Community Development Block Grant	\$11,544,763
HOME Investment Partnership Program	2,394,824
Tax Credit Assistance Program	30,721,782
Rural Rental Housing Loans	490,042

*Independent Auditors' Report on Compliance With
Requirements That Could Have a Direct and
Material Effect on Each Major Program and
on Internal Control Over Compliance in
Accordance With OMB Circular A-133*

Year Ended December 31, 2011

Board of Directors
Indiana Housing and Community Development Authority

Compliance

We have audited Indiana Housing and Community Development Authority's (Authority) compliance with the types of compliance requirements described in the *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended December 31, 2011. The Authority'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 Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

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

In our opinion, the Authority complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011. However, the results of our auditing procedures disclosed 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 2011-01, 2011-02, and 2011-03.

Internal Control Over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items 2011-01, 2011-02, and 2011-03. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the business-type activities and each major fund of the Authority, a component unit of the State of Indiana, as of and for the year ended December 31, 2011, and have issued our report thereon dated April 26, 2012 which contained an unqualified opinion on those financial statements. Our audit was performed for the purpose of forming our opinion on the financial statements that collectively comprise the Authority's financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to auditing procedures applied in the audit of the financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements taken as a whole.

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

This report is intended solely for the information and use of the Authority's management, Board of Directors and Audit Committee, others within the entity, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Katz, Sappan & Miller, LLP

Indianapolis, Indiana
April 26, 2012

INDIANA HOUSING AND COMMUNITY DEVELOPMENT AUTHORITY

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2011**

Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unqualified
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	None Reported
• Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	Yes
Type of auditors' 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 OMB Circular A-133:	Yes

The programs identified and tested as major programs were:

CFDA Number	Agency	Title
14.239	U.S. Department of Housing and Urban Development	HOME Investment Partnership Program
14.258	U.S. Department of Housing and Urban Development	ARRA – Tax Credit Assistance Program
14.257	U.S. Department of Housing and Urban Development	ARRA – Homeless Prevention and Rapid Re-Housing Program

Summary of Auditors' Results (Continued)

CFDA Number	Agency	Title
93.568	U.S. Department of Health and Human Services	Low-Income Home Energy Assistance Program
81.042	U.S. Department of Energy	Weatherization Assistance for Low Income Persons
81.042	U.S. Department of Energy	ARRA – Weatherization Assistance for Low Income Persons

The dollar threshold used to distinguish between type A and type B programs was \$3 million.

Indiana Housing and Community Development Authority did qualify as a low-risk auditee.

Financial Statement Audit Findings

None

Major Federal Award Programs Audit Findings and Questioned Costs

U.S. Department of Housing and Urban Development

2011-01 14.239 HOME Investment Partnership Program

Significant Deficiency/Special Tests–Housing Quality Standards

Criteria: According to 24 CFR sections 92.251, 92.252, and 92.504(b), during the period of affordability, the period for which the non-Federal entity must maintain subsidized housing, the Authority must perform on-site inspections to determine compliance with property standards and verify the information submitted by the owners no less than: (a) every three years for projects containing 1 to 4 units, (b) every two years for projects containing 5 to 25 units, and (c) every year for projects containing 26 or more units.

Condition and Context: There were fifteen completed projects selected for testing during the audit for compliance with the above criteria. Inspections were not performed as required for two of the selected projects.

Cause and Effect: The Authority maintains a schedule of all completed projects in order to track each project's housing quality standards inspection cycle during the period of affordability. Information presented on the schedule was not current due to staffing transitions, which resulted in certain inspections not being performed as required. The Authority did not have adequate internal controls over compliance to ensure housing quality standards were performed as required.

Recommendation: The Authority should evaluate the process used to track each completed project's housing quality standards inspection cycle during the period of affordability to ensure compliance with housing quality standards inspections will be maintained in the future. The Authority should also identify all projects that did not receive a timely inspection and perform those inspections as soon as possible.

Management Response: The Authority agrees with the above recommendation. The Authority is already planning to perform inspections as soon as possible on any projects that did not receive a timely inspection.

Major Federal Award Programs Audit Findings and Questioned Costs (Continued)

2011-02 14.239 HOME Investment Partnership Program

Significant Deficiency/Reporting–Performance Reporting

Criteria: According to 24 CFR sections 135.3(a) and 135.90, for each grant over \$200,000 that involves housing rehabilitation, housing construction, or other public construction, the Authority must submit Form HUD 60002.

Condition and Context: The Authority did not submit Form HUD 60002 in 2011 as required.

Cause and Effect: The Authority did not have adequate understanding of sub-grantee information to complete HUD 60002 reporting. The Authority did not have adequate internal controls over compliance to ensure Form HUD 60002 was submitted as required.

Recommendation: The Authority should review contract information to determine which entities receiving HOME housing rehabilitation, housing construction, or other public construction meeting the threshold for Form HUD 60002 reporting. The Authority should gather the information required for the submission and ensure the report is submitted to HUD for these agencies and as required in the future.

Management Response: The Authority agrees with the above recommendation. The Authority has already included language in its new Strategic Investment Administrative Plan declaring that the subrecipient agencies must report the information required to complete the Form HUD 60002 to the Authority.

U.S. Department of Energy

2011-03 81.042 Weatherization Assistance for Low-Income Persons

Significant Deficiency Related to Subrecipient Monitoring

Criteria: According to the Department of Energy Weatherization Program Notice 10-1, detailed review of subgrantee inspections must be maintained by the Authority. In addition, noncompliance findings unresolved within forty-five days should be reported to the Project Management Center. Finally, major findings from subgrantee monitoring visits should be tracked by the Authority to final resolution.

Condition and Context: Annual subrecipient monitoring visits and project monitoring were performed as required by the regulations. However, findings noted in the project monitoring reports were not always tracked to final resolution. There were 40 project monitoring visits selected for testing during the audit. In one case, the subrecipient did not receive the monitoring report. In another case, the subrecipient did not respond to the monitoring report received. In four other cases, the subrecipients responded to the monitoring report findings, but there was no evidence that the response was further evaluated. Also, documentation related to the project monitoring was not maintained for one of the items. In this case, the subrecipient response to the monitoring report findings could not be located; however, there was evidence the response was received and evaluated in the form of a clearance letter.

Cause and Effect: The Authority subcontracted the project monitoring to a third party contractor. After the contract began, management of the third party contractor expressed that they did not wish to perform the service of clearing the issues noted after the subrecipient response, though the service was included in the original contract. The issue created a delay in tracking findings noted on the project monitoring report to final resolution.

Major Federal Award Programs Audit Findings and Questioned Costs (Continued)

2011-03 81.042 Weatherization Assistance for Low-Income Persons (Continued)

Recommendation: The Authority should evaluate processes to monitor the third party contractor utilized to perform project monitoring for this program. The monitoring processes should be adequate to ensure the responses are obtained timely from subrecipients and findings are tracked to final resolution. The Authority should also perform an internal review of project monitoring visits performed by this third party contractor to ensure all findings noted in previous reports are resolved.

Management Response: The Authority agrees with the above recommendation. The Authority has already investigated the specific items identified during the audit and completed appropriate procedures to ensure findings noted in the selected project monitoring reports have been resolved. The Authority has also investigated all other project monitoring visits performed by the third party contractor. If a project monitoring visit was not tracked to final resolution, the Authority has either contracted with another third party to perform the appropriate follow up procedures or had the staff of the Authority perform these procedures.

INDIANA HOUSING AND COMMUNITY DEVELOPMENT AUTHORITY

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended December 31, 2011

U.S. Department of Housing and Urban Development

2010-01 14.257 Homelessness Prevention and Rapid Re-Housing Program

Significant Deficiency in Internal Control over Compliance

Condition: No procedures were performed by the Authority to ensure that subrecipients expending \$500,000 or more met the OMB Circular A-133 audit requirements and the Authority did not obtain reporting packages from such subrecipients to perform related required procedures in relation to those reporting packages.

Recommendations: The auditor recommended that adequate internal controls should be implemented to ensure the related requirements are met in the future.

Current Status: The recommendation was adopted through the implementation of an *A-133 Review Policy* in 2011. No similar findings were noted in the 2011 audit.

2010-02 14.257 Homelessness Prevention and Rapid Re-Housing Program

Subrecipient Monitoring

Condition: No procedures were performed by the Authority to ensure that subrecipients expending \$500,000 or more met the OMB Circular A-133 audit requirements and the Authority did not obtain reporting packages from such subrecipients to perform related required procedures in relation to those reporting packages.

Recommendations: The auditor recommended that adequate internal controls should be implemented to ensure the related requirements are met in the future.

Current Status: The recommendation was adopted through the implementation of an *A-133 Review Policy* in 2011. No similar findings were noted in the 2011 audit.