

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name	County
Fiscal Year End	Opinion Date	Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO Check each applicable box below. (See instructions for further detail.)

1. All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. The local unit has adopted a budget for all required funds.
5. A public hearing on the budget was held in accordance with State statute.
6. The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. The local unit only holds deposits/investments that comply with statutory requirements.
9. The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. The local unit is free of repeated comments from previous years.
12. The audit opinion is UNQUALIFIED.
13. The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. The board or council approves all invoices prior to payment as required by charter or statute.
15. To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature		Printed Name		License Number

MT. CLEMENS HOUSING COMMISSION

Financial Statements

June 30, 2007

Audited by

JOHN C. DIPIERO, P.C.

Certified Public Accountant

TABLE OF CONTENTS

	<u>Page</u>
Management Discussion and Analysis	i
Independent Auditor's Opinion	ii
 <u>FINANCIAL STATEMENTS</u>	
Statement of Net Assets	2
Statement of Revenues, Expenses, and Changes in Net Assets	3
Statement of Cash Flows	4
Notes to Financial Statements	5
 <u>SUPPLEMENTAL DATA</u>	
Combining Balance Sheet	11
Combining Statement of Income and Expenses	12
Schedule of Expenditures of Federal Awards	13
Status of Prior Audit Findings	14
Report on Compliance Applicable with Requirements to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	15
Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	17
Schedule of Findings and Questioned Cost	19
Findings: Upfront Income Verification (UIV) Discrepancies	21
Control Deficiency- Lines of Authority	22

Mt. Clemens Housing Commission
50 Church Street
Mt. Clemens, MI 48043

Earl Rickman, Executive Director

As management of the Mt. Clemens Housing Commission we offer reviewers of this audit report this narrative discussion and analysis of the Mt. Clemens Housing Commission's financial activities for the FYE 6/30/07. This discussion and analysis letter of the Mt. Clemens Housing Commission's financial performance should be read in conjunction with the auditor's opinion letter and the following Financial Statements.

The combined financial statements reflect all of the Commission's federally funded programs and activities in one place. The Commission reports all its activities and programs using the Enterprise Fund type model. HUD encourages PHAs to use this accounting method as it is normally used to account for "business-type activities" - activities similar to those found in the private sector. Enterprise Fund types use the accrual method of accounting, the same accounting method employed by most private-sector businesses. Under this method, revenues and expenditures may be reported as such even though no cash transaction has actually taken place.

Overview of the Financial Statements

This annual report contains this *Management & Discussion Analysis* report, the *Basic Financial Statements* and the *Notes to the Financial Statements*. This report also contains the Financial Data Schedule (FDS) as referenced in the section of *Supplemental Information*. The Commission's financial statements are presented as fund financial statements because the Commission only has proprietary funds.

Required Financial Statements

The Statement of Net Assets includes the Commission's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations of the Commission creditors (liabilities). It also provides the basis for evaluating the liquidity and financial flexibility of the Commission.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets. This statement measures the success of the Commission's operations over the past year and can be used to determine whether the Commission has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

The final required financial statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements and provide more detailed data.

Supplemental Information

This report also contains the Financial Data Schedule (FDS) as referenced in the section of *Supplemental Information*. HUD has established Uniform Financial Reporting Standards that require Housing Commissions to submit financial information electronically to HUD using the FDS format. This financial information was electronically transmitted to the Real Estate Assessment Center (REAC) and is required to be included in the audit reporting package.

The Financial Data Schedule reports the Commission's operations in more detail. The Commission reports all its activities using Enterprise fund types. These funds are used to show activities that operate more like commercial enterprises. The Financial Data Schedule is organized by the government Catalogue of Financial Domestic Assistance (CFDA) numbers.

Mt. Clemens Housing Commission Programs:

Low Rent Public Housing: Under this program, the Housing Commission rents units that it owns to low-income elderly and family households. This program is operated under an Annual Contributions Contract with HUD. HUD provides Operating Subsidies to enable the Housing Commission to lease these units at a rate that is based on 30% of the household income.

Capital Fund Program: Under this program, the Housing Commission is awarded funds each year to use for Capital Needs. The Housing Commission also has the ability to use up to 20% of these funds, if need be, to supplement Operating Subsidies. This program is the primary funding source for physical improvements to its properties.

Section 8 New Construction Program: Under this program, the Housing Commission issued bonds many years ago which financed the construction of a low-income elderly apartment building. The building is owned and managed by third parties. The Housing Commission has an Annual Contributions Contract with HUD to provide Housing Assistance Payments for the tenants that live in this project and acts as the contract administrator for the program to ensure conformance with HUD regulations (4350.3) and housing quality standards.

Mt. Clemens Housing Commission Management Discussion & Analysis, continued

Entity-Wide Financial Highlights:

The following Federal Assistance was received during FYE 6/30/07:

	<u>FYE</u> <u>6/30/07</u>	<u>FYE</u> <u>6/30/06</u>	<u>Dollar</u> <u>Change</u>	<u>Per</u> <u>Cent</u> <u>Change</u>
Public Housing Operating Subsidy	702,504	607,080	95,424	15.72%
Capital Fund Program Grants	367,038	414,885	(47,847)	-11.53%
Sec. 8 New Constr.	<u>1,810,862</u>	<u>1,849,527</u>	(38,665)	-2.09%
Total	2,880,404	2,871,492	8,912	0.31%

The subsidy for Public Housing increased due to the full implementation of the new Operating Fund formula.

The decrease in Capital Fund Grants was due to the fact that our work projects moved along at a slower pace than in the previous year.

Sec. 8 New Construction subsidy decreased slightly due to lower lease-up.

The following represents changes in the Balance Sheet:

	<u>FYE</u> <u>6/30/07</u>	<u>FYE</u> <u>6/30/06</u>	<u>Dollar</u> <u>Change</u>	<u>Per</u> <u>Cent</u> <u>Change</u>
Cash & Investments	1,129,407	1,160,965	(31,558)	-2.72%
Total Current Assets	1,252,624	1,270,648	(18,024)	-1.42%
Fixed Assets, Net of Depreciation	5,607,611	5,827,034	(219,423)	-3.77%
Total Current Liabilities	314,424	491,242	(176,818)	-35.99%
Total Long Term Liabilities	194,402	233,982	(39,580)	-16.92%
Total Equity/Net Assets	6,283,200	6,372,458	(89,258)	-1.40%

Cash and Investments remained relatively flat, decreasing by just under 3%.

Total Current Assets remained relatively flat, decreasing by just under 2%.

Fixed Assets increased by \$263,594; this increase represents capital projects funded through the Capital Fund Programs. Although Fixed Assets increased by \$263,594, this was more than offset by depreciation charges of \$483,016, resulting in the net decrease stated in the above table.

Total Current Liabilities decreased due primarily to the decrease in HUD accounts payable in the Sec. 8 New Construction program.

Mt. Clemens Housing Commission Management Discussion & Analysis, continued

Total Long-Term liabilities decreased reflecting the continuing reduction of our long-term debt. This loan was obtained under HUD's Energy Savings Program and was used to make improvements to our properties in energy conservation measures. We make payments on this loan on a monthly basis.

Total Net Assets is comprised of two components: Invested in Capital Assets, which mirrors the decrease in Fixed Assets, Net of Depreciation as explained above. The other component is Unrestricted Net Assets, or what used to be called Operating Reserves. This figure increased due to the Operating Income generated by the Public Housing Program for FYE 6/30/07.

The following schedule compares the Revenues and Expenses for the current and prior fiscal years:

Statement of Revenues, Expenses, and Changes in Net Assets

	<u>FYE</u> 6/30/07	<u>FYE</u> 6/30/06	<u>Dollar</u> <u>Change</u>	<u>Per</u> <u>Cent</u> <u>Change</u>
Revenues:				
Tenant Revenue	612,844	631,633	(18,789)	-3.0%
Other Revenue	119,665	91,757	27,908	30.4%
Total PHA generated Revenue	732,509	723,390	9,119	1.3%
Operating Subsidies/Soft Cost Grant Revenue	2,616,811	2,653,681	(36,870)	-1.4%
Capital Grants (Hard costs)	263,593	217,811	45,782	21.0%
Total Revenue	3,612,913	3,594,882	18,031	0.5%
Expenses:				
Administrative	421,548	434,107	(12,559)	-2.9%
Tenant Services	146	(50)	196	-392.0%
Utilities	320,472	278,076	42,396	15.2%
Maintenance	644,843	729,833	(84,990)	-11.6%
General	118,065	141,206	(23,141)	-16.4%
Housing Assistance Payments	1,714,081	1,747,027	(32,946)	-1.9%
Depreciation	483,016	481,212	1,804	0.4%
Total Expenses	3,702,171	3,811,411	(109,240)	-2.9%
Net Increase (Decrease)	(89,258)	(216,529)		

Revenues:

Mt. Clemens Housing Commission's primary revenue sources are subsidies and grants received by HUD. For FYE 6/30/07, revenue generated by the Commission accounted for \$732,509 (or 20% of total revenue), while HUD contributions accounted for \$2,880,404 (or 80% of total revenue). Investment Income increased due to rising interest rates.

Mt. Clemens Housing Commission Management Discussion & Analysis, continued

Expenses:

Total Expenses for FYE 6/30/07 were \$3,702,171 while for FYE 6/30/06 the total was \$3,811,411. This represents a 2.9% decrease in our Operating Costs. Some areas of note are:

1. Utilities increased by 15.2%. Although all utilities increased, water increased the most due to rate increases.
2. Maintenance decreased as we were successful in monitoring our contracted costs in order to reduce them. Also, we were helped in this area by fewer turnovers during the fiscal year.
3. General expenses decreased mainly due to a lower bad debt expense in FYE 6/30/07 as compared to 6/30/06.

Budget Analysis:

A Low Rent Public Housing Operating Budget for FYE 6/30/07 was presented to and approved by the Board of Commissioners. We had no reason to amend the budget during the fiscal year. Actual results were in line with budgeted amounts.

Entity-Wide Operational Highlights:

The Mt. Clemens Housing Commission provided the following housing for low-income elderly and low-income families:

	<u>FYE</u> 6/30/07	<u>FYE</u> 6/30/06
Public Housing	286	286
Sec. 8 New Constr.	281	281

During FYE 6/30/07, Mt. Clemens Housing Commission maintained a lease-up rate of 93.2% in its Public Housing Program and a lease-up rate of 93.8% in its Section 8 program. These lease-up rates are under the HUD-prescribed target of 97%. We are working to increase our lease-up rates.

During FYE 6/30/07, our Capital Fund Program work project was the replacement of the elevators at our senior building. Including A&E fees, the total was \$263,593. This project was substantially completed as of 6/30/07, although some of the work has been done during FYE 6/30/08.

Economic Factors and Next Year's Budget and Rates

The Housing Commission is primarily dependent upon HUD for the funding of operations as well as capital needs. Therefore, the Housing Commission is affected more by the Federal Budget than by local economic conditions. The funding of programs could be significantly affected by the Federal Budget.

The Housing Commission is very concerned about the effect of the Project-Based Management and Accounting requirements on a Commission of our size. We feel that the threshold of 250 units is too low to impose Project-Based Management and Accounting. After attending training, we feel that Project Based Management can make sense at larger authorities (500+ units), but simply does not make sense to impose these onerous regulations on a Housing Commission of our size. We only exceed the threshold by 36 units. It will cost us more to operate our Public Housing Program on a decentralized basis than the economically efficient centralized agency-wide basis as we operate today. In our view, the conversion to Asset Management is essentially an unfunded mandate. And, given the current trend of federal budget cutting and the trend in limiting funding for Operating Subsidy in recent years, we will likely receive fewer subsidy dollars in the future but be expected to do substantially more with it to comply with Project-Based regulations. Although we have been relieved of the mandated conversion to Project Based Management for 2008, this relief has not been written into law permanently, and we may be subject to these costly regulations beginning 7/1/08.

A fundamental finding of the Harvard Cost Study, upon which the regulations governing Project Based Management are based, is that Public Housing Agencies have been, and continue to be, woefully underfunded by HUD. Yet, due to the federal budget crunch, HUD continues to only pay us only a portion of the subsidy that we are entitled to. So, to begin with, the subsidy at full eligibility is considered by the Harvard Cost Study to be insufficient; on top of that, HUD only pays us a portion of that figure. The conversion to Project Based Management will be costly, and it will be costly to maintain our Commission under Project Based Management. We will be less efficient. Inevitably, cuts in services to our residents will have to be made.

Request for Information

This financial report is designed to provide a general overview of the Commission's finances for all those with an interest in its finances. Questions or comments concerning any of the information contained in this report or request for additional information should be directed to:

Earl Rickman, Executive Director
Mt. Clemens Housing Commission
50 Church Street
Mt. Clemens, MI 48043

John C. DiPiero, P.C.

Certified Public Accountant

P. O. Box 378
Hemlock, Michigan 48626
Tel / Fax (989) 642-2092

Board of Commissioners
Mt. Clemens Housing Commission
50 Church Street
Mt. Clemens, Michigan 48043

Independent Auditor's Report

I have audited the financial statements of the Mt. Clemens Housing Commission Business Type Activities as of and for the year ended June 30, 2007. These financial statements are the responsibility of the Housing Commission's management. My responsibility is to express an opinion on the financial statements based on my audit.

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. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Mt. Clemens Housing Commission as of June 30, 2007, 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*, I have also issued my report dated January 12, 2008, on my consideration of the Mt. Clemens Housing Commission's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of my 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 my audit.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplemental information required by the Governmental Auditing Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, I did not audit the information and express no opinion on it.

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 Non-Profit Organizations*, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

My audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Financial Data Schedule 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 the audit of the basic financial statements and, in my opinion, are fairly stated in all material respects in relation to the financial statements taken as whole.

Certified Public Accountant

January 12, 2008

MT. CLEMENS HOUSING COMMISSION
Statement of Net Assets
June 30, 2007

ASSETS

C-3047

CURRENT ASSETS

Cash	\$	966,739	
Cash-Security Deposits		<u>62,668</u>	\$ 1,029,407
Accounts Receivable, net of allowance for doubtful accounts \$ 7,294)			12,719
Accounts Receivable- HUD			36,065
Investments			100,000
Prepaid Expenses			<u>6,428</u>
 Total Current Assets			 \$ 1,184,619

NON CURRENT ASSETS

Land	\$	725,000	
Buildings		6,299,325	
Furniture, Equipment- Dwellings		31,815	
Furniture, Equipment- Administrative		156,827	
Construction in Progress		7,206,871	
Accumulated Depreciation		<u>(8,812,227)</u>	
 Total Non Current Assets			 <u>5,607,611</u>

TOTAL ASSETS \$ 6,792,230

MT. CLEMENS HOUSING COMMISSION
 Statements of Net Assets
 June 30, 2007

LIABILITIES

C-3047

CURRENT LIABILITIES

Accounts Payable	\$	27,271	
Accrued Liabilities		132,321	
Accounts Payable- HUD		18,185	
Accounts Payable- Other Governments		21,918	
Accrued Compensated Absences		7,600	
Tenants Security Deposit		62,668	
Deferred Revenue		6,149	
Current Portion- Long Term Debt		38,516	
 <u>Total Current Liabilities</u>			\$ 314,628

NONCURRENT LIABILITIES

Long Term Debt- Energy Loan	\$	164,518	
Current Portion, above		38,516	
		\$ 126,002	
Compensated Absences-noncurrent		68,400	194,402
 <u>Total Liabilities</u>			\$ 509,030

NET ASSETS

Investment in Fixed Assets, net of related Debt	\$	5,443,093	
Unrestricted Net Assets		840,107	
 <u>Total Net Assets</u>			6,283,200
 <u>TOTAL LIABILITIES & NET ASSETS</u>			\$ 6,792,230

The Accompanying Notes are an Integral part of the Financial Statements

MT. CLEMENS HOUSING COMMISSION
Statement of Revenue, Expenses, and Changes in Net Assets
For the year ended June 30, 2007

REVENUE

Tenant Rental Revenue	\$ 595,222	
Tenant Income-Other	17,622	
HUD Grants	2,616,811	
Interest Income	56,963	
Other Income	<u>62,702</u>	
<u>Total Revenue</u>		\$ 3,349,320

OPERATING EXPENSES

Administrative	\$ 421,548	
Tenant Services	146	
Utility Expenses	320,472	
Ordinary Maintenance	644,843	
General Expenses	118,065	
Depreciation Expense	<u>483,016</u>	
<u>Total Operating Expenses</u>		<u>1,988,090</u>
<u>Operating Income (Loss)</u>		\$ 1,361,230

NONOPERATING REVENUE (EXPENSES)

Housing Assistance Payments		<u>(1,714,081)</u>
<u>Income (Loss) before Contributions</u>		\$ (352,851)

CAPITAL CONTRIBUTIONS

		<u>263,593</u>
<u>Changes in Net Assets</u>		\$ (89,258)
Total Net Assets- Beginning		<u>6,372,458</u>
Total Net Assets- Ending		<u>\$ 6,283,200</u>

The Accompanying Notes are an Integral part of the Financial Statements

MT. CLEMENS HOUSING COMMISSION
Statement of Cash Flows
For the Year Ended June 30, 2007

Business Type Activities

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from Customers	\$	613,492
Payments to Suppliers		(3,043,227)
Payments to Employees		(438,298)
HUD Grants		2,880,404
Other Receipts (Payments)		<u>119,665</u>
Net Cash Provided (Used) by Operating Activities	\$	132,036

CASH FLOWS FROM CAPITAL AND
RELATED FINANCING ACTIVITIES

Purchases of Capital Assets	\$	<u>(263,594)</u>
Net Increase (Decrease) in Cash and Cash Equivalentents	\$	(131,558)
Balance- Beginning of Year		<u>1,160,965</u>
Balance- End of Year	\$	<u>1,029,407</u>

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET
CASH PROVIDED (USED) BY OPERATING ACTIVITIES

Net Profit or (Loss)	\$	(89,258)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation		483,016
Changes in Assets (Increase) Decrease:		
Receivables (Gross)		(10,458)
Investments		(100,000)
Prepaid Expenses		(153)
Changes in Liabilities Increase (Decrease):		
Accounts Payable		1,128
Accrued Liabilities		62,681
Accounts Payable-HUD		(217,631)
Compensated Absences		(118)
Security Deposits		(1,204)
Deferred Revenue		1,850
Current Portion Long Term Debt		<u>2,183</u>
Net Cash Provided by Operating Activities	\$	<u>132,036</u>

The Accompanying Notes are an Integral part of the Financial Statements

MT. CLEMENS HOUSING COMMISSION
Notes to Financial Statements
June 30, 2007

NOTE 1: Summary of Significant Accounting Policies

Reporting Entity-

Mt. Clemens Housing Commission, Mt. Clemens, Michigan, (Commission) was created by ordinance of the city of Mt. Clemens. The Commission signed an Annual Contributions Contract (ACC) with the U.S. Department of Housing and Urban Development (HUD). The ACC requires the Commission to provide safe, sanitary and decent housing for qualifying senior and low income families.

The Commission consists of the following:

MI 28-1,4	Low rent program	286 units
	Oversight of a Section 8 Program	283 units

In determining the reporting entity, the manifestations of oversight, as defined by the Governmental Accounting Standards Board (GASB), Cod. sec 2100, were considered. The criteria include the following:

The nucleus of the financial reporting entity as defined by the Governmental Accounting Standards Board (GASB) Statement No. 14 is the "primary government". A fundamental characteristic of a primary government is that it is a fiscally independent entity. In evaluating how to define the financial reporting entity, management has considered all potential component units. A component unit is legally separate entity for which the primary government is financially accountable. The criterion of financial accountability are the ability of the primary government to impose its will upon the potential component unit. The Financial Data Schedule lists all the programs of the Reporting Entity including component units should they exist, as defined above. Based on the above criteria, no component units exist.

These criteria were considered in determining the reporting entity.

Basis of Presentation-

The accounts of the Commission are organized by the Catalog of Federal Domestic Awards (CFDA) numbers, in the Financial Data Schedule; each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenditures, or expenses, as appropriate. Commission resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Proprietary Funds

Enterprise Funds- Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises- where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, management control, accountability, or other purposes.

Basis of Accounting-

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Proprietary Funds are accounted for using the accrual basis of accounting. The revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Prior to October 1, 1998, the Commission followed a basis of accounting consistent with the cognizant agency, the U. S. Department of Housing and Urban Development, HUD. Those practices differed from Generally Accepted Accounting Principals (GAAP); however, for all fiscal years beginning on or after October 1, 1999, HUD has required adherence to GAAP. Therefore, the current and future financial presentations will follow GAAP and the Financial Accounting Standards Board (FASB) pronouncements issued subsequent to November 30, 1989, unless they conflict with Governmental Accounting Standards Board (GASB) pronouncements.

Budgetary data-

Formal budgetary integration is employed as a management control device during the year in proprietary type funds. Budgets for funds are adopted on a basis consistent with generally accepted accounting principles (GAAP) for that fund type. The Commission adopts a budget annually, and amends the budgets as it feels necessary in order to maintain financial integrity.

Assets, Liabilities, and Net Assets-

Deposits & Investments

Deposits are stated at cost; the carrying amount of deposits is separately displayed on the balance sheet as cash and cash equivalents; investments are stated at cost which approximates market.

Notes to Financial Statements- continued

Cash Equivalents

Cash Equivalents represent investments purchased with a three month maturity or less; investments meeting this criteria are reclassified for financial statement purposes as cash.

Due To and Due From Other Funds

Interfund receivables and payables arise from inter-program transactions and are recorded by all funds affected in the period in which transactions are executed.

Fixed Assets

The accounting and reporting treatment applied to the fixed assets are determined by its measurement focus. All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Their reported fund equity (net total assets) is reported as Invested in Capital Assets, Net of Related Debt.

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations; depreciation has been provided over the estimated useful lives using the straight line method. The estimated useful lives are as follows:

Buildings and Improvements	15 years
Equipment	3-10 years

Compensated Absences

Sick leave and other compensated absences with similar characteristics have been accrued as a liability. The amount accrued was based on the probability that the Commission will compensate the employees for the benefits through cash payments as a condition of the employees' termination or retirement.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

Notes to Financial Statements- continued

Note 2: Cash and Investments.

The composition of cash and investments are as follows:

Cash:

General Fund Checking Accounts	\$ 101,344
Money Market Accounts	927,888
Petty Cash	<u>175</u>
Financial Statement Total	<u>\$ 1,029,407</u>

Investments:

Certificate of Deposit	<u>\$ 100,000</u>
------------------------	-------------------

Generally the Commission classifies cash and investments with the following risk assumptions:

- 1) Insured or registered in the Commission's name.
- 2) Uninsured or unregistered, held by a broker in the Commission's name.
- 3) Uninsured or unregistered, held by a broker not in the Commission's name.

	<u>Categories</u>			Carrying Amount	Market Value
	<u>1</u>	<u>2</u>	<u>3</u>		
Cash:					
Checking A/C's	\$ 101,344	\$	\$	\$ 101,344	\$ 101,344
Petty Cash	175			175	175
C/D					
Money Market	<u>\$ 927,888</u>	<u>\$</u>	<u>\$</u>	<u>\$ 927,888</u>	<u>\$ 927,888</u>
Total Cash	<u>\$ 1,029,407</u>	<u>\$</u>	<u>\$</u>	<u>\$ 1,029,407</u>	<u>\$1,029,407</u>
Investments:					
C/D's	<u>\$ 100,000</u>	<u>\$</u>	<u>\$</u>	<u>\$ 100,000</u>	<u>\$ 100,000</u>
Total Investments	<u>\$ 100,000</u>	<u>\$</u>	<u>\$</u>	<u>\$ 100,000</u>	<u>\$ 100,000</u>

All cash and investments are protected by either FDIC, SPIC, or Government backed securities.

Notes to Financial Statements- continued

Note 3: Prepaid Expenses

Prepaid expenses consists of the following:

Prepaid Insurance \$ 6,428

Note 4: Fixed Asset Analysis.

The following represents the changes in fixed assets for the year:

	<u>Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>End of Year</u>
Land	\$ 725,000	\$	\$	\$ 725,000
Buildings	6,299,325			6,299,325
Furniture & Equipment-Dwellings	31,815			31,815
Furniture & Equipment-Admin	156,827			156,827
Leasehold Improvements	<u>6,943,277</u>	<u>263,594</u>	<u> </u>	<u>7,206,871</u>
	\$14,156,244	\$ 263,594	\$	\$14,198,838
Less Accumulated Depreciation	<u>8,329,211</u>	<u>483,016</u>	<u> </u>	<u>8,812,227</u>
	<u>\$ 5,827,033</u>	<u>\$ (219,422)</u>	<u>\$ 0</u>	<u>\$ 5,607,611</u>

Note 5: Accrued Liabilities

Accrued Liabilities consist of the following:

Accrued Wages & Benefits \$ 84,776
 Accrued Utilities 47,545
 Financial Statement Total \$ 132,321

Note 6: Retirement

The Commission participates in the City of Mount Clemens Employees Retirement System. The fund requires all full time employees to participate. The employee contributes a percentage of their wages and the Commission contributes a percentage on their behalf. The plan allows for several retirement options, including normal retirement, disability and death benefits. For further information concerning the plan or statistical information, see the audit report provided by the City of Mount Clemens Employees Retirement System.

Note 7: Long Term Debt

The Commission entered into an energy conservation program approved by HUD. The Commission borrowed funds for energy conservation improvements; HUD will freeze the funding for utilities at the 1999 levels, therefore, the additional utility subsidy over the expected cost savings will repay the debt. The following represents the principal and interest obligations over the next five years:

Notes to Financial Statements- continued

Note payable, 5.85% interest payable serially until 2011:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
June 30, 2008	\$ 47,119	\$ 11,830	\$ 58,949
June 30, 2009	47,119	9,710	56,829
June 30, 2010	47,119	7,462	54,581
Thereafter	23,161	3,731	26,892

Due to the unique regulatory constraints of the debt it is impracticable to estimate the fair value of debt.

Note 8: Risk Management

The Commission is exposed to various risks of loss related to property loss, torts, error and omissions and employee injuries. The Commission purchases commercial insurance to cover the risks of these losses. The Commission had the following insurance in effect during the year:

<u>Types of Policies</u>	<u>Coverage's</u>
Property	\$ 24,684,350
General Liability	3,000,000
Automobile Liability	1,000,000
Dishonesty Bond	25,000
Worker's Compensation and other riders: coverage's required by the State of Michigan	

Note 9: Reclassifications.

Certain prior years' balances have been reclassified to conform to the current year's presentation.

Note 10: Combining Financial Data Schedules.

The totals in the combining Balance Sheet and Combining Income Statement represent unconsolidated totals. Under principals of consolidation, inter fund transactions would be eliminated; the totals in the combined statements follow the financial data schedule format recommended by the U.S. Department of Housing and Urban Development's Real Estate Assessment Center (REAC).

Note 11: Subsequent Event- Termination of Annual Contributions

HUD notified the Commission that the Section 8 HAP contract for the Section 8 Mod Rehab Program would be terminated, effective July 1, 2007. The Commission acted as the HAP administrator and received a management fee; the Commission had no part in the decision to transfer the contract, and no recourse in the decision.

Mt. Clemens Housing Commission

30-Jun-07

MI028

Combining Balance Sheet		Low Rent 14.850	Section 8 New Construction	Capital Projects Funds 14.872	TOTAL
Line Item #					
	ASSETS:				
	CURRENT ASSETS:				
	Cash:				
111	Cash - unrestricted	893,378	73,361	-	966,739
112	Cash - restricted - modernization and development	-			-
113	Cash - other restricted				-
114	Cash - tenant security deposits	62,668			62,668
100	Total cash	956,046	73,361	-	1,029,407
	Accounts and notes receivables:				
121	Accounts receivable - PHA projects				-
122	Accounts receivable - HUD other projects	5,800	-	30,265	36,065
124	Accounts receivable - other government				-
125	Accounts receivable - miscellaneous	-			-
126	Accounts receivable- tenants - dwelling rents	13,205			13,205
126.1	Allowance for doubtful accounts - dwelling rents	(486)			(486)
126.2	Allowance for doubtful accounts - other				-
127	Notes and mortgages receivable- current				-
128	Fraud recovery	6,808			6,808
128.1	Allowance for doubtful accounts - fraud	(6,808)			(6,808)
129	Accrued interest receivable				-
120	Total receivables, net of allowances for doubtful accounts	18,519	-	30,265	48,784
	Current investments				-
131	Investments - unrestricted	100,000			100,000
132	Investments - restricted				-
142	Prepaid expenses and other assets	6,428			6,428
143	Inventories				-
143.1	Allowance for obsolete inventories				-
144	Interprogram - due from	68,209	-	-	68,209
146	Amounts to be provided				-
150	TOTAL CURRENT ASSETS	1,149,202	73,361	30,265	1,252,828
	NONCURRENT ASSETS:				
	Fixed assets:				
161	Land	725,000			725,000
162	Buildings	6,299,325			6,299,325
163	Furniture, equipment & machinery - dwellings	31,815	-	-	31,815
164	Furniture, equipment & machinery - administrative	156,208	-	619	156,827
165	Leasehold improvements	6,903,656		303,215	7,206,871
166	Accumulated depreciation	(8,809,334)	-	(2,893)	(8,812,227)
160	Total fixed assets, net of accumulated depreciation	5,306,670	-	300,941	5,607,611
171	Notes and mortgages receivable - non-current				-
172	Notes and mortgages receivable-non-current-past due				-
174	Other assets				-
175	Undistributed debits				-
176	Investment in joint ventures				-
180	TOTAL NONCURRENT ASSETS	5,306,670	-	300,941	5,607,611
190	TOTAL ASSETS	6,455,872	73,361	331,206	6,860,439

	LIABILITIES AND EQUITY:				
	LIABILITIES:				
	CURRENT LIABILITIES				
311	Bank overdraft				-
312	Accounts payable ≤ 90 days	26,521	750		27,271
313	Accounts payable > 90 days past due				-
321	Accrued wage/payroll taxes payable	59,436	-		59,436
322	Accrued compensated absences	7,600			7,600
324	Accrued contingency liability		-		-
325	Accrued interest payable				-
331	Accounts payable - HUD PHA programs		18,185		18,185
332	Accounts Payable - PHA Projects				
333	Accounts payable - other government	21,918	-	-	21,918
341	Tenant security deposits	62,668			62,668
342	Deferred revenues	6,149	-	-	6,149
343	Current portion of Long-Term debt - capital projects	38,516			38,516
344	Current portion of Long-Term debt - operating borrowings				-
345	Other current liabilities	47,749		25,136	72,885
346	Accrued liabilities - other	-	-		-
347	Inter-program - due to	-	63,080	5,129	68,209
310	TOTAL CURRENT LIABILITIES	270,557	82,015	30,265	382,837
	NONCURRENT LIABILITIES:				
351	Long-term debt, net of current- capital projects	126,002			126,002
352	Long-term debt, net of current- operating borrowings				-
353	Noncurrent liabilities- other	-			-
354	Accr. Comp. Absences- non current	68,400			68,400
350	TOTAL NONCURRENT LIABILITIES	194,402	-	-	194,402
300	TOTAL LIABILITIES	464,959	82,015	30,265	577,239
	EQUITY:				
501	Investment in general fixed assets				-
	Contributed Capital:				
502	Project notes (HUD)	-			-
503	Long-term debt - HUD guaranteed	-			-
504	Net HUD PHA contributions	-			-
505	Other HUD contributions	-			-
507	Other contributions	-			-
508	Total Contributed Capital	-	-	-	-
508.1	Invested in Capital Assets, Net of Related Debt	5,142,152	-	300,941	5,443,093
	Reserved fund balance:				
509	Reserved for operating activities				-
510	Reserved for capital activities				-
511	Total reserved fund balance	-	-	-	-
512	Undesignated fund balance/retained earnings	-	-	-	-
512.1	Unrestricted Net Assets	848,761	(8,654)	-	840,107
513	TOTAL EQUITY	5,990,913	(8,654)	300,941	6,283,200
600	TOTAL LIABILITIES AND EQUITY	6,455,872	73,361	331,206	6,860,439

Mt. Clemens Housing Commission

30-Jun-07

MI028

Combining Income Statement		Low Rent 14.850	Section 8 New Construction	Capital Projects Funds 14.872	TOTAL
Line Item #				-	
	REVENUE:	-	-		
703	Net tenant rental revenue	595,222			595,222
704	Tenant revenue - other	17,622			17,622
705	Total tenant revenue	612,844	-	-	612,844
706	HUD PHA grants	702,504	1,810,862	367,038	2,880,404
708	Other government grants				-
711	Investment income - unrestricted	46,745	10,218	-	56,963
712	Mortgage interest income				-
714	Fraud recovery				-
715	Other revenue	62,702	-	-	62,702
716	Gain or loss on the sale of fixed assets	-			-
720	Investment income - restrictec				-
700	TOTAL REVENUE	1,424,795	1,821,080	367,038	3,612,913
	EXPENSES:				
	Administrative				
911	Administrative salaries	96,692	80,000	75,538	252,230
912	Auditing fees	5,775	-		5,775
913	Outside management fees				-
914	Compensated absences	(1,181)			(1,181)
915	Employee benefit contributions- administrative	61,003	39,000	-	100,003
916	Other operating- administrative	40,597	10,285	13,839	64,721
	Tenant services				
921	Tenant services - salaries				-
922	Relocation costs	-			-
923	Employee benefit contributions- tenant services				-
924	Tenant services - other	146			146
	Utilities				
931	Water	146,551			146,551
932	Electricity	75,467			75,467
933	Gas	98,454			98,454
934	Fuel				-
935	Labor				-
937	Employee benefit contributions- utilities				-
938	Other utilities expense	-			-
	Ordinary maintenance & operation				
941	Ordinary maintenance and operations - labor	186,068			186,068
942	Ordinary maintenance and operations - materials & othe	40,685		685	41,370
943	Ordinary maintenance and operations - contract costs	285,604		13,383	298,987
945	Employee benefit contributions- ordinary maintenance	118,418			118,418
	Protective services				

MT. CLEMENS HOUSING COMMISSION
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2007

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Direct Programs:

	<u>Annual Program Expenditures</u>
* <u>CFDA 14.850 Public and Indian Housing</u>	
C-3047 Operating Subsidies	\$ <u>702,504</u>
* <u>CFDA 14.182 Housing Assistance Programs</u>	
C-3190 Section 8 New Construction	\$ <u>1,810,862</u>
* <u>CFDA 14.872 Capital Fund Program</u>	
C-3047 Capital Projects Funds	\$ <u>367,038</u>
	\$ <u>2,880,404</u>

Significant Account Policies

The accounting policies of the Commission conform to generally accepted accounting principles as applicable to governmental proprietary funds. The financial statements contained in the Commission's annual audit report are prepared on the accrual basis of accounting; revenues are recognized when earned, expenses are recorded when the related services or product are received.

*Connotes Major Program Category

MT. CLEMENS HOUSING COMMISSION
Status of Prior Audit Findings
June 30, 2007

The prior audit of the Mt. Clemens Housing Commission for the period ended June 30, 2006, did not contain any audit finding.

MT. CLEMENS HOUSING COMMISSION
Report on Internal Control over Financial Reporting and on
Compliance and Other Matters based on an Audit of
Financial Statements Performed in Accordance with
Governmental Auditing Standards
June 30, 2007

I have audited the financial statements of the Mt. Clemens Housing Commission of Mt. Clemens, Michigan, as of and for the year ended June 30, 2007, and have issued my report thereon dated July 30, 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 Commission's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing my opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Mt. Clemens Housing Commission'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. I did not consider any of the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.

My consideration of the internal control over compliance 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. I did not identify any deficiencies in internal control over financial reporting that I consider to be a material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission'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 or other matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying schedule of findings and questioned costs.

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

Certified Public Accountant
Hemlock, Michigan
July 30, 2007

MT. CLEMENS HOUSING COMMISSION
 Report on Compliance with Requirements Applicable
 to Each Major Program and on Internal Control over Compliance in
 Accordance with OMB Circular A-133
 June 30, 2007

Compliance

I have audited the compliance of the Mt. Clemens Housing Commission of Mt. Clemens, Michigan, 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, 2007. The Commission's major federal programs are identified in the summary of auditors' 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 Commission's management. My responsibility is to express an opinion on the Commission'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; 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 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 Commission'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 Commission's compliance with those requirements.

In my opinion, the Commission 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, 2007. However, the results of my 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:

Low Rent Public Housing:

<u>Finding</u>	<u>Audit Number</u>	<u>Compliance Requirements</u>
Upfront Income Verification (UIV) Discrepancies	07-1	Eligibility
Control Deficiency- Lines of Authority	07-2	Other

Internal Control Over Compliance

The management of the Commission 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 Commission'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 the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the Commission's internal control over compliance.

My consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, I identified certain deficiencies in internal control over compliance that I 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 non-compliance 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. I considered the deficiencies in internal control over compliance as described above.

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

Mt. Clemens Housing Commission's response to the findings identified in my audit are described in the accompanying schedule of findings and question costs. I did not audit Mt. Clemens Housing Commission's response and, accordingly, I express no opinion on it.

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

Certified Public Accountant
Hemlock, Michigan
July 30, 2007

MT. CLEMENS HOUSING COMMISSION
 Schedule of Findings and Questioned Cost
 June 30, 2007

Summary of Auditor's Results:

Programs:

	Major Program	Non Major Program
Low income Public Housing	X	
Housing Assistance Program	X	
Capital Projects Funds	X	

Opinions:

General Purpose Financial Statements-

Unqualified

Material weakness(es) noted	_____ Yes	___X___ No
Control Deficiency (ies) noted	_____ Yes	___X___ No
Non Compliance material to financial statements noted	_____ Yes	___X___ No

Report on compliance for Federal programs-

Qualified

Material weakness(es) noted	_____ Yes	___X___ No
Control Deficiency (ies) noted	___X___ Yes	_____ No
Non Compliance material to financial statements noted	_____ Yes	___X___ No

Thresholds:

Dollar limit used to determine type A & B programs- \$ 300,000

The Auditee did not qualify as a low risk auditee.

<u>Name of Federal Program</u>	<u>Major Program</u>	<u>Questioned Costs</u>	<u>Audit Finding Number</u>
Public and Indian Housing	Yes	None	7-1; 7-2
Housing Assistance Program	Yes	None	N/A
Capital Fund Projects	Yes	None	N/A

MT. CLEMENS HOUSING COMMISSION
Schedule of Findings
June 30, 2007

The following findings of the Mt. Clemens Housing Commission, for the year ended June 30, 2007, were discussed with the Executive Director, Mr. Earl Rickman, in an exit interview conducted December 28, 2007.

Finding 1: Upfront Income Verification (UIV) Discrepancies.

The Commission uses the UIV system, however, does not have a designated Security Officer or equivalent, a Security Policies and Procedure document, or Security Awareness Training for its employees.

Recommendation

The Commission uses the HUD-provided UIV tools, protects client confidentiality, and protects sensitive client data, however, the Commission has not provided required Security Awareness Training and does not have a written Security Policies and Procedure document.

I recommend the Commission prepare the required policy and provide training for its employees.

Reply

The Mt. Clemens Housing Commission shall establish written policies and procedures compliant with HUD for access and security and provide staff training.

Finding 2: Control Deficiency- Lines of Authority.

The Commission is a component unit of the city of Mt. Clemens; the Director and Occupancy Specialist are employees of the Commission, all other employees are city employees and members of unions. Issues arise when non union, non city employees are charged with the responsibility of Management and disciplinary actions.

Recommendation

The staffing of the Commission has evolved over the years; currently, the top management are not members of the union or city, and yet they are expected to manage the Commission's employees- when corrections or disciplinary actions are required, the Director has to appeal to the city and union to enforce any corrective actions; then the city or union reviews the case and chooses to either act upon the recommendations of management or dismiss the claim. This method of management is very counter-productive and ineffective; if the matter is not acted upon, the employees know what power (or lack of) the Director has regarding their actions.

I believe this constitutes a deficiency in operation; 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. The lines of authority are broken when the Director lacks the apparent authority to implement disciplinary actions without gaining approval from the city or union.

I recommend the Commission consider one of the following alternatives:

- 1) Separate from the City, negotiate directly with the unions and have all the employees be Commission employees rather than City employees.
- 2) Have the Director and Occupancy specialist become City employees, thereby having direct line of authority over all employees within the Department.
- 3) Have a written understanding with the City that the Director has direct line authority with the right to discipline all Commission employees and speak on behalf of the City concerning union issues.

I believe any of the above would give the Director and Occupancy Specialist the authority to manage the staff.

Reply

The Board of Commissioners of the Mt. Clemens Housing Commission shall enter into negotiations with the City of Mt. Clemens' officials and City Manager in an attempt to resolve this issue.

The Director has no control over this governance function; however, I do provide pertinent information to the Commissioners for their review prior to making decision.

There will also be a need to have legal counsel direct the board on all matters that would change the working agreement and relationship between the City and the Housing Commission.

This matter is more complicated and far reaching than just stating we will change how we operate the Commission.