

**CITY COUNCIL
COMMUNICATION:**

ITEM _____

**OFFICE OF THE CITY MANAGER
CITY OF DES MOINES, IOWA**

99-131

SYNOPSIS -

AGENDA:

In response to questions posed by City Council at the February 15, 1999, meeting, the external financial auditor of the Municipal Housing Agency has prepared a consulting report with additional analysis and recommendations. The three-page executive summary in the attached report highlights the auditors' conclusions.

APRIL 5, 1999

SUBJECT:

FOLLOW-UP
INFORMATION FOR
MUNICIPAL HOUSING
AGENCY 1998 AUDIT

FISCAL IMPACT -

None.

TYPE:

RECOMMENDATION -

RESOLUTION
ORDINANCE

Receive and file.

RECEIVE/FILE

BACKGROUND -

SUBMITTED BY:

KEVIN RIPER
FINANCE DIRECTOR

WILLIAM WILKINS
HOUSING SERVICES
DIRECTOR

Financial reporting for the Municipal Housing Agency is doubly complex because different regulatory bodies require different accounting treatment for the Agency. The U.S. Department of Housing and Urban Development (HUD), which provides most of the funds for the Agency, imposes its own set of accounting rules (HUD accounting). The Governmental Accounting Standards Board, on the other hand, imposes generally accepted accounting principles (GAAP) on the City as a whole. Since the Municipal Housing Agency is a component unit of the City, its financial results end up being stated both ways-under HUD accounting, and under GAAP.

The attached consulting report-and the brief summary that follows below-delineate which basis of accounting is used in each context. Results of the analysis are:

1. An inadvertent omission by the external financial auditor caused the original budget-to-actual analysis in the Agency's financial statements to show incorrectly an unfavorable variance of nearly half-a-million dollars in the category of Administration and General. Correcting the error results in a favorable variance instead-just over a hundred thousand dollars (HUD basis of accounting).

2. The operating reserves for the two programmatic pieces of the Municipal Housing Agency-public housing and Section 8-were both about twice as high at June 30, 1998, as they were two years earlier, at June 30, 1996. Even so, the public housing operating reserve did decline in the 12 months ending June 30, 1998 (HUD basis of accounting).

3. Under GAAP-as opposed to the HUD basis of accounting-the original financial statements for fiscal year 1998 reported an operating deficit of nearly one million dollars. About 70 percent of this deficit arose from a historical practice of the Agency not to record HUD grants receivable as revenue in the year they were earned. Hayes and Associates, LLC recommends changing this accounting policy, which reduces the total deficit for 1998 to less than \$300,000.

4. Also under GAAP, even after the adjustment described in #3 above, the Agency shows an accumulated fund deficit of \$1.3 million. Hayes and Associates, LLC recommends that the Agency pursue debt forgiveness from HUD for certain project notes payable and associated accrued interest payable. Such forgiveness would eliminate \$2.3 million of liabilities from the Agency's balance sheet, resulting in a positive fund balance of \$1 million. Agency staff intends to pursue the debt forgiveness with HUD.

Attachment