



A COMPONENT UNIT OF THE STATE OF INDIANA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND
INDEPENDENT AUDITORS' REPORTS

December 31, 2012

**INDIANA HOUSING AND 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*

Board of Directors
Indiana Housing and Community Development Authority

We have audited, in accordance with the 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, the financial statements of the business-type activities and each major fund of Indiana Housing and Community Development Authority (the Authority), a component unit of the State of Indiana, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated April 25, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Katz, Sappan & Miller, LLP

Indianapolis, Indiana
April 25, 2013

INDIANA HOUSING AND COMMUNITY DEVELOPMENT AUTHORITY

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended December 31, 2012**

<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 Grants (a)	14.228	\$ 44,290,617	\$ 412,298	\$ 44,702,915
Section 8 Housing Assistance Payments Program (b)	14.195	171,212,763	739,498	171,952,261
HOME Investment Partnerships Program (c)	14.239	17,542,973	7,127,272	24,670,245
Housing Opportunities for Persons with AIDS	14.241	983,959	27,973	1,011,932
Section 8 Housing Choice Vouchers	14.871	24,656,487	736,915	25,393,402
Emergency Solutions Grant Program	14.231	2,209,017	109,586	2,318,603
Shelter Plus Care	14.238	2,547,384		2,547,384
ARRA - Tax Credit Assistance Program*	14.258	30,721,792		30,721,792
Supportive Housing Program	14.235		315,432	315,432
ARRA - Homelessness Prevention and Rapid Re-housing Program*	14.257	2,005,781	181,446	2,187,227
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:				
Community Services Block Grant	93.569	9,745,889	313,042	10,058,931
Low-Income Home Energy Assistance	93.568	23,400,343	62,184,973	85,585,316
Refugee and Entrant Assistance - Discretionary Grants	93.576	154,787		154,787
Assets for Independence Demonstration Program	93.602	1,081,198		1,081,198
U.S. DEPARTMENT OF ENERGY				
Weatherization Assistance for Low-Income Persons	81.042	3,164,742	71,468	3,236,210
ARRA - Weatherization Assistance for Low-Income Persons*	81.042	6,892,175	257,528	7,149,703
U.S. DEPARTMENT OF TREASURY				
Indiana Foreclosure Prevention	21.UNKNOWN	1,787,862	78,705	1,866,567
U.S. DEPARTMENT OF AGRICULTURE				
Rural Rental Housing Loans	10.415		<u>2,092,211</u>	<u>2,092,211</u>
Total Expenditures of Federal Awards		<u>\$ 342,397,769</u>	<u>\$ 74,648,347</u>	<u>\$ 417,046,116</u>

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

(a) The Authority is a subrecipient of Indiana's Office of Community and Rural Affairs for a portion of this program under contract numbers A192-12-1H-PSC-11-011 and A192-12-1H-PSC-12-001. Total federal expenditures under these contracts were \$3,989,124.

(b) The amount passed-through to subrecipients expenditures include \$167,022,298 of Housing Assistance Payments.

(c) The Authority's expenditures include \$6,064,499 of down payment assistance.

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, 2012

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Indiana Housing and Community Development Authority (the Authority), a component unit of the State of Indiana, under programs of the federal government for the year ended December 31, 2012. The information on this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the Authority, it is not intended to and does not present the net position, changes in net position, or cash flows of the Authority.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 - PROGRAM INCOME AND RECAPTURED FUNDS

During 2012, the Authority generated program income and recaptured funds, including the repayment of loans, as follows:

Community Development Block Grants	\$ 2,539,593
Section 8 Housing Assistance Payments Program	31
HOME Investment Partnerships Program	911,817
ARRA – Tax Credit Assistance Program	10,340,779
Community Services Block Grant	88,564
Low-Income Home Energy Assistance	283,849
Assets for Independence Demonstration Program	111,542
Weatherization for Low-Income Persons	8,472
ARRA – Weatherization for Low-Income Persons	50,567
Rural Rental Housing Loans	13,017

NOTE 4 - 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 2012, the Authority granted non-cash assistance in the form of loans as follows:

Community Development Block Grants	\$3,924,325
HOME Investment Partnerships Program	2,990,222
Rural Rental Housing Loans	1,615,186

NOTE 4 - NON-CASH ASSISTANCE (CONTINUED)

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, 2012, the Authority has loans receivable outstanding with continuing compliance requirements as follows:

Community Development Block Grants	\$12,930,996
HOME Investment Partnerships Program	4,957,858
ARRA – Tax Credit Assistance Program	20,381,013
Rural Rental Housing Loans	2,092,211

*Independent Auditors' Report on Compliance For
Each Major Federal Program, on Internal Control
Over Compliance and on the Schedule of Expenditures
of Federal Awards Required by OMB Circular A-133*

Board of Directors
Indiana Housing and Community Development Authority

Report on Compliance for Each Major Federal Program

We have audited Indiana Housing and Community Development Authority's (the Authority) compliance with the types of compliance requirements described in the *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, 2012. The Authority's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

Opinion on Each Major Federal Program

In our opinion, the Authority complied, in all material respects, with the types of compliance 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, 2012.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is 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 item 2012-01. Our opinion on each major federal program is not modified with respect to this matter.

The Authority's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Authority's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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. *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.

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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2012-01, that we consider to be a significant deficiency.

The Authority's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Authority's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the business-type activities and each major fund of the Authority as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements. We issued our report thereon dated April 25, 2013, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming opinion on the financial statements that collectively comprise the basic 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 basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic financial statements as a whole.

Katz, Sappan & Miller, LLP

Indianapolis, Indiana
April 25, 2013

INDIANA HOUSING AND COMMUNITY DEVELOPMENT AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended December 31, 2012

Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified

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: Unmodified

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
14.195	U.S. Department of Housing and Urban Development	Section 8 Housing Assistance Payments Program
14.228	U.S. Department of Housing and Urban Development	Community Development Block Grants
14.239	U.S. Department of Housing and Urban Development	HOME Investment Partnerships 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
14.258	U.S. Department of Housing and Urban Development	ARRA – Tax Credit 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

2012-01 14.239 HOME Investment Partnerships 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 nine of the selected projects. A similar finding was noted during the 2011 audit.

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 no being performed as required. The Authority did not have adequate internal controls over compliance to ensure housing quality standards were performed as required.

Recommendations: 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 will housing quality standards inspections with 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.

INDIANA HOUSING AND COMMUNITY DEVELOPMENT AUTHORITY

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended December 31, 2012

U.S. Department of Housing and Urban Development

2011-01 14.239 HOME Investment Partnerships Program

Significant Deficiency/Special Tests–Housing Quality Standards

Condition: During the period of affordability the Authority must perform on-site inspections to determine compliance with property standards and verify the information submitted by the owners. Inspections were not performed as required for certain projects.

Recommendations: The auditors recommended that the Authority 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 auditors also recommended that the Authority identify all projects that did not receive a timely inspection and perform those inspections as soon as possible.

Current Status: The finding was not resolved during 2012. A similar finding, item 2012-01, was noted in the 2012 audit. The Authority plans to adopt the recommendations in 2013.

2011-02 14.239 HOME Investment Partnerships Program

Significant Deficiency/Reporting–Performance Reporting

Condition: For each grant over \$200,000 that involves housing rehabilitation, housing construction, or other public construction, the Authority must submit Form HUD 60002. The Authority did not submit Form HUD 60002 in 2011 as required.

Recommendations: The auditors recommended that the Authority 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 auditors further recommended that the Authority gather the information required for the submission and ensure the report is submitted to HUD for these agencies and as required in the future.

Current Status: The recommendations were adopted through submitting Form HUD 60002 as required for certain projects during 2012. No similar findings were noted in the 2012 audit.

U.S. Department of Energy

2011-03 81.042 Weatherization Assistance for Low-Income Persons

Significant Deficiency Related to Subrecipient Monitoring

Condition: Detailed review of subgrantee inspections must be maintained by the Authority, noncompliance findings unresolved within forty-five days should be reported to the Project Management Center, and major findings from subgrantee monitoring visits should be tracked by the Authority to final resolution. Findings noted in the project monitoring reports were not always tracked to final resolution.

Recommendations: The auditors recommended that the Authority evaluate processes to monitor the third party contractor utilized to perform project monitoring for this program. The auditors also recommended that the Authority perform an internal review of project monitoring visits performed by this third party contractor to ensure all findings noted in previous reports are resolved.

Current Status: The recommendations were adopted through the evaluation of current processes to monitor the third party contractor. Also, the Authority investigated other project monitoring visits performed by the third contractor and ensured findings noted in these reports were tracked to final resolution. No similar findings were noted in the 2012 audit.