

McGladrey & Pullen

Certified Public Accountants

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

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

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

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

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

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

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

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

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

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

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

X

Davenport, Iowa
Date

the Public Housing Board, City Council, management, and federal awarding agencies and is not intended to be