

# STATE OF MINNESOTA

## Office of the State Auditor



**Rebecca Otto**  
**State Auditor**

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MANAGEMENT AND COMPLIANCE REPORT

**CITY OF DULUTH**  
**DULUTH, MINNESOTA**

YEAR ENDED DECEMBER 31, 2015

## **Description of the Office of the State Auditor**

The mission of the Office of the State Auditor is to oversee local government finances for Minnesota taxpayers by helping to ensure financial integrity and accountability in local governmental financial activities.

Through financial, compliance, and special audits, the State Auditor oversees and ensures that local government funds are used for the purposes intended by law and that local governments hold themselves to the highest standards of financial accountability.

The State Auditor performs approximately 150 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

**Audit Practice** - conducts financial and legal compliance audits of local governments;

**Government Information** - collects and analyzes financial information for cities, towns, counties, and special districts;

**Legal/Special Investigations** - provides legal analysis and counsel to the Office and responds to outside inquiries about Minnesota local government law; as well as investigates allegations of misfeasance, malfeasance, and nonfeasance in local government;

**Pension** - monitors investment, financial, and actuarial reporting for approximately 700 public pension funds; and

**Tax Increment Financing** - promotes compliance and accountability in local governments' use of tax increment financing through financial and compliance audits.

The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**CITY OF DULUTH  
DULUTH, MINNESOTA**

**Year Ended December 31, 2015**



**Management and Compliance Report**

**Audit Practice Division  
Office of the State Auditor  
State of Minnesota**

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**CITY OF DULUTH  
DULUTH, MINNESOTA**

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**CITY OF DULUTH**  
**MANAGEMENT AND COMPLIANCE REPORT**  
**YEAR ENDED DECEMBER 31, 2015**

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**CITY OF DULUTH  
DULUTH, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2015**

**I. SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: **Unmodified**

Internal control over financial reporting:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **Yes**

Noncompliance material to the financial statements noted? **No**

**Federal Awards**

Internal control over major programs:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **None reported**

Type of auditor's report issued on compliance for major federal programs: **Unmodified**

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? **No**

The major federal programs are:

Lead-Based Paint Hazard Control in Privately-Owned Housing	CFDA No. 14.900
Capitalization Grants for Clean Water State Revolving Funds	CFDA No. 66.458
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	CFDA No. 97.036

The threshold for distinguishing between Types A and B programs was \$750,000.

The City of Duluth qualified as a low-risk auditee? **Yes**

**II. FINDINGS RELATED TO FINANCIAL STATEMENTS AUDITED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding 1996-005

Departmental Internal Control

**Criteria:** Management is responsible for establishing and maintaining internal control. In order to maintain proper internal control over City revenue transactions and cash assets, cash collection duties should be segregated so the basic functions of authorization, custody, and recording are not under the control of any one employee.

**Condition:** Due to the limited number of office personnel within the various City departments, proper segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible.

**Context:** The size of the department and its staffing limits the internal control that management can design and implement into the organization.

**Effect:** Unknown errors and irregularities may happen without timely detection.

**Cause:** Limited staffing within the various departments because of cost considerations.

**Recommendation:** Management should be aware of the lack of segregation of the accounting functions within City departments and, if possible, implement oversight procedures to ensure that the internal control policies and procedures are being performed by staff. The City should consider centralizing the cash collection functions under the City Treasurer and recording functions under the City Auditor in order to strengthen the internal control over revenue accounting.

Client's Response:

*The City is aware that, in some departments, staffing levels prevent an ideal segregation of duties. Mitigating controls are implemented when possible. In late 2012, the City implemented a new software system, TRACKiT, in the City's Planning and Construction Services Office (One Stop Shop). Also, in early 2013, the City implemented new procedures for business licensing and permitting in the City Clerk's Office using software that is integrated with the City's financial management system. The new software and procedures strengthen internal controls in the City Clerk's Office and in the One Stop*

*Shop. In 2016, the City is implementing a comprehensive software solution, Rec1, for permits and rentals managed by the Parks & Recreation Department. Finally, payment options now include credit cards. As the use of credit cards increases, the risk of loss diminishes due to the decreased use of cash.*

Finding 2006-002

### Computer Risk Management

**Criteria:** Management is responsible for identifying and managing the risks associated with its computer system. Computer risk management suggests that a formal plan be developed to identify the risks associated with the City's information system and document the internal controls implemented to address the identified risks.

**Condition:** The City has internal controls in place for its computer systems. The City has not completed a formal plan to identify and manage risks associated with its computer systems. However, the City's Management Information Systems Department completed a risk analysis of the City's computer systems which will be used to develop a formal plan on how to manage the identified risks.

**Context:** Staffing limits the development of a formal plan. Without a formal plan, computer risks could exist that are not identified on a timely basis.

**Effect:** Unprotected risks could result in a loss or compromise of data that could negatively influence City operations.

**Cause:** Lack of providing resources needed to develop a formal computer risk management plan.

**Recommendation:** The City administration should develop a plan to ensure that internal controls are in place to reduce the risks associated with the City's computer systems. Internal controls implemented should be documented in a well-maintained policies and procedures manual, which should be communicated to the City's staff. Staff adherence to these policies and procedures should be monitored. Because computer systems are ever changing, the City should include in its plan periodic re-assessment of risks to ensure existing internal controls are still effective.

Client's Response:

*In 2015, IT was unable to fill key vacant positions and had a reduction in administrative support staff which delayed formalization of a Risk Management Plan. IT plans to fill vacant positions as well as adding a Security Administrator position in 2016 to augment the capabilities of risk identification and security infractions as well as aid in the development and ongoing review of the Risk Management and Business Continuity Plan. IT Management continues to update the IT Risk Profile, utilize the ITSC governance process, implement additional vulnerability assessment tools, and formalize additional policies and procedures in accordance with the State of Minnesota OET Enterprise Vulnerability Management Security Standard to ensure internal controls are in place to reduce risk associated with the City's ongoing technology systems. Providing staffing requirements are fulfilled in a timely manner, IT Management will use the ITSC Governance Process, Risk Profile, Assessment Results, and Project Lists to complete the Risk Management Plan in 2016.*

**III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS**

None.



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## **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***

### Independent Auditor's Report

The Honorable Emily Larson, Mayor,  
and Members of the City Council  
City of Duluth, Minnesota

We have audited, 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, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Duluth, Minnesota, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 17, 2016. These financial statements include the Spirit Mountain Recreation Area Authority activities for the year ended April 30, 2015. We issue separate management and compliance reports for the Duluth Airport Authority, the Duluth Economic Development Authority, the Duluth Entertainment and Convention Center Authority, the Duluth Transit Authority, and the Spirit Mountain Recreation Area Authority. This report does not include the results of our audit testing of these component units' internal control over financial reporting or on compliance and other matters. The management and compliance reports for the Duluth Airport Authority and the Duluth Transit Authority include the reports required for a single audit. The results of our testing of the Duluth Economic Development Authority component unit's internal control over financial reporting and on compliance and other matters are reported on separately within this Management and Compliance Report.

## **Internal Control Over Financial Reporting**

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

A deficiency in internal control over financial reporting 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 combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit the attention of those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as items 1996-005 and 2006-002, that we consider to be significant deficiencies.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Duluth'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*.

## **Minnesota Legal Compliance**

The *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested in connection with the audit of the City's financial statements: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories.

In connection with our audit, nothing came to our attention that caused us to believe that the City of Duluth failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Cities*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City's noncompliance with the above referenced provisions.

### **City of Duluth's Response to Findings**

The City of Duluth's responses to the internal control findings identified in our audit have been included in the Schedule of Findings and Questioned Costs. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **Purpose of This Report**

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

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

May 17, 2016

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## **REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE**

### Independent Auditor's Report

The Honorable Emily Larson, Mayor,  
and Members of the City Council  
City of Duluth, Minnesota

#### **Report on Compliance for Each Major Federal Program**

We have audited the City of Duluth's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2015. The City of Duluth's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

The City of Duluth's basic financial statements include the operations of the Duluth Airport Authority and the Duluth Transit Authority component units, which expended \$1,302,037 and \$14,530,004, respectively, in federal awards during the year ended December 31, 2015, which are not included in the Schedule of Expenditures of Federal Awards. Our audit, described below, did not include the operations of the Duluth Airport Authority and the Duluth Transit Authority because they had separate single audits in accordance with the Uniform Guidance.

#### ***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the City of Duluth'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 of America; the standards applicable to financial audits contained in

*Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 City of Duluth'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 City's compliance with those requirements.

#### ***Opinion on Each Major Federal Program***

In our opinion, the City of Duluth 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, 2015.

#### **Report on Internal Control Over Compliance**

Management of the City of Duluth 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 City'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 the Uniform Guidance, 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 City'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 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 the attention of 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Duluth, Minnesota, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We have issued our report thereon dated May 17, 2016, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA) as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) is presented for purposes of additional analysis and is not a required part of the basic financial statements. The SEFA 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. Such information has been subjected to the auditing procedures applied in the audit of the basic 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 of America. In our opinion, the SEFA is fairly stated in all material respects in relation to the basic financial statements as a whole.

### **Purpose of This Report**

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

May 17, 2016

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**CITY OF DULUTH  
DULUTH, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2015**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Pass-Through Grant Numbers</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>	<b>Passed Through to Subrecipients</b>
<b>U.S. Department of Agriculture</b>				
Direct				
Cooperative Forestry Assistance		10.664	\$ 1,500	\$ -
Urban and Community Forestry Program		10.675	21,998	-
<b>Total U.S. Department of Agriculture</b>			<b>\$ 23,498</b>	<b>\$ -</b>
<b>U.S. Department of Housing and Urban Development</b>				
Direct				
Community Development Block Grants/Entitlement Grants		14.218	\$ 2,226,954	\$ 1,606,664
Emergency Solutions Grant Program		14.231	194,737	189,905
Home Investment Partnerships Program		14.239	382,343	347,991
Lead-Based Paint Hazard Control in Privately-Owned Housing		14.900	372,390	365,369
<b>Total U.S. Department of Housing and Urban Development</b>			<b>\$ 3,176,424</b>	<b>\$ 2,509,929</b>
<b>U.S. Department of the Interior</b>				
Passed Through Minnesota Historical Society				
Historic Preservation Fund Grants-In-Aid	27-15-131222	15.904	\$ 364	\$ -
<b>U.S. Department of Justice</b>				
Direct				
Alcohol, Tobacco, and Firearms - Training Assistance Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program		16.012	\$ 96,407	\$ -
Local Law Enforcement Block Grant Program		16.590	195,001	-
Bulletproof Vest Partnership Program		16.592	10,430	-
Edward Byrne Memorial Justice Assistance Grant Program		16.607	17,419	-
		16.738	48,997	-
<b>Total U.S. Department of Justice</b>			<b>\$ 368,254</b>	<b>\$ -</b>
<b>U.S. Department of Labor</b>				
Passed Through Senior Service America, Inc.				
Senior Community Service Employment Program	116	17.235	\$ 247,253	\$ -
Passed Through Minnesota Department of Employment and Economic Development				
Senior Community Service Employment Program	5045100/6045100	17.235	125,908	-
Senior Community Service Employment Program	5045101	17.235	24,951	-
<b>Total CFDA #17.235</b>			<b>\$ 398,112</b>	<b>\$ -</b>
Workforce Innovation and Opportunity Act (WIOA)				
National Dislocated Worker Grants/WIA				
National Emergency Grants	2048900	17.277	\$ 27,915	\$ -

**CITY OF DULUTH  
DULUTH, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2015  
(Continued)**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Pass-Through Grant Numbers</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>	<b>Passed Through to Subrecipients</b>
<b>U.S. Department of Labor</b>				
Passed Through Minnesota Department of Employment and Economic Development (Continued)				
Workforce Investment Act (WIA) Cluster				
WIA/WIOA Adult Program	4043400	17.258	\$ 6,595	\$ -
WIA/WIOA Adult Program	3043100/4043100	17.258	230,092	-
WIA/WIOA Adult Program	5043100	17.258	58,901	-
<b>Total CFDA #17.258</b>			<b>\$ 295,588</b>	<b>\$ -</b>
WIA/WIOA Youth Activities	3043600/4043600	17.259	\$ 71,041	\$ -
WIA/WIOA Youth Activities	5043600	17.259	141,862	-
<b>Total CFDA #17.259</b>			<b>\$ 212,903</b>	<b>\$ -</b>
WIA/WIOA Dislocated Worker Formula Grants	3048000/4048000	17.278	\$ 81,576	\$ -
WIA/WIOA Dislocated Worker Formula Grants	5048000	17.278	8,230	-
<b>Total CFDA #17.278</b>			<b>\$ 89,806</b>	<b>\$ -</b>
(Total expenditures for WIA Cluster \$598,297)				
<b>Total U.S. Department of Labor</b>			<b>\$ 1,024,324</b>	<b>\$ -</b>
<b>U.S. Department of Transportation</b>				
Passed Through Minnesota Department of Transportation				
Highway Planning and Construction Cluster				
Highway Planning and Construction	99887	20.205	\$ 1,531,922	\$ -
Highway Planning and Construction	94505	20.205	98,022	-
Passed Through Minnesota Department of Public Safety				
Highway Planning and Construction Cluster				
Highway Planning and Construction Emergency Relief Program	ER MN 12	20.205	579,207	-
<b>Total CFDA #20.205</b>			<b>\$ 2,209,151</b>	<b>\$ -</b>
Passed Through Minnesota Department of Natural Resources				
Highway Planning and Construction Cluster				
Recreational Trails Program	78665	20.219	\$ 150,000	\$ -
Recreational Trails Program	47856	20.219	79,626	-
<b>Total CFDA #20.219</b>			<b>\$ 229,626</b>	<b>\$ -</b>
(Total expenditures for Highway Planning and Construction Cluster \$2,438,777)				

**CITY OF DULUTH  
DULUTH, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2015  
(Continued)**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Pass-Through Grant Numbers</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>	<b>Passed Through to Subrecipients</b>
<b>U.S. Department of Transportation (Continued)</b>				
Passed Through Minnesota Department of Public Safety				
Highway Safety Cluster				
State and Community Highway Safety	A-ENFRC15-2015-DULUTHPD-00004	20.600	\$ 17,513	\$ 11,739
State and Community Highway Safety	A-ENFRC16-2016-DULUTHPD-00063	20.600	1,200	1,014
<b>Total CFDA #20.600</b>			<b>\$ 18,713</b>	<b>\$ 12,753</b>
Minimum Penalties for Repeat Offenders for Driving While Intoxicated				
	A-ENFRC15-2015-DULUTHPD-00004	20.608	\$ 209,007	\$ 99,603
Minimum Penalties for Repeat Offenders for Driving While Intoxicated				
	A-ENFRC16-2016-DULUTHPD-00063	20.608	51,249	23,631
Minimum Penalties for Repeat Offenders for Driving While Intoxicated				
	A-OFFICR15-2015-DULUTHPD-00004	20.608	19,049	-
Minimum Penalties for Repeat Offenders for Driving While Intoxicated				
	A-OFFICR16-2016-DULUTHPD-0002	20.608	51,059	-
<b>Total CFDA #20.608</b>			<b>\$ 330,364</b>	<b>\$ 123,234</b>
Highway Safety Cluster				
National Priority Safety Programs	A-ENFRC15-2015-DULUTHPD-00004	20.616	\$ 22,856	\$ 8,275
National Priority Safety Programs	A-ENFRC16-2016-DULUTHPD-00063	20.616	12,276	3,190
National Priority Safety Programs	A-OFFICR15-2015-DULUTHPD-00004	20.616	9,382	-
National Priority Safety Programs	A-OFFICR16-2016-DULUTHPD-0002	20.616	8,588	-
<b>Total CFDA #20.616</b>			<b>\$ 53,102</b>	<b>\$ 11,465</b>
(Total expenditures for Highway Safety Cluster \$71,815)				
<b>Total U.S. Department of Transportation</b>			<b>\$ 2,840,956</b>	<b>\$ 147,452</b>
<b>U.S. Environmental Protection Agency</b>				
Direct				
Urban Waters Small Grants		66.440	\$ 26,085	\$ -
Great Lakes Program		66.469	59,391	-
Brownfields Assessment and Cleanup Cooperative Agreements				
		66.818	133,587	-
<b>Total Direct</b>			<b>\$ 219,063</b>	<b>\$ -</b>
Passed through Minnesota Department of Employment and Economic Development				
Capitalization Grants for Clean Water State Revolving Funds				
	MPFA-11-0076-R-FY12	66.458	\$ 61,042	\$ -
Capitalization Grants for Clean Water State Revolving Funds				
	MPFA-13-0050-R-FY15	66.458	681,409	-
<b>Total CFDA #66.458</b>			<b>\$ 742,451</b>	<b>\$ -</b>

**CITY OF DULUTH  
DULUTH, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2015  
(Continued)**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Pass-Through Grant Numbers</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>	<b>Passed Through to Subrecipients</b>
<b>U.S. Environmental Protection Agency</b>				
Passed through Minnesota Department of Employment and Economic Development (Continued)				
Capitalization Grants for Drinking Water State Revolving Funds	MPFA-11-0074-R-FY12	66.468	\$ 173,855	\$ -
Capitalization Grants for Drinking Water State Revolving Funds	MPFA-14-0030-R-FY14	66.468	143,734	-
<b>Total CFDA #66.468</b>			<b>\$ 317,589</b>	<b>\$ -</b>
<b>Total U.S. Environmental Protection Agency</b>			<b>\$ 1,279,103</b>	<b>\$ -</b>
<b>U.S. Department of Health and Human Services</b>				
Passed Through Minnesota Department of Employment and Economic Development				
Temporary Assistance for Needy Families	6047400	93.558	\$ 10,000	\$ -
<b>U.S. Department of Homeland Security</b>				
Direct				
Assistance to Firefighters Grant		97.044	\$ 218,940	\$ -
Port Security Grant Program		97.056	51,322	-
Passed Through Minnesota Department of Public Safety				
Emergency Management Performance Grants	A-EMPG-2015-DULUTHCI-00022	97.042	46,279	-
Homeland Security Grant Program	A-DECN-SHSP-2014-NERRB-0003	97.067	17,577	-
(Total Homeland Security Grant Program 97.067 \$55,344)				
Passed Through Minnesota Department of Transportation				
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	4069DRMNP0000001	97.036	1,071,328	-
Passed Through Minnesota Homeland Security and Management				
Hazard Mitigation Grant	FEMA-4069-DR-MN	97.039	414	-
Passed Through St. Louis County				
Homeland Security Grant Program	A-OSGP-2013-STLOUICO-00007	97.067	37,767	-
(Total Homeland Security Grant Program 97.067 \$55,344)				
<b>Total U.S. Department of Homeland Security</b>			<b>\$ 1,443,627</b>	<b>\$ -</b>
<b>Total Federal Awards</b>			<b>\$ 10,166,550</b>	<b>\$ 2,657,381</b>



**CITY OF DULUTH  
DULUTH, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2015**

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1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by the City of Duluth. It does not include \$1,302,037 and \$14,530,004 in federal awards expended by the Duluth Airport Authority and the Duluth Transit Authority, respectively, component units of the City, which had separate single audits. The City's reporting entity is defined in Note 1 to the financial statements.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Duluth under programs of the federal government for the year ended December 31, 2015. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the City of Duluth, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City of Duluth.

3. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The City of Duluth has elected not to use the 10 percent de minimus indirect cost rate allowed under the Uniform Guidance.

**CITY OF DULUTH  
DULUTH, MINNESOTA**

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4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$	9,387,073
Grants received more than 45 days after year-end, unavailable in 2015		
Community Development Block Grants/Entitlement Grants		84,651
Disaster Grants - Public Assistance (Presidentially Declared Disasters)		1,523,253
Emergency Solutions Grant Program		2,315
Great Lakes Program		40,244
Hazard Mitigation Grant		6,221
Highway Planning and Construction		633,063
Highway Planning and Construction - Emergency Relief Program		271,298
Home Investment Partnerships Program		1,427
Lead-Based Paint Hazard Control in Privately-Owned Housing		139,659
Minimum Penalties for Repeat Offenders for Driving While Intoxicated		33,622
WIA/WIOA Adult Program		14,177
WIA/WIOA Youth Activities		2,748
WIA/WIOA Dislocated Worker Formula Grants		422
Unavailable in 2014, recognized as revenue in 2015		
Community Development Block Grants/Entitlement Grants		(262,054)
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii		(3,275)
Disaster Grants - Public Assistance (Presidentially Declared Disasters)		(1,616,890)
Emergency Solutions Grant Program		(4,461)
Highway Planning and Construction		(14,080)
Highway Planning and Construction - Emergency Relief Program		(1,140,540)
Home Investment Partnerships Program		(9,996)
Urban and Community Forestry Program		(16,831)
Timing differences between expenditures and related reimbursements		(18,466)
Capital grants received in enterprise funds		
Capitalization Grants for Clean Water State Revolving Funds		742,451
Capitalization Grants for Drinking Water State Revolving Funds		317,589
Grant received by Component Unit - Duluth Economic Development Authority		
Brownfields Assessment and Cleanup Cooperative Agreements		52,930
		<hr/>
Expenditures Per Schedule of Expenditures of Federal Awards	\$	<u>10,166,550</u>

**DULUTH ECONOMIC DEVELOPMENT AUTHORITY  
MANAGEMENT AND COMPLIANCE REPORT**

**YEAR ENDED DECEMBER 31, 2015**

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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## **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***

### Independent Auditor's Report

Board of Commissioners  
Duluth Economic Development Authority  
Duluth, Minnesota

We have audited, 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, the financial statements of the City of Duluth, Minnesota, which include as supplementary information, the financial statements of the Duluth Economic Development Authority, a discretely presented component unit, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 17, 2016.

### **Internal Control Over Financial Reporting**

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

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting 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 Duluth Economic Development 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*.

### **Minnesota Legal Compliance**

The *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains six categories of compliance to be tested in connection with the audit of the Authority's financial statements: contracting and bidding, deposits and investments, conflicts of interest, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories in conjunction with the audit of the financial statements of the City of Duluth.

In connection with our audit, nothing came to our attention that caused us to believe that the Duluth Economic Development Authority failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Authority's noncompliance with the above referenced provisions.

## **Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting, compliance, and the provisions of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions* and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

May 17, 2016