

# STATE OF MINNESOTA

## Office of the State Auditor



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

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**MANAGEMENT AND COMPLIANCE REPORT**

**CITY OF SAINT PAUL**  
**SAINT PAUL, MINNESOTA**

**YEAR ENDED DECEMBER 31, 2013**

## **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 160 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 730 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 SAINT PAUL  
SAINT PAUL, MINNESOTA**

**Year Ended December 31, 2013**



**Management and Compliance Report**

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

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**CITY OF SAINT PAUL  
SAINT PAUL, MINNESOTA**

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**CITY OF SAINT PAUL  
SAINT PAUL, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

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

**Financial Statements**

Type of auditor's report issued: **Unmodified**

Internal control over financial reporting:

- Material weaknesses identified? **Yes**
- Significant deficiencies identified? **Yes**

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

**Federal Awards**

Internal control over major programs:

- Material weaknesses identified? **Yes**
- Significant deficiencies identified? **Yes**

Type of auditor's report issued on compliance for major programs: **Unmodified for all major programs except for Highway Planning and Construction (CFDA No. 20.205) which is qualified.**

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? **Yes**

The major programs are:

Community Development Block Grants/Entitlement Grants	CFDA #14.218
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	CFDA #14.228
Neighborhood Stabilization Program - ARRA	CFDA #14.256
Highway Planning and Construction	CFDA #20.205
Assistance to Firefighters Grant	CFDA #97.044
Homeland Security Grant Program	CFDA #97.067

The threshold for distinguishing between Types A and B programs was \$749,352.

City of Saint Paul qualified as a low-risk auditee? **No**

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

### INTERNAL CONTROL

#### PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding 2012-001

#### Monitoring Internal Controls

**Criteria:** Management is responsible for developing and monitoring its internal controls over the various accounting cycles. The monitoring process includes performing an annual risk assessment of existing controls over significant functions of its accounting system used to produce financial information, documenting the significant internal controls for each transaction cycle/account balance, monitoring those controls on a regular basis, and documenting the monitoring activity performed.

**Condition:** Management has not yet formalized its assessment of risks in its review of internal controls, nor has it documented the significant internal controls, performed monitoring of those controls on a regular basis, or documented the monitoring activity.

**Context:** Assessing risk and monitoring transaction cycles and account balances ensures activity is being properly recorded and reported in the financial statements.

**Effect:** Without monitoring of internal controls, management cannot be assured that internal controls are operating effectively and transactions are processed according to policy.

**Cause:** Management determined that it was not cost-effective, since the FM System (financial accounting system) is being replaced as of January 1, 2014.

**Recommendation:** We recommend that the City document the significant internal controls in the accounting system and formalize a plan to assess and monitor these controls on a regular basis, no less than annually. Significant functions and internal controls include and cover such areas as cash, capital assets, major funding sources, expenditure processing, and payroll. The monitoring of these functions and areas should be documented to show the results of the review, changes required as a result of the risk assessment, and who performed the work.

Client's Response:

*As part of the City's software conversion process that went live in January 2014, the City's entire internal control process was reviewed and changed. The City continued to assess these new controls in 2014 and will reassess on an annual basis.*

Finding 2012-002

Procurement Cards

**Criteria:** Cities have authority to make purchases using credit cards. The statutes authorizing credit card use by public entities restrict the use of credit cards to purchases for the public entity. No personal use of the credit card is permitted.

The City has adopted a Procurement Card Policy, which includes management and internal control procedures. Internal control procedures over the use of credit cards include the timely submission to department heads of itemized proof of purchases, the monthly reconciliation of credit card statements by the Office of Financial Services (OFS) to all receipts and supporting documentation, the limit on transactions to no more than \$2,500, maintaining documentation for the initial approval to receive and use a procurement card, and inactivating cards for noncompliant employees.

**Condition:** During procurement card testing and inquiry of staff, the following issues were noted for the 2013 audit:

- As we reported in the previous audit, there continues to be evidence of the splitting of payments to bypass the \$2,500 procurement card limit. This was noted for several different employees, and some employees were noted for several of these infractions.
- The City could not provide documentation for the initial authorization of another employee to receive a procurement card.
- Employees who were identified as being noncompliant with procurement card policies continue to not have their cards inactivated as the procurement policy states.

**Context:** The City has several written policies and procedures for the use of the procurement cards and the review of the transactions. Deviations to these policies and procedures were noted at most steps of the procurement card process (authorization, use, documentation, and review).

**Effect:** Improper use of procurement cards increases the likelihood for misuse of City funds.

**Cause:** The appropriate consequences, as stated in the City's policies and procedures, have not been enforced for employees who have not complied with the procurement card policies.

**Recommendation:** We recommend the City continue to perform its monitoring of the procurement cards transactions on a timely basis and enforce the appropriate consequences when deviations are noted.

Client's Response:

*The City will continue to educate card holders and their supervisors on the proper use of procurement cards, policies and procedures relating to employee procurement cards, and enforce the consequences of noncompliance.*

Finding 2012-003

Departmental Internal Controls

**Criteria:** Management is responsible for establishing and maintaining internal control. The City should design and implement controls to protect from the risk of loss of revenue, inventory, and other assets.

**Condition:** Several internal control deficiencies were noted during a site visit to one of the Parks Department recreation centers (the Center) for the 2012 audit. A follow-up site visit was conducted for the 2013 audit. The Center resolved previously noted internal control deficiencies relating to employee access to the safe and tracking electronic ID access cards for the facility. The following internal control deficiencies still exist:

- There is no inventory system or tracking procedure for the concession stand inventory.
- There is no inventory system or tracking procedure for the small workout equipment. These items could easily be taken without knowledge to the Center.
- The Center does not reconcile the number of wristbands given out (for pool access) to the number sold in the financial system.

**Context:** The Center is currently working on an inventory system with ActiveNet for its concession inventory.

**Effect:** A lack of controls over inventory and the reconciliation of wristbands puts the City at risk for the loss of revenue. A lack of controls over small assets puts the City at risk for theft of assets.

**Cause:** Lack of policies and procedures designed and implemented to provide oversight and safeguards for revenues and assets. The Center was unsure of the best way to reconcile wristbands to the financial system.

**Recommendation:** Management should implement controls over its inventory, small equipment, and wristbands in order to protect the City from loss of revenue and assets.

Client's Response:

*The City eliminated several components of this finding during 2013 and will continue to work to resolve the remaining components by working on an inventory system for its concession inventories and reviewing and assessing current controls over inventory and making modifications as necessary.*

ITEM ARISING THIS YEAR

Finding 2013-001

Prior Period Adjustment

**Criteria:** 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 of the financial statements on a timely basis. One indication of a weakness in internal control is restatement of previously issued financial statements to reflect the correction of misstatements due to error.

**Condition:** During 2013, Public Works staff identified the need to restate the beginning net position of the Sewer Utility Enterprise Fund. The January 1, 2013, net position of the Sewer Utility Enterprise Fund was restated to correct the public improvements and construction in progress capital asset accounts that were understated.

**Context:** The need for prior period adjustments can raise doubts as to the reliability of the City's financial information being processed.

**Effect:** The January 1, 2013, net position of the Sewer Utility Enterprise Fund and the business-type activities were restated to correct the public improvements and construction in progress capital asset accounts which were understated by \$6,196,012, and \$3,803,303, respectively. The January 1, 2013, net position of the Sewer Utility Enterprise Fund and the business-type activities were restated by \$9,999,315 to adjust for the capital asset accounts restatements.

**Cause:** Public Works staff re-examined the Sewer Utility Enterprise Fund's capital maintenance programs and determined that a portion of expensed maintenance costs, primarily lining, should have been capitalized since the useful life of the public improvements was extended.

**Recommendation:** We recommend Public Works staff perform timely and thorough reviews of the Sewer Utility Enterprise Fund's capital maintenance programs and determine costs that are appropriate to capitalize and amortize are recorded in the proper year.

Client's Response:

*The Public Works staff will perform periodic and thorough reviews of their capital maintenance programs to determine costs that should be capitalized. Additionally, the Office of Financial Services (OFS) will begin implementing periodic meetings with OFS and other departmental accountants. The purpose of these meetings, in part, will be to identify complex transactions to assure that they are recorded correctly to minimize the occurrence of prior period adjustments in the future.*

PREVIOUSLY REPORTED ITEMS RESOLVED

**Financial Statements (2010-002)**

The information that was to be included in the City's Comprehensive Annual Financial Report (CAFR) submitted to the auditors required numerous revisions affecting both the financial statements and the related notes.

**Resolution**

There were few revisions needed for the 2013 CAFR.

**Audit Adjustments (2011-002)**

During the previous audits, we identified significant adjustments that resulted in changes to the City's and to the Housing and Redevelopment Authority's (HRA) financial statements.

**Resolution**

There were no similar adjustments noted in 2013.

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

#### PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding 2012-004

#### Reporting

**Direct Federal Programs:** U.S. Department of Housing and Urban Development (HUD)'s Community Development Block Grants/Entitlement Grants (CFDA No. 14.218)

**Programs Passed Through Minnesota Housing Finance Agency (MHFA):** U.S. Department of Housing and Urban Development (HUD)'s Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii (CFDA No. 14.228)

**Criteria:** OMB Circular A-133 § .300(b) states that the auditee shall maintain internal control over federal programs that provides reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its programs.

**Condition:** The City of Saint Paul's Human Rights and Equal Economic Opportunity (HREEO) Department and Planning and Economic Development (PED) Department prepare reports to be submitted to HUD to comply with federal program requirements. It was noted that the SF-425 report and Section 3 reports are not formally reviewed by someone other than the preparer prior to its submission to HUD. Also for the reimbursement requests for CFDA No. 14.228, the review by someone other than the preparer was not documented prior to submission to the MHFA. A review by a supervisor or other individual familiar with the program requirements would help to ensure the data reported are accurate and complete.

**Questioned Costs:** None.

**Context:** Because of the lack of a formal review of the reports for these programs, we performed a more detailed examination of the reports to ensure the data reported were accurate and complete.

**Effect:** The lack of a formal review increases the potential risk that errors or omissions may occur and not be detected prior to report submission to HUD.

**Cause:** Policies and procedures requiring a formal review of all reports submitted to HUD were not in place.

**Recommendation:** We recommend the City establish and implement policies and procedures to provide reasonable assurance that information reported to HUD is subject to review by someone other than the preparer prior to its submission.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

*Dave Blumberg, Office of Financial Services*

Corrective Action Planned:

*All PED personnel submitting reports to HUD will route their reports to the Head of the PED Federal Grants Section, who will review and sign off on the report before submitting to HUD. Additionally, the Office of Financial Services will hold instructional classes on the requirements of OMB Circular A-133 with applicable departments. The classes will assist departments with the various compliance requirements and how to comply with them.*

Anticipated Completion Date:

*September 30, 2014*

ITEMS ARISING THIS YEAR

Finding 2013-002

Activities Allowed or Unallowed

**Program:** U.S. Department of Housing and Urban Development (HUD)'s Neighborhood Stabilization Program - ARRA (CFDA No. 14.256)

**Pass-Through Agency:** None.

**Criteria:** OMB Circular A-133, § .300(b), indicates auditee responsibilities include maintaining internal controls over federal programs that provide reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have material effects on each of its federal programs.

**Condition:** The City requested and received reimbursement on the purchase of three properties. Upon further review, City staff determined the purchase fell outside of the program guidelines.

**Questioned Costs:** \$28,809

**Context:** The Neighborhood Stabilization Program uses funds to purchase and redevelop foreclosed and abandoned homes and residential properties that will allow those properties to turn into useful, safe, and sanitary housing.

**Effect:** The City expended federal funds for the purchase of three properties that were not allowable under program guidelines and will have to repay the funds.

**Cause:** The purchases were not reviewed by another staff person knowledgeable of the grant requirements before payment was made.

**Recommendation:** We recommend that someone other than the person initially approving the disbursement review and authorize the expenditure to be paid. This review and approval should be documented.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

*Dave Blumberg, Office of Financial Services*

Corrective Action Planned:

*The Office of Financial Services will hold instructional classes on the requirements of OMB Circular A-133 with applicable departments. The classes will assist departments with the various compliance requirements and how to comply with them.*

Anticipated Completion Date:

*September 30, 2014*

Finding 2013-003

Cash Management

**Program:** U.S. Department of Transportation's Highway Planning and Construction Program (CFDA No. 20.205)

**Pass-Through Agency:** Minnesota Department of Transportation

**Criteria:** OMB Circular A-133 Compliance Supplement 2013, Part 3, C. Cash Management states that, when entities are funded on a reimbursement basis, the costs for which reimbursement was requested should be paid prior to the date of the reimbursement request.

**Condition:** The City requested reimbursement from the pass-through agency for federal program expenditures before some of the costs for which reimbursement was requested were paid.

**Questioned Costs:** None.

**Context:** This occurred on five reimbursement requests during 2013 totaling \$325,570.

**Effect:** Noncompliance with federal cash management requirements.

**Cause:** City staff stated they thought the expenditure only had to be incurred and not necessarily paid prior to the reimbursement being requested.

**Recommendation:** We recommend the City follow the OMB Circular A-133 Compliance Supplement that coincides with the calendar year and pay its vendors prior to requesting federal reimbursement from the pass-through agency.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

*Dave Blumberg, Office of Financial Services*

Corrective Action Planned:

*The Office of Financial Services will hold instructional classes on the requirements of OMB Circular A-133 with applicable departments. The classes will assist departments with the various compliance requirements and how to comply with them.*

Anticipated Completion Date:

*September 30, 2014*

Finding 2013-004

Procurement and Suspension and Debarment

**Direct Federal Programs:** U.S. Department of Housing and Urban Development (HUD)'s Community Development Block Grants/Entitlement Grants (CFDA No. 14.218) and Neighborhood Stabilization Program - ARRA (CFDA No. 14.256)

**Program Passed Through Minnesota Housing Finance Agency (MHFA):** U.S. Department of Housing and Urban Development (HUD)'s Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii (CFDA No. 14.228)

**Program Passed Through Metropolitan Council:** U.S. Department of Transportation's Federal Transit Capital Investment Grants (CFDA No. 20.500)

**Criteria:** Federal Regulation 45 C.F.R. § 92.35 prohibits any state or agency from purchasing goods and services with federal money from vendors who have been suspended or debarred by the federal government.

**Condition:** The City entered into contracts with vendors for projects that were federally funded. These contracts did not include suspension and debarment language, nor was verification performed to determine these vendors were not suspended or debarred at the time the contract was awarded.

**Questioned Cost:** None.

**Context:** The contractors hired by the City to work on federally funded projects may have been suspended or debarred, yet payments were made to these contractors.

**Effect:** The City had no assurance that its contractors on projects funded with federal awards have not been suspended or debarred by the federal government.

**Cause:** City staff stated they had checked the sam.gov website to determine if the vendor was suspended or debarred and printed the results. However, they were unable to locate the documentation.

**Recommendation:** We recommend the City develop written policies and procedures to ensure compliance with the requirements over procurement and suspension and debarment. Such procedures should be completed prior to awarding contracts to vendors on federally funded projects. Documentation should exist to support the monitoring of and compliance with this requirement.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

*Dave Blumberg, Office of Financial Services*

Corrective Action Planned:

*The City will develop written policies and procedures to ensure compliance with the requirements over procurement and suspension and debarment. Additionally, the Office of Financial Services will hold instructional classes on the requirements of OMB Circular A-133 with applicable departments. The classes will assist departments with the various compliance requirements and how to comply with them.*

Anticipated Completion Date:

*September 30, 2014*

Finding 2013-005

Reporting - Transparency Act

**Program:** U.S. Department of Housing and Urban Development (HUD)'s Community Development Block Grants/Entitlement Grants (CFDA No. 14.218)

**Pass-Through Agency:** None.

**Criteria:** As required by the Federal Funding Accountability and Transparency Act (FFATA) and subsequent OMB guidance, information on the first-tier subawards related to Federal contracts and grants and the executive compensation of awardees must be made publically available. Prime contractors awarded a federal contract or order that is subject to Federal Acquisition Regulation clause 52.204-10 (Reporting Executive Compensation and First-Tier Subcontract Awards) are required to file a FFATA subaward report by the end of the month following the month in which the prime contractor awards any subcontract greater than \$25,000.

**Condition:** There are no policies or procedures in place to ensure the City is reporting its first-tier subawards associated with federal grants and contracts in the Central Contractor Registration System (CCR) and the FFATA Subaward System (FSRS). The City had subrecipients during 2013 that received over \$25,000 of pass-through funds from the City, which are required to be reported in these two systems.

**Questioned Costs:** None.

**Context:** This requirement is applicable for all new federal, non-Recovery Act funded grant awards.

**Effect:** The City is not in compliance with the federal requirements of the FFATA for its subrecipients during 2013.

**Cause:** The City has not designated a person to be responsible for this reporting requirement.

**Recommendation:** We recommend the City establish and implement policies and procedures to ensure the entity's compliance with these federal reporting requirements.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

*Dave Blumberg, Office of Financial Services*

Corrective Action Planned:

*The City will develop and implement policies and procedures to ensure compliance with federal reporting requirements. Additionally, the Office of Financial Services will hold instructional classes on the requirements of OMB Circular A-133 with applicable departments. The classes will assist departments with the various compliance requirements and how to comply with them.*

Anticipated Completion Date:

*September 30, 2014*

PREVIOUSLY REPORTED ITEMS RESOLVED

**Identification of Federal Awards (2009-001)**

The City did not adequately identify federal award amounts received and expended.

**Resolution**

The City accurately identified federal award amounts received and expended.

**Davis Bacon Act (CFDA Nos. 14.218 and 14.253) (2012-005)**

There was not always formal documentation maintained to support that peer reviews were performed.

**Resolution**

Documentation was maintained to support that peer reviews were performed.

#### IV. OTHER FINDINGS AND RECOMMENDATIONS

##### MINNESOTA LEGAL COMPLIANCE

##### PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding 2012-006

##### Prompt Payment of Invoices

**Criteria:** As stated in Minn. Stat. § 471.425, the City is required to make payment on vendor invoices according to the terms of the contract, or within 35 days of the completed delivery of the goods or services or the receipt of the invoice, whichever is later.

**Condition:** Four of the 40 invoices tested for compliance with this statute were not paid within 35 days.

**Context:** The payment function is centralized at the City; departments are sending the invoices to be paid late or not time stamping invoices upon receipt.

**Effect:** Making payment on invoices after 35 days of the completed delivery of the goods or services or the receipt of the invoice, whichever is later, is in noncompliance with Minnesota law.

**Cause:** Additional processing time is incurred when invoices or other supporting documentation are sent to individual departments. Departments are responsible for date stamping invoices received and promptly sending them to the Office of Financial Services to be paid.

**Recommendation:** We recommend the City make payments on vendor invoices in accordance with Minn. Stat. § 471.425.

##### Client's Response:

*The Office of Financial Services (OFS) has restructured the way that invoices are paid. Vendors are now encouraged to email their invoices directly to an email inbox that is dedicated solely for vendor invoices. Vendors are also now sending their invoices directly to OFS as opposed to first sending them to individual departments.*



REBECCA OTTO  
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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 Christopher B. Coleman, Mayor  
and Members of the City Council  
City of Saint Paul, 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 Saint Paul, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 26, 2014. Our report includes a reference to other auditors. Other auditors audited the financial statements of the Saint Paul RiverCentre Convention and Visitors Authority and the Port Authority of the City of Saint Paul, as described in our report on the City of Saint Paul's financial statements. This report does not include the results of other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the Saint Paul RiverCentre Convention and Visitors Authority were not audited in accordance with *Government Auditing Standards*.

In planning and performing our audit of the financial statements, we considered the City of Saint Paul'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.

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. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness and other items that we consider to be significant deficiencies.

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. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2013-001 to be a material weakness.

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 attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2012-001, 2012-002, and 2012-003 to be significant deficiencies.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Saint Paul'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 Political Subdivisions*, 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 Saint Paul failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, except as described in the Schedule of Findings and Questioned Costs as item 2012-006. 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.

### **The City of Saint Paul's Response to Findings**

The City of Saint Paul's responses to the internal control and legal compliance 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 Political Subdivisions* 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

June 26, 2014

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## REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

### Independent Auditor's Report

The Honorable Christopher B. Coleman, Mayor  
and Members of the City Council  
City of Saint Paul, Minnesota

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

We have audited the City of Saint Paul's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 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, 2013. The City of Saint Paul'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 Saint Paul's basic financial statements include the operations of the Housing and Redevelopment Authority (HRA) of the City of Saint Paul, the Saint Paul Regional Water Services, and the Port Authority of the City of Saint Paul component units, which expended \$1,782,230, \$1,175,526, and \$8,859,200, respectively, in federal awards during the year ended December 31, 2013, which are not included in the Schedule of Expenditures of Federal Awards. Our audit, described below, did not include the operations of the HRA and the Saint Paul Regional Water Services because each entity had separate single audits in accordance with OMB Circular A-133. Our audit also did not include the operations of the Port Authority because other auditors were engaged to perform a single audit in accordance with OMB Circular A-133.

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

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

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

Our responsibility is to express an opinion on compliance for each of the City of Saint Paul'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 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 City of Saint Paul'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.

***Basis for Qualified Opinion on Highway Planning and Construction (CFDA No. 20.205)***

As described in the accompanying Schedule of Findings and Questioned Costs, the City of Saint Paul did not comply with requirements regarding CFDA No. 20.205 Highway Planning and Construction described in finding number 2013-003 for Cash Management. Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to that program.

***Qualified Opinion on Highway Planning and Construction (CFDA No. 20.205)***

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the City of Saint Paul complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on Highway Planning and Construction (CFDA No. 20.205) for the year ended December 31, 2013.

***Unmodified Opinion on Each of the Other Major Federal Programs***

In our opinion, the City of Saint Paul 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 other major federal programs identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs for the year ended December 31, 2013.

***Other Matters***

The results of our auditing procedures disclosed other instances of noncompliance, 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 as items 2012-004, 2013-002, 2013-004, and 2013-005. Our opinion on each major federal program is not modified with respect to these matters.

The City of Saint Paul's responses to the noncompliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs as Corrective Action Plans. The City of Saint Paul's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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

Management of the City of Saint Paul 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 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 City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph 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. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be a material weakness and significant deficiencies.

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. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2013-003 to be a material weakness.

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. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2012-004, 2013-002, 2013-004, and 2013-005 to be significant deficiencies.

The City of Saint Paul's responses to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs as Corrective Action Plans. The City of Saint Paul's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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

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 Saint Paul as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We have issued our report thereon dated June 26, 2014, which contained unmodified opinions on those financial statements. We did not audit the financial statements of the Saint Paul RiverCentre Convention and Visitors Authority, which represent 1 percent, 1 percent, and 16 percent, respectively, and the Port Authority of the City of Saint Paul, which represent 37 percent, 13 percent, and 29 percent, respectively, of the assets, net position, and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA) 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 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

June 26, 2014

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

**CITY OF SAINT PAUL  
SAINT PAUL, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Housing and Urban Development</b>		
Direct		
Community Development Block Grants/Entitlement Grants	14.218	\$ 8,318,485
Emergency Solutions Grant Program	14.231	497,631
Neighborhood Stabilization Program - ARRA	14.256	2,425,997
Passed Through Minnesota Housing Finance Agency		
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	947,946
Fair Housing Assistance Program - State and Local	14.401	88,926
Sustainable Communities Regional Planning Grant Program	14.703	<u>258,967</u>
<b>Total U.S. Department of Housing and Urban Development</b>		<b>\$ <u>12,537,952</u></b>
<b>U.S. Department of Justice</b>		
Direct		
Services for Trafficking Victims	16.320	\$ 161,662
Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	16.590	32,536
Public Safety Partnership and Community Policing Grants - ARRA (Total Public Safety Partnership and Community Policing Grants CFDA 16.710 \$219,762)	16.710	218,960
JAG Program Cluster		
Edward Byrne Memorial Justice Assistance Grant (JAG) Program (Total Edward Byrne Memorial JAG Program CFDA 16.738 \$563,033)	16.738	428,229
Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to Units of Local Government - ARRA	16.804	469,179
Passed Through Minnesota Department of Public Safety		
Juvenile Accountability Block Grants	16.523	82,568
Public Safety Partnership and Community Policing Grants (Total Public Safety Partnership and Community Policing Grants CFDA 16.710 \$219,762)	16.710	802
Passed Through Ramsey County		
JAG Program Cluster		
Edward Byrne Memorial Justice Assistance Grant (JAG) Program (Total Edward Byrne Memorial JAG Program CFDA 16.738 \$563,033)	16.738	134,804
<b>Total U.S. Department of Justice</b>		<b>\$ <u>1,528,740</u></b>
<b>U.S. Department of Transportation</b>		
Passed Through Minnesota Department of Transportation		
Highway Planning and Construction	20.205	\$ 5,084,031
National Infrastructure Investments	20.933	159,679

**CITY OF SAINT PAUL  
SAINT PAUL, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2013  
(Continued)**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Transportation (Continued)</b>		
Passed Through Ramsey County		
State and Community Highway Safety	20.600	111,643
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	36,110
<b>Total U.S. Department of Transportation</b>		<b>\$ 5,391,463</b>
<b>Institute of Museum and Library Services</b>		
Direct		
Grants to States	45.310	\$ 43,993
Laura Bush 21st Century Librarian Program	45.313	92,323
<b>Total Institute of Museum and Library Services</b>		<b>\$ 136,316</b>
<b>U.S. Environmental Protection Agency</b>		
Direct		
Great Lakes Program	66.469	\$ 62,050
Brownfields Assessment and Cleanup Cooperative Agreements	66.818	416,348
<b>Total U.S. Environmental Protection Agency</b>		<b>\$ 478,398</b>
<b>U.S. Department of Energy</b>		
Direct		
Energy Efficiency and Conservation Block Grant Program (EECBG) - ARRA	81.128	\$ 74,420
Passed Through Minnesota Department of Commerce - Office of Energy Security		
State Energy Program - ARRA	81.041	5,400
<b>Total U.S. Department of Energy</b>		<b>\$ 79,820</b>
<b>Corporation for National and Community Service</b>		
Direct		
Volunteers in Service to America	94.013	<b>\$ 261,401</b>
<b>U.S. Department of Homeland Security</b>		
Direct		
Emergency Management Performance Grants	97.042	\$ 30,000
Assistance to Firefighters Grant	97.044	978,814
Port Security Grant Program	97.056	336,834
Homeland Security Grant Program	97.067	3,029,875
Staffing for Adequate Fire and Emergency Response (SAFER)	97.083	188,788
<b>Total U.S. Department of Homeland Security</b>		<b>\$ 4,564,311</b>
<b>Total Federal Awards</b>		<b>\$ 24,978,401</b>

The notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

**CITY OF SAINT PAUL  
SAINT PAUL, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

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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 Saint Paul. The City's reporting entity is defined in Note II to the basic financial statements. This schedule does not include \$1,782,230, \$1,175,526, and \$8,859,200 in federal awards expended by the Housing and Redevelopment Authority (HRA) of the City of Saint Paul, the Saint Paul Regional Water Services, and the Port Authority of the City of Saint Paul, respectively, component units of the City, which had separate single audits.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Saint Paul under programs of the federal government for the year ended December 31, 2013. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (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 City of Saint Paul, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City of Saint Paul.

3. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the basis of accounting used by the individual funds of the City of Saint Paul. Governmental funds use the modified accrual basis of accounting. Proprietary funds use 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. Pass-through grant numbers were not assigned by the pass-through agencies.

4. Clusters

Clusters of programs are groupings of closely related programs that share common compliance requirements. Total expenditures by cluster are:

JAG Program Cluster	\$ 1,032,212
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**CITY OF SAINT PAUL  
SAINT PAUL, MINNESOTA**

5. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 28,880,352
Expenditures of program income	
Community Development Block Grants (CDBG)/Entitlement Grants	446,577
Expenditures occurring in prior years, but revenue recognized in 2013	
Federal Transit Capital Investment Grants	(2,566,298)
Grants received by blended component unit not included	
HOME Investment Partnerships Program	(1,684,266)
Housing Counseling Assistance Grant Program	(28,604)
Mortgage Foreclosure Mitigation Counseling Program	(69,360)
	\$ 24,978,401
Expenditures Per Schedule of Expenditures of Federal Awards	\$ 24,978,401

6. Subrecipients

Of the expenditures presented in the schedule, the City of Saint Paul provided federal awards to subrecipients as follows:

CFDA Number	Program Name	Amount Provided to Subrecipients
14.218	Community Development Block Grants/Entitlement Grants	\$ 2,911,736
14.231	Emergency Solutions Grants Program	468,341
16.320	Services for Trafficking Victims	654
16.738	Edward Byrne Memorial Justice Assistance Grant Program	112,692
16.804	Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to Units of Local Government - ARRA	24,459
16.523	Juvenile Accountability Block Grants	42,442
20.205	Highway Planning and Construction	147,011
	Total	\$ 3,707,335

7. American Recovery and Reinvestment Act

The American Recovery and Reinvestment Act of 2009 (ARRA) requires recipients to clearly distinguish ARRA funds from non-ARRA funding. In the schedule, ARRA funds are denoted by the addition of ARRA to the program name.