

STATE OF MINNESOTA

Office of the State Auditor



Julie Blaha
State Auditor

MANAGEMENT AND COMPLIANCE REPORT

CITY OF DULUTH
DULUTH, MINNESOTA

YEAR ENDED DECEMBER 31, 2018

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 100 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 600 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, 2018



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, 2018

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JULIE BLAHA
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

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, 2018, 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 28, 2019. These financial statements include the activities of the Spirit Mountain Recreation Area Authority component unit for the ended April 30, 2018. 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 component units. 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 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. 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 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.

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/Julie Blaha

JULIE BLAHA
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

May 28, 2019

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JULIE BLAHA
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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, 2018. 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 \$8,737,558 and \$11,912,328, respectively, in federal awards during the year ended December 31, 2018, 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.

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, 2018.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2018-001 through 2018-003. Our opinion on each major federal program is not modified with respect to these matters.

The City of Duluth's responses to the noncompliance findings identified in our audit are described in the accompanying Corrective Action Plan. The City'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 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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control over compliance, described in the accompanying Schedule of Findings and Questioned Costs as items 2018-001 through 2018-003, that we consider to be significant deficiencies.

The City of Duluth's responses to the internal control over compliance findings identified in our audit are described in the accompanying Corrective Action Plan. The City's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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.

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, 2018, including the Spirit Mountain Recreation Area Authority component unit as of and for the year ended April 30, 2018, 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 28, 2019, 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 of Duluth's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA), as required by the 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.

/s/Julie Blaha

JULIE BLAHA
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

May 28, 2019

**CITY OF DULUTH
DULUTH, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2018**

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 generally accepted accounting principles: **Unmodified**

Internal control over financial reporting:

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

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

Federal Awards

Internal control over major programs:

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

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)? **Yes**

The major federal programs are:

National Sexual Assault Kit Initiative	CFDA No. 16.833
Highway Planning and Construction Cluster	
Highway Planning and Construction	CFDA No. 20.205
Recreational Trails Program	CFDA No. 20.219

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

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

**CITY OF DULUTH
DULUTH, MINNESOTA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2018

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

None.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

ITEMS ARISING THIS YEAR

Finding Number 2018-001

Equipment and Real Property Management

Program: U.S. Department of Justice’s National Sexual Assault Kit Initiative (CFDA No. 16.833), Award No. 2016-AK-BX-K009, 2016

Criteria: Title 2 U.S. *Code of Federal Regulations* § 200.33 defines equipment as “tangible personal property, including information technology systems, having a useful life of more than one year and a per-unit acquisition cost which equals or exceeds the lesser of the capitalization level established by the non-Federal entity for financial purposes or \$5,000.” The Department of Justice (DOJ) Grants Financial Guide further explains that property records must be maintained to include all of the following information:

- a description of the property;
- serial number or other identification number;
- source of the property, including the federal award identification number;
- identification of the title holder;
- acquisition date;
- cost of property;
- percentage of federal participation in the cost of property;

**CITY OF DULUTH
DULUTH, MINNESOTA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2018

- location of the property;
- use and condition of the property; and
- disposition data, including the date of disposal and sale price.

Condition: The City of Duluth did not properly record an acquisition as a capital asset in 2018 or document the federal award identification number, the acquisition date, and the percentage of federal funding used in making the purchase on its Fixed Asset Property Record.

Questioned Costs: None.

Context: During 2018, the City of Duluth utilized \$64,834 of federal funds to purchase information technology equipment. The City did not record the acquisition as a capital asset in 2018. Instead, the City plans to record the acquisition as a capital asset in 2019.

The sample size was based on guidance from chapter 11 of the AICPA Audit Guide, *Government Auditing Standards and Single Audits*.

Effect: Noncompliance with Title 2 U.S. *Code of Federal Regulations* § 200.33 and the DOJ Grants Financial Guide.

Cause: The City of Duluth decided to record the capital asset purchase in 2019 since the total acquisition cost of \$1,144,871 is to be spread over four years. The City was also not aware of all of the requirements by the DOJ for information to be included on its Fixed Asset Property Record.

Recommendation: We recommend the City record assets when expenditures/expenses for such assets are incurred and ensure all required information pertaining to equipment purchased with federal funds is properly recorded.

View of Responsible Official: Acknowledged

**CITY OF DULUTH
DULUTH, MINNESOTA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2018

Finding Number 2018-002

Procurement, Suspension, and Debarment

Program: U.S. Department of Justice’s National Sexual Assault Kit Initiative (CFDA No. 16.833); Award Nos. 2015-AK-BX-K012, 2016-AK-BX-K009, and 2017-AK-BX-0002; 2015, 2016, and 2017

Criteria: Title 2 U.S. *Code of Federal Regulations* § 200.213 prohibits non-federal entities from contracting with or making subawards under covered transactions to parties that are suspended or debarred. The DOJ Grants Financial Guide further explains that award recipients must “have a documented process to check for organizational conflict of interest with potential contractors; have a process in place to ensure the contracts are not awarded to contractors or individuals on the List of Parties Excluded from the Federal Procurement and Non-procurement Programs; and perform a System for Award Management review of potential contractors or individuals.”

Condition: The City entered into an agreement with a vendor for a purchase that was federally funded; however, there was no documentation of the verification procedures performed to determine the vendor was not suspended or debarred from federally-funded contracts at the time the agreement was awarded.

The City also entered in partnership agreements with various entities to provide services under the grant. For three of the five partnership agreements, there were no verification procedures performed to determine the entities included in the partnership agreements were not suspended or debarred from federally-funded contracts at the time the agreements were awarded.

Questioned Costs: None.

Context: The only vendor the City purchased from with grant funds and the three entities providing services under the grant were tested for compliance with federal regulations.

The sample size was based on guidance from chapter 11 of the AICPA Audit Guide, *Government Auditing Standards and Single Audits*.

Effect: Noncompliance with Title 2 U.S. *Code of Federal Regulations* § 200.213 and the DOJ Grants Financial Guide for procurement standards.

**CITY OF DULUTH
DULUTH, MINNESOTA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2018

Cause: For the purchase, the City did not retain documentation that the City verified the vendor was not suspended or debarred at the time the agreement was awarded. For the partnership agreements, the City was not aware of the requirement to verify that all entities included in these agreements should not be suspended or debarred when the partnership agreement was approved.

Recommendation: We recommend the City ensure its procedures for verifying vendors are not suspended or debarred are followed prior to awarding federally-funded agreements. We also recommend the City implement procedures to verify all parties of agreements involving federal funding are not suspended or debarred before the agreement is awarded.

View of Responsible Official: Acknowledged

Finding Number 2018-003

Special Tests and Provisions – Davis-Bacon Act

Program: U.S. Department of Transportation’s Recreational Trails Program (CFDA No. 20.219), Project #0037-17-2C, 2017

Pass-Through Agency: Minnesota Department of Natural Resources

Criteria: The Davis-Bacon Act (23 U.S.C. 113) and Title 29 U.S. *Code of Federal Regulations* section 5 require that contractors and subcontractors performing work on federal contracts in excess of \$2,000 pay their laborers and mechanics not less than the prevailing wage rates and fringe benefits listed in the contract’s wage determination class. Each covered contractor and subcontractor must, on a weekly basis, provide a copy of the payrolls providing the information listed under payrolls and basic records of Title 29 U.S. *Code of Federal Regulations* section 5 for the preceding weekly payroll period.

Condition: The City of Duluth did not receive or review certified payrolls from the contractors and subcontractors for the recreational trail projects that involved federal payroll-related expenditures in 2018.

Questioned Costs: None.

**CITY OF DULUTH
DULUTH, MINNESOTA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2018

Context: The City of Duluth has a policy in place to obtain and review certified payrolls from contractors and subcontractors.

The sample size was based on guidance from chapter 11 of the AICPA Audit Guide, *Government Auditing Standards and Single Audits*.

Effect: The City of Duluth did not comply with the prevailing wage rate requirements of the Davis-Bacon Act.

Cause: There was a miscommunication between the City of Duluth and the engineering firm in charge of the project. The City believed the engineering firm was receiving and reviewing the certified payrolls for compliance with the Davis-Bacon Act, while the engineering firm believed the City was performing that function.

Recommendation: We recommend the City follow its procedures related to federal wage compliance to ensure contractors' and subcontractors' compliance with the requirements of the Davis-Bacon Act. Documentation should be retained to support the City's monitoring of compliance with this requirement.

View of Responsible Official: Concur

IV. PREVIOUSLY REPORTED ITEM RESOLVED

2017-001 Approval of Time Sheets



**REPRESENTATION OF THE CITY OF DULUTH
DULUTH, MINNESOTA**

**CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED DECEMBER 31, 2018**

Finding Number: 2018-001

Finding Title: Equipment and Real Property Management

Program: U.S. Department of Justice's National Sexual Assault Kit Initiative (CFDA # 16.833)

Name of Contact Person Responsible for Corrective Action:

Joshua Bailey – City Auditor

Corrective Action Planned:

The City Auditor's office will develop a process for incorporating the federal award identification number and percentage of funding used into the capital asset records. The importance of having this information will be conveyed to those completing the Fixed Asset Property Record sheets.

Anticipated Completion Date:

July 31, 2019

Finding Number: 2018-002

Finding Title: Procurement, Suspension, and Debarment

Program: U.S. Department of Justice's National Sexual Assault Kit Initiative (CFDA # 16.833)

Name of Contact Person Responsible for Corrective Action:

Amanda Ashbach - City Purchasing Agent

Corrective Action Planned:

The City Purchasing Policy has been revised to include the following language:

Citizens and Government working together to provide an environment in which
our community can enhance its quality of life and continue to prosper



“Before a purchase or contract is executed, the city must verify that the proposed vendor or contractor is not currently suspended or debarred by the state or federal government. The appropriate Notice to Bidders shall be included in the bid advertisement for all city and state funded projects. In addition, for all projects funded in whole or in part with state or federal funds, purchasing will perform an exclusion search for the vendor/contractor on the State of Minnesota and the federal System for Award Management (SAM) websites. A copy of the search results showing that the vendor/contractor is not suspended or debarred will be included in the contract.”

Anticipated Completion Date:

Completed April 23, 2019 _____

Finding Number: 2018-003

Finding Title: Special Tests and Provisions – Davis Bacon

Program: U.S. Department of Transportation’s Highway Planning and Construction Cluster, Recreational Trails Program (CFDA # 20.219)

Name of Contact Person Responsible for Corrective Action:

Joshua Bailey – City Auditor _____

Corrective Action Planned:

The City of Duluth will coordinate the receiving and reviewing of certified payrolls in relation to the Davis Bacon act.

Anticipated Completion Date:

Corrective action was immediately taken upon discovery of non-compliance.



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

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2018**

Finding Number: 2017-001

Finding Title: Approval of Time Sheets

Summary of Condition: Part of the City's basic internal controls over payroll transactions are the employee and supervisor signatures/approvals on timesheets. During internal control testing there were several instances noted in which signatures/approvals were lacking.

Summary of Corrective Action Previously Reported: The City of Duluth Payroll Department will implement procedures to ensure that signatures are captured for all timesheets. This includes managing the signature process in coordination with the closing of each pay period and developing a process for the Fire Department employees to individually sign off and approve timesheets.

Status: Fully Corrected. Corrective action was taken.

Was corrective action taken significantly different than the action previously reported?

Yes _____ No X

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**CITY OF DULUTH
DULUTH, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2018**

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal CFDA Number	Pass-Through Grant Numbers	Expenditures	Passed Through to Subrecipients
U.S. Department of Agriculture				
Direct				
Cooperative Forestry Assistance	10.664		\$ 1,745	\$ -
Passed Through Minnesota Department of Natural Resources Urban and Community Forestry Program	10.675	140175	14,492	-
Passed Through Minnesota Department of Agriculture Forest Health Protection	10.680	JPA-133100	<u>65,000</u>	<u>-</u>
Total U.S. Department of Agriculture			<u>\$ 81,237</u>	<u>\$ -</u>
U.S. Department of Commerce				
Passed Through Minnesota Department of Natural Resources Coastal Zone Management Administration Awards	11.419	16-306A	<u>\$ 107,819</u>	<u>\$ -</u>
U.S. Department of Housing and Urban Development				
Direct				
CDBG – Entitlement Grants Cluster				
Community Development Block Grants/Entitlement Grants	14.218		\$ 2,042,424	\$ 1,417,390
Emergency Solutions Grant Program	14.231		269,014	240,837
Home Investment Partnerships Program	14.239		520,035	484,020
Lead-Based Paint Hazard Control in Privately-Owned Housing	14.900		<u>104,713</u>	<u>104,713</u>
Total U.S. Department of Housing and Urban Development			<u>\$ 2,936,186</u>	<u>\$ 2,246,960</u>
U.S. Department of Justice				
Direct				
Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	16.590		\$ 112,617	\$ -
Bulletproof Vest Partnership Program	16.607		18,584	-
Edward Byrne Memorial Justice Assistance Grant Program	16.738		18,615	-
National Sexual Assault Kit Initiative	16.833		587,136	-
Comprehensive Opioid Abuse Site-Based Program	16.838		2,444	-
Passed Through ATF Northern Minnesota Task Force Alcohol, Tobacco, and Firearms – Training Assistance	16.012	18-STP-238-AFF	20,617	-
Passed Through the Minnesota Department of Public Safety Crime Victim Assistance	16.575	A-CVSP-2018-DULUTHAO-00031	<u>34,772</u>	<u>-</u>
Total U.S. Department of Justice			<u>\$ 794,785</u>	<u>\$ -</u>

**CITY OF DULUTH
DULUTH, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2018
(Continued)**

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal CFDA Number	Pass-Through Grant Numbers	Expenditures	Passed Through to Subrecipients
U.S. Department of Labor				
Passed Through Senior Service America, Inc. Senior Community Service Employment Program (Total Senior Community Service Employment Program 17.235 \$426,088)	17.235	116	\$ 312,008	\$ -
Passed Through Minnesota Department of Employment and Economic Development				
Senior Community Service Employment Program	17.235	8045100	57,932	-
Senior Community Service Employment Program (Total Senior Community Service Employment Program 17.235 \$426,088)	17.235	9045100	56,148	-
WIA Cluster				
WIA Adult Program	17.258	6043100	5,794	-
WIA Adult Program	17.258	7043100	180,827	-
WIA Adult Program (Total WIA Adult Program 17.258 \$202,315)	17.258	8043100	15,694	-
WIA Youth Activities	17.259	6043600	781	-
WIA Youth Activities	17.259	6043601	2,561	-
WIA Youth Activities	17.259	7043600	225,309	-
WIA Youth Activities (Total WIA Youth Activities 17.259 \$379,348)	17.259	8043600	150,697	-
Workforce Investment Act (WIA) National Emergency Grants	17.277	5047200	15,734	-
WIA Cluster				
WIA Dislocated Worker Formula Grants	17.278	6048000	2,008	-
WIA Dislocated Worker Formula Grants	17.278	6048001	1,561	-
WIA Dislocated Worker Formula Grants	17.278	7048000	62,226	-
WIA Dislocated Worker Formula Grants (Total WIA Dislocated Worker Formula Grants 17.278 \$80,028)	17.278	8048000	5,962	-
Passed Through Minnesota Workforce Council Association				
WIA Cluster				
WIA Dislocated Worker Formula Grants	17.278	6048000	8,271	-
(Total WIA Dislocated Worker Formula Grants 17.278 \$80,028)			<u>8,271</u>	<u>-</u>
Total U.S. Department of Labor			\$ 1,103,513	\$ -

**CITY OF DULUTH
DULUTH, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2018
(Continued)**

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal CFDA Number	Pass-Through Grant Numbers	Expenditures	Passed Through to Subrecipients
U.S. Department of Transportation				
Passed Through Minnesota Department of Transportation				
Highway Planning and Construction Cluster				
Highway Planning and Construction	20.205	99887	\$ 793,506	\$ -
Highway Planning and Construction	20.205	1029940	1,653,635	-
Highway Planning and Construction	20.205	118-090-023	48,362	-
(Total Highway Planning and Construction 20.205 \$2,495,503)				
Passed Through Minnesota Department of Natural Resources				
Highway Planning and Construction Cluster				
Recreational Trails Program	20.219	TRAL022	219,336	-
Recreational Trails Program	20.219	TRAL023	111,748	-
(Total Recreational Trails Program 20.219 \$331,084)				
Passed Through Minnesota Department of Public Safety				
Highway Safety Cluster				
State and Community Highway Safety	20.600	A-ENFRC18-2018-DULUTHPD-001	25,820	-
State and Community Highway Safety	20.600	A-ENFRC19-2019-DULUTHPD-037	951	-
(Total State and Community Highway Safety 20.600 \$26,771)				
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	A-ENFRC18-2018-DULUTHPD-001	147,926	-
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	A-ENFRC19-2019-DULUTHPD-037	48,608	-
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	A-OFFICR18-2018-DULUTHPD-002	17,873	-
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	A-OFFICR19-2019-DULUTHPD-003	53,082	-
(Total Minimum Penalties for Repeat Offenders for Driving While Intoxicated 20.608 \$267,489)				
Highway Safety Cluster				
National Priority Safety Programs	20.616	A-ENFRC18-2018-DULUTHPD-001	23,423	-
National Priority Safety Programs	20.616	A-OFFICR18-2018-DULUTHPD-002	8,803	-
National Priority Safety Programs	20.616	A-OFFICR19-2019-DULUTHPD-003	26,145	-
(Total National Priority Safety Programs 20.616 \$58,371)				
Passed Through Minnesota Department of Homeland Security and Emergency Management				
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	A-HMEP-2017-DULUTHFD-012	18,066	-
Total U.S. Department of Transportation			\$ 3,197,284	\$ -
U.S. Department of the Treasury				
Direct				
Equitable Sharing	21.016		\$ 423,309	\$ -

**CITY OF DULUTH
DULUTH, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2018
(Continued)**

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal CFDA Number	Pass-Through Grant Numbers	Expenditures	Passed Through to Subrecipients
U.S. Environmental Protection Agency				
Direct				
Great Lakes Program	66.469		\$ 144,898	\$ -
Brownfields Assessment and Cleanup Cooperative Agreements	66.818		103,288	-
Total U.S. Environmental Protection Agency			\$ 248,186	\$ -
U.S. Department of Education				
Passed Through the Minnesota Department of Employment and Economic Development				
Rehabilitation Services – Vocational Rehabilitation Grants to States	84.126	7047300	\$ 7,665	\$ -
Corporation for National and Community Service				
Passed Through SOAR Career Solutions				
Social Innovation Fund	94.019	15SIHMN001	\$ 13,634	\$ -
U.S. Department of Homeland Security				
Direct				
Assistance to Firefighters Grant	97.044		\$ 40,870	\$ -
Port Security Grant Program	97.056		142,379	-
Passed Through Minnesota Department of Public Safety				
Disaster Grants – Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-4069-DR-MN	(4,156)	-
Disaster Grants – Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-4414-DR-MN	165,539	-
(Total Disaster Grants – Public Assistance (Presidentially Declared Disasters) 97.036 \$161,383)				
Emergency Management Performance Grants	97.042	A-EMPG-2017-DULUTHCI-00022	13,042	-
Passed Through St. Louis County, Minnesota				
Homeland Security Grant Program	97.067	A-OPSG-2016-STLOUICO-007	34,242	-
Total U.S. Department of Homeland Security			\$ 391,916	\$ -
Total Federal Awards			\$ 9,305,534	\$ 2,246,960
Totals by Cluster				
Total expenditures for CDBG – Entitlement Grants Cluster			\$ 2,042,424	
Total expenditures for WIA Cluster			661,691	
Total expenditures for Highway Planning and Construction Cluster			2,826,587	
Total expenditures for Highway Safety Cluster			85,142	

**CITY OF DULUTH
DULUTH, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2018**

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 \$8,737,558 and \$11,912,328 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, 2018. 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. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The City of Duluth has elected not to use the ten percent de minimis indirect cost rate allowed under the Uniform Guidance.

**CITY OF DULUTH
DULUTH, MINNESOTA**

4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$	8,858,812
Expenditures of Revolving Loan Fund		
Community Development Block Grants/Entitlement Grants		79,739
Expenditures of Equitable Sharing Funds		423,309
Grants received more than 45 days after year-end, unavailable in 2018		
Urban and Community Forestry Program		6,091
Brownfields Assessment and Cleanup Cooperative Agreements		5,551
Bulletproof Vest Partnership Program		3,494
Community Development Block Grants/Entitlement Grants		157,102
Disaster Grants – Public Assistance (Presidentially Declared Disasters)		1,927,353
Emergency Solutions Grant Program		8,994
Highway Planning and Construction		368,896
Home Investment Partnerships Program		7,597
Recreational Trails Program		19,101
Senior Community Service Employment Program		18
WIA Dislocated Worker Formula Grants		8,288
WIA Adult Program		1,081
Workforce Investment Act (WIA) National Emergency Grants		6
WIA Youth Activities		7
Unavailable in 2017, recognized as revenue in 2018		
Coastal Zone Management Administration Awards		(73,456)
Community Development Block Grants/Entitlement Grants		(356,844)
Disaster Grants – Public Assistance (Presidentially Declared Disasters)		(1,766,958)
Emergency Solutions Grant Program		(6,664)
Highway Planning and Construction		(165,529)
Home Investment Partnerships Program		(68,702)
Lead-Based Paint Hazard Control in Privately-Owned Housing		(41,387)
Local Law Enforcement Block Grant Program		(13,722)
Recreational Trails Program		(80,664)
Social Innovation Fund		(4,945)
Temporary Assistance for Needy Families		(937)
WIA Adult Program		(384)
WIA Youth Activities		(598)
Timing differences between expenditures and related reimbursements		10,885
Expenditures Per Schedule of Expenditures of Federal Awards	\$	<u>9,305,534</u>

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

YEAR ENDED DECEMBER 31, 2018

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JULIE BLAHA
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, 2018, 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 28, 2019.

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 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 Authority'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 conjunction with the audit of the financial statements of the City of Duluth, except that we did not test for compliance with the provisions for public indebtedness because the Authority has no outstanding debt.

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 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 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 Cities* 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/Julie Blaha

JULIE BLAHA
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

May 28, 2019