

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

MANAGEMENT AND COMPLIANCE REPORT

CITY OF DULUTH
DULUTH, MINNESOTA

YEAR ENDED DECEMBER 31, 2017

Description of the Office of the State Auditor

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

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

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

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

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

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

Pension - monitors investment, financial, and actuarial reporting for approximately 650 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, 2017



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, 2017

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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 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, 2017, 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 14, 2018. These financial statements include the activities of the Spirit Mountain Recreation Area Authority component unit for the year ended April 30, 2017. 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 management and compliance report for the Duluth Airport Authority includes the report required for a single audit. The results of our testing of the Duluth Economic Development Authority component unit's internal control over financial reporting and on compliance and other matters are reported on separately within this Management and Compliance Report.

Internal Control Over Financial Reporting

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

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit the attention of those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as item 2017-001, that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Duluth's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Minnesota Legal Compliance

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

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

City of Duluth's Response to Finding

The City of Duluth's response to the internal control finding identified in our audit is described in the Corrective Action Plan. The City's response has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of This Report

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

May 14, 2018

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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 the 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 the City's major federal program for the year ended December 31, 2017. The City of Duluth's major federal program is 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 component unit, which expended \$17,058,633 in federal awards during the year ended December 31, 2017, 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 because it had a separate single audit 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 the City of Duluth's major federal program 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 the major federal program. However, our audit does not provide a legal determination of the City's compliance with those requirements.

Opinion on the 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 its major federal program for the year ended December 31, 2017.

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 the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit the attention of those charged with governance.

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

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Duluth, Minnesota, as of and for the year ended December 31, 2017, including the Spirit Mountain Recreation Area Authority component unit as of and for the year ended April 30, 2017, 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 14, 2018, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA) as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) is presented for purposes of additional analysis and is not a required part of the basic financial statements. The SEFA is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the SEFA is fairly stated in all material respects in relation to the basic financial statements as a whole.

Purpose of This Report

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

May 14, 2018

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

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**CITY OF DULUTH
DULUTH, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

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? **Yes**

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

Federal Awards

Internal control over major programs:

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

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

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

The major federal program is:

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**

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

INTERNAL CONTROL

ITEM ARISING THIS YEAR

Finding Number 2017-001

Approval of Time Sheets

Criteria: Management is responsible for establishing and maintaining internal control. A basic internal control to help ensure the accurate reporting of payroll transactions in the City's financial records is employee and supervisor signatures/approvals on time sheets attesting to the validity of time reported as worked.

Condition: During our testing of internal control over payroll, we noted 4 of 26 time sheets tested did not have supervisor approval.

- Two of the four timesheets not properly approved related to the City's Fire Department. A Fire Department supervisor approves time off and overtime, but does not approve the final time sheet submitted for payment.
- Two of the four time sheets did not contain the approval of the supervisor. These time sheets were originally signed by the employee and approved by the supervisor, but after that process, these time sheets were updated and resubmitted to payroll. The original time sheets containing the supervisor approval were not retained, and we were unable to verify that the amended time sheets were properly approved.

Context: Supervisor's approval of time reported as worked is a basic internal control designed to prevent errors and fraudulent time reporting by ensuring that only approved hours of work are paid.

Effect: Unapproved time reports can result in time reporting errors and/or payment of fraudulent claims of hours actually worked.

Cause: Supervisors were not approving employee time sheets in accordance with the City's payroll compensation policy, which states that disbursements for employee compensation will be made only upon proper authorization and approval.

Recommendation: We recommend City management ensure payroll approvers follow the City's payroll compensation policy and obtain the proper approvals to verify that an employee's hours worked are valid and accurate.

View of Responsible Official: Acknowledged

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

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Chief Financial Officer • Wayne Parson, CPA (inactive)

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REPRESENTATION OF THE CITY OF DULUTH DULUTH, MN

CORRECTIVE ACTION PLAN FOR THE YEAR ENDED DECEMBER 31, 2017

Finding Number: 2017-001

Finding Title: Approval of Time Sheets

Name of Contact Person Responsible for Corrective Action:

Joshua Bailey - City Auditor

Corrective Action Planned:

The City of Duluth Payroll Office processes payroll for approximately 800 employees across numerous bargaining units and several time and attendance systems. Biweekly payroll processing is completed within four business days from the end of the payroll cycle to the pay date. Internal controls are designed to allow for oversight of payroll processing, while allowing for an accurate and efficient means to process payroll.

Currently, when corrections are made to electronic timesheets, a new timesheet is created that overwrites previous approvals. Due to time constraints it is not always possible to obtain a new electronic signature without delaying the payroll process. Once employee time is uploaded from the time and attendance program it is “locked” and further electronic signatures are not allowed.

To address this finding, the City is implementing an upgrade to the City’s time and attendance software that is anticipated to allow the Payroll Office to “lock” payroll from changes, while still allowing electronic signatures to be captured. This change will allow electronic timesheet signatures to be captured for timesheet revisions in cases where corrections need to be made.

In addition, the Payroll Office will develop a process for transitioning Fire Department employees to individually create and electronically sign timesheets. The current process relies upon the Payroll Office to create timesheets after Fire Department management approval of time-off and overtime activity.

Anticipated Completion Date:

The corrective action plan will be implemented by December 31, 2018

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**CITY OF DULUTH
DULUTH, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

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				
Urban and Community Forestry Program	10.675		\$ 347,498	\$ -
U.S. Department of Commerce				
Passed Through Minnesota Department of Natural Resources				
Coastal Zone Management Administration Awards	11.419	15-306A	\$ 1,678	\$ -
Coastal Zone Management Administration Awards	11.419	16-306A	1,000	-
Coastal Zone Management Administration Awards <i>(Total Coastal Zone Management Administration Awards 11.419 \$75,634)</i>	11.419	16-306A-01	<u>72,956</u>	<u>-</u>
Total U.S. Department of Commerce			\$ 75,634	\$ -
U.S. Department of Defense				
Direct				
Military Construction, National Guard	12.400		\$ 18,181	\$ -
U.S. Department of Housing and Urban Development				
Direct				
CDBG - Entitlement Grants Cluster				
Community Development Block Grants/Entitlement Grants	14.218		\$ 2,509,645	\$ 1,804,014
Emergency Solutions Grant Program	14.231		196,426	183,357
Home Investment Partnerships Program	14.239		345,199	311,260
Fair Housing Assistance Program - State and Local	14.401		17,000	-
Lead-Based Paint Hazard Control in Privately-Owned Housing	14.900		<u>8,335</u>	<u>2,098</u>
Total U.S. Department of Housing and Urban Development			\$ 3,076,605	\$ 2,300,729
U.S. Department of the Interior				
Passed Through Minnesota Historical Society				
Historic Preservation Fund Grants-In-Aid	15.904	P16AF00068.026	\$ 2,741	\$ -
U.S. Department of Justice				
Direct				
Alcohol, Tobacco, and Firearms - Training Assistance	16.012		\$ 93,907	\$ -
Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	16.590		18,380	-
Local Law Enforcement Block Grant Program	16.592		13,722	-
Bulletproof Vest Partnership Program	16.607		15,598	-
Edward Byrne Memorial Justice Assistance Grant Program	16.738		56,121	-
National Sexual Assault Kit Initiative	16.833		<u>340,675</u>	<u>-</u>
Total U.S. Department of Justice			\$ 538,403	\$ -

**CITY OF DULUTH
DULUTH, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2017
(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 <i>(Total Senior Community Service Employment Program 17.235 \$350,560)</i>	17.235	116	\$ 250,195	\$ -
Passed Through Minnesota Department of Employment and Economic Development				
Senior Community Service Employment Program	17.235	7045100	55,775	-
Senior Community Service Employment Program <i>(Total Senior Community Service Employment Program 17.235 \$350,560)</i>	17.235	8045100	44,590	-
Incentive Grants - WIA Section 503	17.267	5043400	9,179	-
Workforce Investment Act (WIA) National Emergency Grants	17.277	5047200	34,750	-
Workforce Investment Act (WIA) National Emergency Grants <i>(Total Workforce Investment Act (WIA) National Emergency Grants 17.277 \$41,861)</i>	17.277	5047201	7,111	-
WIA Cluster				
WIA Adult Program	17.258	5043100	3,423	-
WIA Adult Program	17.258	5043101	1,685	-
WIA Adult Program	17.258	6043100	141,680	-
WIA Adult Program <i>(Total WIA Adult Program 17.258 \$181,032)</i>	17.258	7043100	34,244	-
WIA Youth Activities	17.259	5043600	1,858	-
WIA Youth Activities	17.259	5043601	2,299	-
WIA Youth Activities	17.259	6043600	171,121	-
WIA Youth Activities <i>(Total WIA Youth Activities 17.259 \$298,278)</i>	17.259	7043600	123,000	-
WIA Dislocated Worker Formula Grants	17.278	5048001	495	-
WIA Dislocated Worker Formula Grants	17.278	6048000	52,997	-
WIA Dislocated Worker Formula Grants <i>(Total WIA Dislocated Worker Formula Grants 17.278 \$73,700)</i>	17.278	7048000	20,208	-
Total U.S. Department of Labor			\$ 954,610	\$ -

**CITY OF DULUTH
DULUTH, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2017
(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 <i>(Total Highway Planning and Construction 20.205 \$1,827,374)</i>	20.205	99887	\$ 1,799,602	\$ -
Passed Through Minnesota Department of Public Safety Highway Planning and Construction Cluster Highway Planning and Construction <i>(Total Highway Planning and Construction 20.205 \$1,827,374)</i>	20.205	ER MN 12	27,772	-
Passed Through Minnesota Department of Natural Resources Highway Planning and Construction Cluster Recreational Trails Program	20.219	47856	80,664	-
Passed Through Minnesota Department of Public Safety Highway Safety Cluster State and Community Highway Safety	20.600	A-ENFRC17-2017-DULUTHPD-014	18,680	-
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	A-ENFRC17-2017-DULUTHPD-014	160,502	-
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	A-ENFRC18-2018-DULUTHPD-001	44,789	-
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	A-OFFICR17-2017-DULUTHPD-002	51,968	-
Minimum Penalties for Repeat Offenders for Driving While Intoxicated <i>(Total Minimum Penalties for Repeat Offenders for Driving While Intoxicated 20.608 \$273,996)</i>	20.608	A-OFFICR18-2018-DULUTHPD-002	16,737	-
Highway Safety Cluster National Priority Safety Programs	20.616	A-ENFRC17-2017-DULUTHPD-014	3,783	-
National Priority Safety Programs	20.616	A-ENFRC18-2018-DULUTHPD-001	1,265	-
National Priority Safety Programs	20.616	A-OFFICR17-2017-DULUTHPD-002	25,596	-
National Priority Safety Programs <i>(Total National Priority Safety Programs 20.616 \$38,888)</i>	20.616	A-OFFICR18-2018-DULUTHPD-002	8,244	-
Passed through Minnesota Department of Homeland Security and Emergency Management Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	A-HMEP-2015-DULUTHFD-012	4,949	-
Total U.S. Department of Transportation			\$ 2,244,551	\$ -

**CITY OF DULUTH
DULUTH, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2017
(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				
Brownfields Training, Research, and Technical Assistance Grants and Cooperative Agreements	66.814		\$ 97,943	\$ -
Brownfields Assessment and Cleanup Cooperative Agreements	66.818		138,819	-
Passed through Minnesota Department of Employment and Economic Development				
Capitalization Grants for Clean Water State Revolving Funds	66.458	MPFA-13-0050-R-FY15	<u>122,314</u>	<u>-</u>
Total U.S. Environmental Protection Agency			<u>\$ 359,076</u>	<u>\$ -</u>
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	<u>\$ 7,717</u>	<u>\$ -</u>
U.S. Department of Health and Human Services				
Passed Through Arrowhead Regional Development Commission				
Non-ACA/PPHF-Building Capacity of the Public Health System to Improve Population Health Through National Nonprofit Organizations	93.424	1632017	\$ 959	\$ -
Passed Through Minnesota Department of Employment and Economic Development				
TANF Cluster				
Temporary Assistance for Needy Families	93.558	8047400	<u>15,000</u>	<u>-</u>
Total U.S. Department of Health and Human Services			<u>\$ 15,959</u>	<u>\$ -</u>
Corporation for National and Community Service				
Passed Through SOAR Career Solutions				
Social Innovation Fund	94.019	15SIHMN001	<u>\$ 11,423</u>	<u>\$ -</u>

**CITY OF DULUTH
DULUTH, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2017
(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 Homeland Security				
Direct				
Port Security Grant Program	97.056		\$ 2,717	\$ -
Passed Through Minnesota Department of Public Safety				
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	4069DRMNP0000001	314,471	-
Emergency Management Performance Grants	97.042	A-EMPG-2015-DULUTHCI-00022	37,063	-
Passed Through St. Louis County, Minnesota				
Homeland Security Grant Program	97.067	A-OPSG-2015-STLOUICO-007	<u>29,055</u>	<u>-</u>
Total U.S. Department of Homeland Security			\$ 383,306	\$ -
Total Federal Awards			\$ 8,035,704	\$ 2,300,729
Totals by Cluster				
Total expenditures for CDBG - Entitlement Grants Cluster			\$ 2,509,645	
Total expenditures for WIA Cluster			553,010	
Total expenditures for Highway Planning and Construction Cluster			1,908,038	
Total expenditures for Highway Safety Cluster			57,568	
Total expenditures for TANF Cluster			15,000	

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**CITY OF DULUTH
DULUTH, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

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 \$17,058,633 in federal awards expended by the Duluth Airport Authority, a component unit of the City, which had a separate single audit. 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, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the City of Duluth, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City of Duluth.

3. Summary of Significant Accounting Policies

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

**CITY OF DULUTH
DULUTH, MINNESOTA**

4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$	7,537,164
Expenditures of Revolving Loan Fund		
Community Development Block Grants/Entitlement Grants		174,500
Grants received more than 45 days after year-end, unavailable in 2017		
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
Unavailable in 2016, recognized as revenue in 2017		
Urban and Community Forestry Program		(1,760)
Brownfields Assessment and Cleanup Cooperative Agreements		(14,848)
Coastal Zone Management Administration Awards		(183,542)
Community Development Block Grants/Entitlement Grants		(149,319)
Disaster Grants - Public Assistance (Presidentially Declared Disasters)		(1,444,950)
Emergency Solutions Grant Program		(6,028)
Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program		(26,209)
Highway Planning and Construction		(220,935)
Highway Planning and Construction - Emergency Relief Program		(42,371)
Home Investment Partnerships Program		(10,517)
Homeland Security Grant Program		(83,220)
Lead-Based Paint Hazard Control in Privately-Owned Housing		(39,289)
Military Construction, National Guard		(19,734)
Social Innovation Fund		(1,939)
Senior Community Service Employment Program		(2,018)
Workforce Investment Act (WIA) National Emergency Grants		(1,382)
WIA Adult Program		(14,255)
WIA Youth Activities		(11,291)
WIA Dislocated Worker Formula Grants		(5,804)
Timing differences between expenditures and related reimbursements		(106,787)
Capital grants received in enterprise funds		
Capitalization Grants for Clean Water State Revolving Funds		122,314
Grant received by Component Unit - Duluth Economic Development Authority		
Brownfields Assessment and Cleanup Cooperative Agreements		7,134
		<hr/>
Expenditures Per Schedule of Expenditures of Federal Awards	\$	<u>8,035,704</u>

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

YEAR ENDED DECEMBER 31, 2017

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REBECCA OTTO
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, 2017, 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 14, 2018.

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 or significant deficiencies. However, material weaknesses or significant deficiencies 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 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/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

May 14, 2018