

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

MANAGEMENT AND COMPLIANCE REPORT OF THE

CITY OF DULUTH
DULUTH, MINNESOTA

YEAR ENDED DECEMBER 31, 2009

Description of the Office of the State Auditor

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

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

The State Auditor performs approximately 160 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

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

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

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

Pension - monitors investment, financial, and actuarial reporting for approximately 730 public pension funds; and

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

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

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**CITY OF DULUTH
DULUTH, MINNESOTA**

Year Ended December 31, 2009



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
DULUTH, MINNESOTA**

Schedule 1

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2009

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses unqualified opinions on the basic financial statements of the City of Duluth.
- B. Significant deficiencies in internal control were disclosed by the audit of financial statements of the City of Duluth and are reported in the "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*." None were material weaknesses.
- C. No instances of noncompliance material to the financial statements of the City of Duluth were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award programs were reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133."
- E. The Auditor's Report on Compliance for the major federal award programs for the City of Duluth expresses an unqualified opinion.
- F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major programs are:

Northeastern Minnesota Environmental Infrastructure Section 569 Program - ARRA	CFDA #12.120
Community Development Block Grant/Entitlement Grants Cluster	
Community Development Block Grant/Entitlement Grants	CFDA #14.218
Community Development Block Grant/Entitlement Grants - ARRA	CFDA #14.253
Edward Bryne Memorial Justice Assistance Grant (JAG) Program/Grants to Units of Local Government - ARRA	CFDA #16.804

Schedule 1
(Continued)

Senior Community Service Employment Program Cluster	
Senior Community Service Employment Program	CFDA #17.235
Senior Community Service Employment Program - ARRA	CFDA #17.235
Workforce Investment Act (WIA) Cluster	
WIA Adult Program	CFDA #17.258
WIA Adult Program - ARRA	CFDA #17.258
WIA Youth Activities	CFDA #17.259
WIA Youth Activities - ARRA	CFDA #17.259
WIA Dislocated Workers	CFDA #17.260
WIA Dislocated Workers - ARRA	CFDA #17.260
Highway Planning and Construction Cluster	
Highway Planning and Construction	CFDA #20.205
Highway Planning and Construction - ARRA	CFDA #20.205
Recreational Trails Program	CFDA #20.219
Capitalization Grants for Clean Water State Revolving Funds Cluster	
Capitalization Grants for Clean Water State Revolving Funds	CFDA #66.458
Capitalization Grants for Clean Water State Revolving Funds - ARRA	CFDA #66.458
Capitalization Grants for Drinking Water State Revolving Funds	CFDA #66.468

H. The threshold for distinguishing between Types A and B programs was \$327,865.

I. The City of Duluth was determined to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

96-5 Departmental Internal Control

The limited number of office personnel within various City departments prevents a proper segregation of the revenue accounting functions necessary to ensure adequate internal accounting control. The revenue accounting functions consist of collecting and recording fines, permits, licenses, utility billings, tourism taxes, and miscellaneous revenues.

Such a situation is not unusual in small departmental operations or where cash collection is decentralized. However, the City's management should constantly be aware that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an accounting point of view.

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

Client's Response:

The City is aware that, in some departments, staffing levels prevent an ideal segregation of duties. Mitigating controls are implemented when possible. The City is reviewing the feasibility of centralizing cash collections and is investigating additional internal controls that can be implemented on a departmental level over revenue accounting functions.

96-10 Accounting Policies and Procedures Manual

The City does not have a current and comprehensive accounting policies and procedures manual. All governments should document their accounting policies and procedures. Although other methods might suffice, this documentation is traditionally in the form of an accounting policies and procedures manual. This manual should document the accounting policies and procedures which make up the City's internal control system.

An accounting policies and procedures manual will enhance employees' understanding of their role and function in the internal control system, establish responsibilities, provide guidance for employees, improve efficiency and consistency of transaction processing, and improve compliance with established policies. It can also help to prevent deterioration of key elements in the City's internal control system and can help to avoid circumvention of City policies.

We recommend the City's Chief Financial Officer update the accounting policies and procedures manual. The accounting policies and procedures manual should be prepared by appropriate levels of management and be approved by the City administration to emphasize its importance and authority. The documentation should describe procedures as they are intended to be performed, indicate which employees are to perform which procedures, and explain the design and purpose of control-related procedures to increase employee understanding and support of controls.

Client's Response:

The Finance Department will develop a procedure manual that addresses accounting-related items. Accounting policy and procedures that are incorporated into the City-wide policy and procedure manual will be reviewed and updated.

06-2 Computer Risk Management

The City has internal controls in place for its computer system. However, the City has not developed a formal plan to identify and manage risks associated with its computer system.

Risk management begins with a risk assessment of the City's computer system to identify those risks that could negatively influence computer operations. Internal controls should be implemented to reduce the identified risks. Internal controls implemented should be documented in a well-maintained policies and procedures manual, which should be communicated to the City's staff. Staff adherence to these policies and procedures should be monitored. Because computer systems are ever changing, the City should include in its plan periodic reassessment of risk to ensure existing internal controls are still effective.

We recommend the City administration develop a plan to ensure that internal controls are in place to reduce the risk associated with the City's computer systems.

Client's Response:

The City's MIS staff routinely evaluates risk factors and implements safety features to protect the City's technology systems. In 2009, the City formed an IT Steering Committee which evaluates and ranks proposed technology projects. The City's MIS management staff will formalize additional policies and procedures in accordance with the State of MN OET Enterprise Vulnerability Management Security Standard to ensure internal controls are in place to reduce risk associated with the City's technology systems.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

08-3 Late Payment of Claims

A municipality is required by Minn. Stat. § 471.425 to make payment to a vendor according to the terms of the contract; or within 35 days of receipt of the invoice or the delivery of the goods or services, whichever is later. The statute also requires a municipality to pay interest on the outstanding balance of a late payment at the rate of 1.5 percent per month or part of a month.

Our tests of disbursements detected nine instances of late vendor payments.

Check #51895 - invoice date 11/27/2008 paid on 02/13/2009 -	78 days
- invoice date 11/28/2008 paid on 02/13/2009 -	77 days
- invoice date 12/30/2008 paid on 02/13/2009 -	45 days
Check #54735 - Invoice date 02/26/2009 paid on 05/29/2009 -	92 days
Check #57887 - Invoice date 06/23/2009 paid on 08/21/2009 -	59 days
Check #61935 - Invoice date 11/10/2009 paid on 12/18/2009 -	38 days
- Invoice date 11/11/2009 paid on 12/18/2009 -	37 days
- Invoice date 11/06/2009 paid on 12/18/2009 -	42 days
- Invoice date 10/29/2009 paid on 12/18/2009 -	50 days

We recommend the City review the payment process and establish procedures to comply with Minn. Stat. § 471.425.

Client's Response:

The City will review its procedures for processing vendor payments to assure that vendor payments are made within the time limits specified in Minn. Stat. § 471.425.

PREVIOUSLY REPORTED ITEMS RESOLVED

Safekeeping of Investments (08-1)

We recommended the City Treasurer comply with the requirements of Minn. Stat. § 118A.06. Investments may be held only by brokerage firms that are primary reporting dealers or have their principal offices in Minnesota. If investments are purchased through these dealers, they must be held at a bank rather than at the brokerage firm.

Resolution

We did not note any investments that violated Minn. Stat. § 118A.06 for the safekeeping of investments.

Restrictive Bid Specifications (08-2)

The City had two requests for bids that had bid specifications that were too restrictive to be competitive, which is a violation of Minn. Stat. § 471.35. Bid specifications that are too restrictive can eliminate potential bidders that could have provided a similar product at a lower cost.

Resolution

The City modified its bid specification procedures in 2009 to ensure that a wide range of specifications are utilized. In addition, bid specifications will stipulate that alternatives will be accepted if equal quality is proven.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

03-2 Uncollectible Receivables Policy

The City does not have a formal policy addressing the proper procedures and authorization needed to write off uncollectible miscellaneous and billed receivables from the City's accounting records. Uncollectible accounts should be written off only in accordance with applicable legal and policy requirements and be approved by a responsible official who is not associated with the detailed receivable and cash functions.

We recommend the City administration adopt a policy outlining the proper procedures to follow and authorization needed to write off uncollectible accounts.

Client's Response:

The majority of account receivable adjustments occur in our utility billing system which does have formal procedures for write-offs incorporated into the City Code. A policy covering other miscellaneous accounts receivable procedures, including the write-off of uncollectible accounts, will be developed while updating the accounting policies and procedures manual reported as finding 96-10.

05-7

Contracts

The City enters into a large number of contracts each year; however, the City does not have formal contract policies and procedures in place. Contract policies provide guidelines for consistency and efficiency in the contracting process as well as requirements for monitoring terms specified in the contracts. Contract policies address when written contracts are needed and the form or content of contracts. A signed contract indicates a mutual agreement of the terms between the parties involved and can serve as an important tool in resolving contract disputes.

We recommend the City Attorney, City Purchasing Agent, and City Auditor work together to develop a formal contract policy. The policy should address when written contracts are required, the form and content of the terms of the agreement, and responsibilities for monitoring contract requirements. The City Purchasing Department and the City Auditor's Office should ensure that, when required, signed contracts are in place before disbursements are made. We recommend all contract noncompliance be reported to the Mayor and City Council.

Client's Response:

The City does have some contract requirements detailed in the City Charter, City Code and in the City Policy & Procedure Manual. Complete written contracting procedures will be developed while updating the accounting policies and procedures manual reported as finding 96-10.

C. OTHER ITEM FOR CONSIDERATION

GASB Statement 54

The Governmental Accounting Standards Board (GASB) recently issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The intention of this standard is to enhance the usefulness of information included in the financial report about fund balance through clearer fund balance classifications that can be more consistently applied, as well as to clarify existing governmental fund type definitions.

Fund Balance Reporting

Statement 54 establishes new fund balance classifications based on constraints imposed on how resources can be spent. The existing components of fund balance reserved, unreserved, designated, and undesignated are being replaced by nonspendable, restricted, committed, assigned, and unassigned as defined below:

- *Nonspendable* - amounts that cannot be spent because they are either not spendable form (for example, inventory or prepaid items) or legally or contractually required to be maintained intact (for example, corpus of a permanent fund).
- *Restricted* - amounts that can be spent only for specific purposes stipulated by constitution, external resource providers, or through enabling legislation.
- *Committed* - amounts that can be used only for specific purposes determined by a formal action of a government's highest level of decision-making authority.
- *Assigned* - amounts a government intends to use for a specific purpose that do not meet the criteria to be classified as restricted or committed.
- *Unassigned* - spendable amounts not contained in the other classifications.

Governmental Fund Type Definitions

The definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are clarified in Statement 54. Interpretations of certain terms within the definition of the special revenue fund type have been provided and, for some governments, those interpretations may affect the activities they choose to report in those funds. The capital projects fund type definition also was clarified for better alignment with the needs of preparers and users. Definitions of other governmental fund types also have been modified for clarity and consistency.

The requirements of GASB Statement 54 are effective for the City of Duluth for the year ending December 31, 2011.

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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*

The Honorable Don Ness, Mayor,
and Members of the City Council
City of Duluth, Minnesota

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 as of and for the year ended December 31, 2009, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 24, 2010. These financial statements include the Spirit Mountain Recreation Area Authority activities for the year ended April 30, 2009. Our report was modified to include reference to other auditors. We issue separate management and compliance letters for the Duluth Airport Authority, Duluth Entertainment and Convention Center Authority, Duluth Transit Authority, and Spirit Mountain Recreation Area Authority. The letters for the Duluth Airport Authority and the Duluth Transit Authority include the reports required for a single audit.

We conducted our audit 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. Other auditors audited the financial statements of the Steam District #2 Enterprise Fund, which is a nonmajor fund, as described in our report on the City of Duluth's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the Steam District #2 Enterprise Fund were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Duluth's internal control over financial reporting as a basis for designing our auditing procedures 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 statement will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the Schedule of Findings and Questioned Costs as items 96-5, 96-10, and 06-2, that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Duluth's financial statements are free of 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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Government* contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our study included all of the listed categories.

The results of our tests indicate that, for the items tested, the City of Duluth complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Questioned Costs as item 08-3.

Also included in the Schedule of Findings and Questioned Costs are management practices comments and an other item for consideration. We believe these recommendations and information to be of benefit to the City, and they are reported for that purpose.

The City of Duluth's written responses to the internal control, legal compliance, and management practices findings identified in our audit have been included in the Schedule of Findings and Questioned Costs. We did not audit the City's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Mayor, the City Council, management, others within the City of Duluth, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

June 24, 2010

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

The Honorable Don Ness, Mayor,
and Members of the City Council
City of Duluth, Minnesota

Compliance

We have audited the compliance of the City of Duluth with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2009. The City's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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 \$10,350,361 and \$5,661,498, respectively, in federal awards during the year ended December 31, 2009, 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 OMB Circular A-133.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of 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. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City of Duluth complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2009.

Internal Control Over Compliance

Management of the City of Duluth is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

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 as of and for the year ended December 31, 2009, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 24, 2010. We did not audit the financial statements of the Steam District #2 Enterprise Fund. Those financial statements were audited by other auditors. Our audit was performed for the purpose of forming opinions on the City of Duluth's financial statements that collectively comprise the City's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Mayor, the City Council, management, others within the City of Duluth, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

June 24, 2010

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

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**CITY OF DULUTH
DULUTH, MINNESOTA**

Schedule 2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDING DECEMBER 31, 2009**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Direct		
Cooperative Forestry Assistance	10.664	\$ 6,393
U.S. Department of Commerce		
Passed Through Minnesota Department of Natural Resources		
Coastal Zone Management Administration Awards	11.419	\$ 79,152
Passed through the National Association of Nutrition and Aging Services		
Special Projects - ARRA	11.553	10,000
Total U.S. Department of Commerce		\$ 89,152
U.S. Department of Defense - Army Engineers		
Direct		
Northeastern Minnesota Environmental Infrastructure		
Section 569 Program - ARRA	12.120	\$ 466,563
U.S. Department of Housing and Urban Development		
Direct		
Community Development Block Grants/Entitlement Grants Cluster		
Community Development Block Grants/Entitlement Grants	14.218	\$ 3,242,129
Community Development Block Grants/Entitlement Grants - ARRA	14.253	263,736
Emergency Shelter Grants Program	14.231	113,730
Home Investment Partnerships Program	14.239	885,836
Homelessness Prevention and Rapid Re-Housing Program - ARRA	14.257	37,617
Fair Housing Assistance Program - State and Local	14.401	145,485
Total U.S. Department of Housing and Urban Development		\$ 4,688,533
U.S. Department of Justice		
Direct		
Grants to Encourage Arrest Policies and Enforcement of Protection		
Orders Program	16.590	217,974
Local Law Enforcement Block Grant	16.592	45,568
Bulletproof Vest Partnership Program	16.607	14,080
Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants		
to Units of Local Government	16.738	52,860
Anti-Gang Initiative	16.744	15,000
Edward Byrne Memorial Justice Assistance Grant - ARRA	16.804	179,278
Passed Through the City of Chisholm		
Public Safety Partnership and Community Policing Grants	16.710	108,513
Total U.S. Department of Justice		\$ 633,273

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

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**CITY OF DULUTH
DULUTH, MINNESOTA**

Schedule 2
(Continued)

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDING DECEMBER 31, 2009**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Labor		
Senior Community Service Employment Program Cluster Passed Through Senior Service America, Inc.		
Senior Community Service Employment Program	17.235	\$ 242,373
Senior Community Service Employment Program - ARRA	17.235	38,442
Passed Through Minnesota Department of Employment and Economic Development		
Senior Community Service Employment Program	17.235	99,026
Senior Community Service Employment Program - ARRA	17.235	8,031
Workforce Investment Act (WIA) Cluster		
WIA Adult Program	17.258	351,461
WIA Adult Program - ARRA	17.258	41,725
WIA Youth Activities	17.259	366,005
WIA Youth Activities - ARRA	17.259	483,529
WIA Dislocated Workers	17.260	111,727
WIA Dislocated Workers - ARRA	17.260	96,432
Total U.S. Department of Labor		\$ 1,838,751
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation		
Highway Planning and Construction Cluster		
Highway Planning and Construction	20.205	\$ 239,391
Highway Planning and Construction - ARRA	20.205	553,679
Recreational Trails Program	20.219	14,963
Passed Through Minnesota Department of Public Safety		
Alcohol Impaired Driving Countermeasures Incentive Grants	20.601	8,909
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	8,301
Total U.S. Department of Transportation		\$ 825,243
U.S. Environmental Protection Agency		
Passed through Minnesota Department of Employment and Economic Development		
Capitalization Grants for Clean Water State Revolving Funds Cluster		
Capitalization Grants for Clean Water State Revolving Funds	66.458	\$ 799,852
Capitalization Grants for Clean Water State Revolving Funds - ARRA	66.458	2,013,236
Capitalization Grants for Drinking Water State Revolving Funds	66.468	480,239
Total U.S. Environmental Protection Agency		\$ 3,293,327

**CITY OF DULUTH
DULUTH, MINNESOTA**

Schedule 2
(Continued)

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDING DECEMBER 31, 2009**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Energy		
Direct		
Energy Efficiency and Conservation Block Grant - ARRA	81.128	\$ 3,600
U.S. Department of Homeland Security		
Direct		
Assistance to Firefighters Grant	97.044	\$ 206,270
Passed Through Minnesota Department of Public Safety Homeland Security Grant Program	97.067	23,673
Passed Through St. Louis County Homeland Security Grant Program	97.067	<u>134,143</u>
Total U.S. Department of Homeland Security		\$ 364,086
Total Federal Awards		<u>\$ 12,208,921</u>

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**CITY OF DULUTH
DULUTH, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2009**

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 \$10,350,361 and \$5,661,498 in federal awards expended by the Duluth Airport Authority and 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, 2009. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the City of Duluth, it is not intended to and does not present the financial position, changes in net assets, 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 the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented, if provided.

**CITY OF DULUTH
DULUTH, MINNESOTA**

4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$	8,274,070
Grants received more than 60 days after year-end deferred in 2009		
Highway Planning and Construction		311,425
Homeland Security Grant Program		8,253
Deferred in 2008, recognized as revenue in 2009		
Highway Planning and Construction		(84,512)
Port Security Grant Program		(275,846)
Capital grants received in enterprise funds		
Northeastern Minnesota Environmental Infrastructure Section 569 Program - ARRA		466,563
Capitalization Grants for Clean Water State Revolving Funds		799,852
Capitalization Grants for Clean Water State Revolving Funds - ARRA		2,013,236
Capitalization Grants for Drinking Water State Revolving Funds		480,239
Correction for revenue recognized in 2008, should be deferred revenue in 2009		
Highway Planning and Construction		213,141
Item coded to miscellaneous revenue		
Special Projects - ARRA		2,500
		2,500
Total Expenditures Per Schedule of Expenditures of Federal Awards	\$	12,208,921

5. Subrecipients

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

CFDA Number	Program Name	Amount Provided to Subrecipients
14.218	Community Development Block Grants/Entitlement Grants	\$ 3,117,496
14.231	Emergency Shelter Grants Program	111,455
14.239	Home Investment Partnerships Program	816,242
16.738	Edward Bryne Memorial Justice Assistance Grant	16,600
16.804	Edward Bryne Memorial Justice Assistance Grant (JAG) Program/Grants to Units of Local Government - ARRA	29,142
	Total	\$ 4,090,935

6. American Recovery and Reinvestment Act

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