

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

MANAGEMENT AND COMPLIANCE REPORT

CITY OF SAINT PAUL
SAINT PAUL, MINNESOTA

YEAR ENDED DECEMBER 31, 2012

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

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

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

Year Ended December 31, 2012



Management and Compliance Report

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

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

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: **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? **Yes**
- Significant deficiencies identified? **Yes**

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

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

The major programs are:

Community Development Block Grants (CDBG)/Entitlement Grants Cluster	
Community Development Block Grants/Entitlement Grants	CFDA #14.218
CDBG Grants/Entitlement Grants - ARRA	CFDA #14.253
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	CFDA #14.228
Neighborhood Stabilization Program - ARRA	CFDA #14.256

Public Safety Partnership and Community Policing Grants Cluster	
Public Safety Partnership and Community Policing Grants	CFDA #16.710
Public Safety Partnership and Community Policing Grants - ARRA	CFDA #16.710
JAG Program Cluster	
Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to Units of Local Government - ARRA	CFDA #16.804
Edward Byrne Memorial Justice Assistance Grant Program	CFDA #16.738
Highway Planning and Construction	CFDA #20.205
State Energy Program - ARRA	CFDA #81.041

The threshold for distinguishing between Types A and B programs was \$1,015,174.

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

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

10-2 Financial Statements

Criteria: Management is responsible for preparing the City’s Comprehensive Annual Financial Report (CAFR) in accordance with generally accepted accounting principles (GAAP). The CAFR preparation in accordance with GAAP requires internal control over both (1) recording, processing, and summarizing accounting data (that is, maintaining internal books and records); and (2) preparing and reporting appropriate government-wide and fund financial statements, including the related notes to the financial statements.

Condition: The information that was to be included in the City’s CAFR submitted to the auditors required numerous revisions affecting both the financial statements and the related notes.

Context: Preparation of information included in the City’s CAFR is performed by numerous individuals in several City departments. That information is to be provided to the City of Saint Paul’s Office of Financial Services (OFS) in the time, form, and manner to allow OFS staff to adequately review it, to submit the information for audit, and to finalize the CAFR in order to meet the June 30 deadline for submission of the CAFR to the Government Finance Officers Association of the United States and Canada (GFOA).

Effect: An extension to the June 30 GFOA deadline and additional audit hours resulted from delays in preparing the CAFR information along with errors discovered and their subsequent correction.

Cause: Tasks and information necessary for the City's CAFR were not completed in the time, form, and manner to allow the City's OFS staff to sufficiently review the information before it was submitted for audit.

Recommendation: The City of Saint Paul should review internal controls currently in place over the preparation of its CAFR, especially related to having the necessary financial information prepared in a manner that allows the City's OFS staff an adequate amount of time to review information being submitted for audit.

Client's Response:

We will continue to educate department accountants on the criticality of turning their fund statements in to OFS by their assigned due dates, and stress the importance of their statements being accurate when turning them in.

OFS-Accounting is also revamping internal processes and preparation assignments to ensure adequate review and timely completion of the CAFR.

11-2 Audit Adjustments

Criteria: A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis.

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

Context: The City and the HRA each internally prepare and report appropriate governmental and fund financial statements, including the related notes to the financial statements. The inability to detect significant misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented.

Effect: The following audit adjustments were reviewed and approved by the appropriate City and HRA staff and are reflected in the financial statements:

- The net investment in capital assets was increased by \$3,275,000, and the unrestricted net position was decreased by \$3,275,000 in the HRA Parking Enterprise Fund to properly present the components within net position at December 31, 2012; and

- Principal and interest on notes of \$1,500,000 and \$306,763, respectively, were increased in the General Debt Service Fund. Principal and interest on bonds were reduced by offsetting amounts where they had originally been recorded in error.

Cause: When preparing the HRA Parking Enterprise Fund financial statements as of and for the year ended December 31, 2012, accounting staff used the incorrect noncurrent liabilities amount for both the general obligation bonds and revenue bonds when calculating the net investment in capital assets. In the General Debt Service Fund, note principal and interest were incorrectly classified as bond principal and interest by accounting staff.

Recommendation: We recommend the City review its policies and procedures related to the recording of transactions to ensure that the transactions are recorded in accordance with generally accepted accounting principles. We recommend the HRA review its policies and procedures for the preparation of its financial statements to ensure that the financial information prepared by staff is accurately presented in the HRA's financial statements.

Client's Response:

To ensure the HRA financial information prepared by the accounting staff is accurately presented in the financial statements, funds will be reviewed in the presentation of the CAFR before being submitted as final financial statements.

General Debt Service Fund note and bond principal/interest will be reviewed by Treasury to verify the accuracy of categorization.

ITEMS ARISING THIS YEAR

12-1 Monitoring Internal Controls

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

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

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

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

Cause: Management determined that it was not cost-effective, since the current financial accounting system is expected to be replaced as of January 1, 2014.

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

Client's Response:

The City is currently in the design/testing phase of an Enterprise Resource Planning (ERP) system implementation. The OFS project team is designing/documenting the new system security and internal controls. These controls will be tested in the 4th quarter 2013 before the new system goes live, and they will be monitored and reassessed on an annual basis.

12-2 Procurement Cards

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

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

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

- A transaction listed on an employee's monthly statement was missing a receipt or other supporting documentation.
- There were several purchases of flowers for volunteers and get-well cards, which are not deemed to be for a public purpose.

- There was evidence of the splitting of payments to bypass the \$2,500 procurement card limit. This was noted for several different employees, and some employees were noted for several of these infractions.
- The City could not provide documentation for the initial authorization of an employee to receive a procurement card.
- There was an invoice of \$2,505 that was not fully paid due to the \$2,500 procurement card limit. The City could not provide support that the overage was eventually paid.
- At the time of the audit, OFS was in the process of auditing procurement card statements from eight months prior. This is a significant delay in the auditing process.
- Employees who were identified as being noncompliant with procurement card policies did not have their cards inactivated as the procurement policy states.

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

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

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

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

Client's Response:

At the time of this letter, OFS is up to date on auditing procurement card statements, and will ensure future statements are audited in OFS on a timely basis.

We will continue to educate card holders/supervisors/managers on the proper use, policies and procedures of employee procurement cards, and enforce the consequences of noncompliance.

12-3 Departmental Internal Controls

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

Condition: Several internal control deficiencies were noted during a site visit to one of the Parks Department recreation centers (the Center):

- All employees have access to the safe.
- There is no inventory system or tracking procedure for the concession stand inventory.
- There is no inventory system or tracking procedure for the small workout equipment. These items could easily be taken without knowledge to the Center.
- The Center does not keep an accurate number of electronic ID access cards for the facility.
- The Center does not reconcile the number of wristbands given out (for pool access) to the number sold in the financial system.

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

Effect: A lack of controls over inventory, ID cards, and the reconciliation of wristbands puts the City at risk for the loss of revenue. A lack of controls over small assets puts the City at risk for theft of assets. A lack of segregation of duties over safe access puts the City at risk for the loss of cash.

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

Recommendation: Management should implement controls over its inventory, small equipment, wristbands, ID cards, and safe access in order to protect the City from loss of revenue and assets. Only a limited number of employees should have access to the safe.

Client's Response:

We are going to continue to implement the inventory system within ActiveNet for concession items and also work on immediately implementing an inventory tracking worksheet at each facility that will track purchases/sales of various items (including ID

cards, wristbands, small equipment, etc.) with what is left on-hand at each facility. Items will be reviewed and counted on a regular schedule and matched with available financial and purchase/sales information (ActiveNet, financial system, etc.).

We will review all sites that have safes to ensure combinations and access is limited to only a few key staff. We will also review our current cash handling policies and procedures with all staff, especially sites that have new staff, to ensure they are following the requirement for limiting the number of staff with access to the safe.

PREVIOUSLY REPORTED ITEMS RESOLVED

Notes and Loans Receivable (10-1)

During previous years, there have been discrepancies between the loan principal balances represented on the Nortridge System and the loan balances confirmed by borrowers, with some of these differences being considered material. While the differences determined for the year ended December 31, 2011, were not considered material, the inability to detect adjustments required to be made to notes and loans receivable balances increases the likelihood that the financial statements would not be fairly presented.

Resolution

There were no discrepancies noted in 2012.

Prior Period Adjustment (11-1)

The City's 2011 financial statements reflected a prior period adjustment to restate the January 1, 2011, net position of the HRA Parking Enterprise Fund and of the business-type activities by \$1,550,477 to account for the sale of land utilized as a parking lot, the related loss on the sale, and the HRA loan to the buyer that occurred in a prior year.

Resolution

There were no similar adjustments noted in 2012.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

PREVIOUSLY REPORTED ITEM NOT RESOLVED

09-1 Identification of Federal Awards

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

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

Criteria: OMB Circular A-133, Subpart C, § .300, indicates auditee responsibilities include the identification of all federal awards received and expended and the federal programs under which they were received, including identifying programs funded by the American Recovery and Reinvestment Act (ARRA).

Condition: For the programs noted above, the City did not adequately identify federal award amounts received and expended. Expenditures identified by the City changed significantly during the course of the audit. In addition, those changes were not adequately communicated to the auditors for consideration of the effects on federal program testing.

Questioned Costs: None.

Context: Within departments, various program and accounting staff are involved with administration of grants. The financial information for these grants is then provided to a centralized person to consolidate it for financial reporting. Grant information that is not adequately communicated between program and financial staff cannot be properly accounted for and reported.

Effect: The inability to properly identify and track federal expenditures, including ARRA funding, or to detect significant misstatements in the Schedule of Expenditures of Federal Awards (SEFA), increases the likelihood that federal expenditures would not be fairly reported, that noncompliance with direct and material compliance requirements may occur, and that the selection of programs tested for the City's single audit may be impacted.

Cause: The City does not have procedures in place to ensure that federal award programs, including those funded by ARRA, are adequately identified, accounted for, and reported on the SEFA and in the financial statements.

Recommendation: We recommend City management develop a system and written procedures that will allow staff to correctly identify all federal financial assistance received and expended. The process must require that staff identify and communicate with each other the correct program CFDA number, revenue source, program name, federal expenditures, and whether the program is funded with ARRA. The process must also be monitored to ensure it is working properly.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

Jerry Falksen, Planning and Economic Development Accountant

Corrective Action Planned:

The preliminary estimate of federal expenditures will be updated in early January, and the results will be communicated to the City's Federal Grants accountant who will in turn inform the State Auditor of any significant changes.

Anticipated Completion Date:

January 2014

ITEMS ARISING THIS YEAR

12-4 Reporting

Direct Federal Programs: U.S. Department of Housing and Urban Development (HUD)'s Community Development Block Grants (CDBG) - Entitlement Grants Cluster - CDBG/Entitlement Grants (CFDA No. 14.218) and CDBG/Entitlement Grants - ARRA (CFDA No. 14.253), and Neighborhood Stabilization Program - ARRA (CFDA No. 14.256)

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

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

Condition: The City of Saint Paul's Human Rights and Equal Economic Opportunity (HREEO) Department and Planning and Economic Development (PED) Department prepare reports to be submitted to HUD to comply with federal program requirements. It was noted that the SF-425 report, 1512 report, annual CAPER, NSP Progress Report, and Section 3 reports are not formally reviewed by someone other than the preparer prior to its submission to HUD. The reimbursement requests for CFDA No. 14.228 are also not reviewed by someone other than the preparer prior to submission to MHFA. A review by a supervisor or other individual familiar with the program requirements would help to ensure the data reported are accurate and complete. It was also noted that the NSP Progress Report was not prepared based on the City's general ledger system, which caused errors to be reported to HUD.

Questioned Costs: None.

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

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

Cause: Policies and procedures requiring a formal review of all reports submitted to HUD were not in place. The NSP Progress Report was incorrectly prepared using an internal document instead of the general ledger system.

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

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

Bob Hammer, Head of the PED Federal Grants Section

Corrective Action Planned:

Information submitted to HUD for federal compliance will be reviewed and signed off by the Head of the PED Federal Grants Section.

Anticipated Completion Date:

September 2013

12-5 Davis-Bacon Act

Program: U.S. Department of Housing and Urban Development (HUD)'s Community Development Block Grants/Entitlement Grants (CFDA No. 14.218) and Community Development Block Grants/Entitlement Grants - ARRA (CFDA No. 14.253)

Pass-Through Agency: None

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

Condition: The City has assigned monitoring of compliance with the Davis-Bacon Act for projects financed by federal assistance funds to the City of Saint Paul's Human Rights and Equal Economic Opportunity (HREEO) Department. The HREEO Department has developed a tracking system that allows contractors and subcontractors to submit their certified payrolls for those time periods they have employees performing construction services related to projects funded by federal assistance programs. The HREEO Department has policies and procedures in place whereby peer reviews are to be performed of the staff member that has been assigned to monitor contractors' and subcontractors' compliance with Davis-Bacon Act requirements; however, there was not always formal documentation maintained that supported that the peer reviews were performed.

Questioned Costs: None.

Context: Because formal documentation of the peer reviews related to the Davis-Bacon Act monitoring was not always indicated on the project compliance logs in the files, we performed a more detailed examination of the prevailing wage rate documentation to determine that contractors and subcontractors performing services for the City, that were reimbursed with federal funds, paid the prevailing wages in accordance with the Davis-Bacon Act. No material exceptions were noted.

Effect: The lack of formal documentation that a peer review took place may indicate that the peer review was not performed. This increases the risk that errors or omissions may occur and not be detected in a reasonable amount of time.

Cause: The project compliance logs were not always being completed to indicate that a peer review was performed, who performed the review, and when it was performed.

Recommendation: We recommend the City work with the HREEO Department to ensure the peer review process related to the Davis-Bacon Act monitoring is documented.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

Readus Fletcher, Deputy Director of Contract Compliance, HREEO

Corrective Action Planned:

Responsible HREEO staff will ensure peer review process is taken on each project with federal Davis-Bacon requirements. The peer review will be properly noted on each compliance log located within the project file. The peer review notation will include the staff member reviewing the file, what was reviewed, when it was reviewed, and any corrective actions necessary to ensure compliance.

Anticipated Completion Date:

The peer review process began in 2012 and is standard procedure moving forward.

PREVIOUSLY REPORTED ITEMS RESOLVED

Subrecipient Monitoring (CFDA Nos. 14.257 and 20.205) (10-4)

In its agreements with its subrecipients related to these programs, the City did not identify the CFDA number of the federal awards.

Resolution

The City is identifying to its subrecipients the CFDA number of federal awards.

Equipment and Real Property Management - State Energy Program - ARRA (CFDA No. 81.041) (11-3)

The City did not include solar panels (improvements other than buildings) that were purchased and installed with federal funds from this program of \$1,107,837 in its capital asset system in 2011.

Resolution

For 2012, the City included capital expenditure purchases made with federal funds for this program in its capital asset system.

IV. OTHER FINDINGS AND RECOMMENDATIONS

MINNESOTA LEGAL COMPLIANCE

ITEM ARISING THIS YEAR

12-6 Prompt Payment of Invoices

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

Condition: Four of the 25 invoices tested for compliance with this statute were not paid within 35 days.

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

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

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

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

Client's Response:

OFS will continue to stress to the City's departmental accountants that they must comply with Minnesota law and pay their invoices in accordance with Minn. Stat. § 471.425. OFS will continue to date stamp pay vouchers when received in OFS and pay them immediately.



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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Independent Auditor's Report

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Saint Paul, Minnesota, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated August 26, 2013. Our report includes a reference to other auditors. Other auditors audited the financial statements of the Saint Paul RiverCentre Convention and Visitors Authority and the Port Authority of the City of Saint Paul, as described in our report on the City of Saint Paul's financial statements. This report does not include the results of other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the Saint Paul RiverCentre Convention and Visitors Authority were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as items 10-2, 11-2, and 12-1 through 12-3, that we consider to be significant deficiencies.

Compliance and Other Matters

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

Minnesota Legal Compliance

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

In connection with our audit, nothing came to our attention that caused us to believe that the City of Saint Paul failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, except as described in the Schedule of Findings and Questioned Costs as item 12-6. 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.

Other Matters

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

Purpose of This Report

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

August 26, 2013

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

Independent Auditor's Report

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

Report on Compliance for Each Major Federal Program

We have audited the City of Saint Paul's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2012. The City of Saint Paul's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

The City of Saint Paul's basic financial statements include the operations of the Housing and Redevelopment Authority (HRA) of the City of Saint Paul, the Saint Paul Regional Water Services, and the Port Authority of the City of Saint Paul component units, which expended \$3,154,665, \$11,323,988, and \$2,934,945, respectively, in federal awards during the year ended December 31, 2012, which are not included in the Schedule of Expenditures of Federal Awards. Our audit, described below, did not include the operations of the HRA and the Saint Paul Regional Water Services because they had separate single audits in accordance with OMB Circular A-133. Our audit also did not include the operations of the Port Authority because other auditors were engaged to perform a single audit in accordance with OMB Circular A-133.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Saint Paul's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance with those requirements.

Opinion on Each Major Federal Program

In our opinion, the City of Saint Paul complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

Report on Internal Control Over Compliance

Management of the City of Saint Paul is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 09-1 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 12-4 and 12-5 to be significant deficiencies.

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

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Saint Paul as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We have issued our report thereon dated August 26, 2013, which contained unmodified opinions on those financial statements. We did not audit the financial statements of the Saint Paul RiverCentre Convention and Visitors Authority, which represent 1 percent, 1 percent, and 14 percent, respectively, and the Port Authority of the City of Saint Paul, which represent 33 percent, 11 percent, and 20 percent, respectively, of the assets, net position, and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has

been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the SEFA is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Purpose of This Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

August 26, 2013

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Housing and Urban Development		
Direct		
Community Development Block Grants (CDBG)/Entitlement Grants Cluster		
Community Development Block Grants/Entitlement Grants	14.218	\$ 10,253,839
Community Development Block Grants/Entitlement Grants - ARRA	14.253	845,736
Emergency Solutions Grants Program	14.231	355,390
Neighborhood Stabilization Program - ARRA	14.256	6,909,316
Homelessness Prevention and Rapid Re-Housing Program - ARRA	14.257	310,079
Passed Through Minnesota Housing Finance Agency		
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	1,689,940
Sustainable Communities Regional Planning Grant Program	14.703	123,333
Total U.S. Department of Housing and Urban Development		\$ 20,487,633
U.S. Department of Justice		
Direct		
Services for Trafficking Victims	16.320	\$ 36,910
Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	16.590	113,742
Bulletproof Vest Partnership Program	16.607	8,914
Public Safety Partnership and Community Policing Grants - ARRA	16.710	1,377,342
(Total Public Safety Partnership and Community Policing Grants CFDA 16.710 \$1,384,227)		
Congressionally Recommended Awards	16.753	462,408
JAG Program Cluster		
Edward Byrne Memorial Justice Assistance Grant (JAG) Program	16.738	422,694
(Total Edward Byrne Memorial JAG Program CFDA 16.738 \$537,564)		
Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to Units of Local Government - ARRA	16.804	617,745
Internet Crimes Against Children Task Force Program - ARRA	16.800	218,219
Edward Byrne Memorial Competitive Grant Program - ARRA	16.808	152,925
(Total Edward Byrne Memorial Competitive Grant Program CFDA 16.808 \$157,459)		
Passed Through Minnesota Department of Public Safety		
Juvenile Accountability Block Grants	16.523	74,248
Public Safety Partnership and Community Policing Grants	16.710	6,885
(Total Public Safety Partnership and Community Policing Grants CFDA 16.710 \$1,384,227)		
Passed Through Ramsey County		
JAG Program Cluster		
Edward Byrne Memorial Justice Assistance Grant (JAG) Program	16.738	114,870
(Total Edward Byrne Memorial JAG Program CFDA 16.738 \$537,564)		

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**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Justice (Continued)		
Passed Through National Association of Police Athletic/Activities League		
Juvenile Mentoring Program	16.726	21,142
Edward Byrne Memorial Competitive Grant Program - ARRA	16.808	4,534
(Total Edward Byrne Memorial Competitive Grant Program CFDA 16.808 \$157,459)		
Total U.S. Department of Justice		\$ 3,632,578
U.S. Department of Labor		
Passed Through Minnesota Department of Employment and Economic Development		
Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors	17.275	\$ 13,578
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation		
Highway Planning and Construction	20.205	\$ 4,311,955
National Infrastructure Investments	20.933	45,300
Passed Through Metropolitan Council		
Federal Transit Capital Investment Grants	20.500	256,209
New Freedom Program	20.521	48,437
Passed Through Minnesota Department of Public Safety		
Highway Safety Cluster		
State and Community Highway Safety	20.600	41,895
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	51,151
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	27,400
Total U.S. Department of Transportation		\$ 4,782,347
Institute of Museum and Library Services		
Direct		
Laura Bush 21st Century Librarian Program	45.313	\$ 42,993
U.S. Environmental Protection Agency		
Direct		
Brownfields Assessment and Cleanup Cooperative Agreements	66.818	\$ 438,656

**CITY OF SAINT PAUL
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**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Energy		
Direct		
Energy Efficiency and Conservation Block Grant Program (EECBG) - ARRA	81.128	\$ 731,005
Passed Through Minnesota Department of Commerce - Office of Energy Security State Energy Program - ARRA	81.041	<u>377,516</u>
Total U.S. Department of Energy		<u>\$ 1,108,521</u>
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Health Postal Model for Medical Countermeasures Delivery and Distribution	93.016	<u>\$ 8,304</u>
Corporation for National and Community Service		
Direct		
Volunteers in Service to America	94.013	<u>\$ 267,747</u>
U.S. Department of Homeland Security		
Direct		
Assistance to Firefighters Grant	97.044	\$ 687,229
Staffing for Adequate Fire and Emergency Response (SAFER)	97.083	371,317
Passed Through Minnesota Department of Public Safety		
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	1,181
Emergency Management Performance Grants	97.042	30,000
Pre-Disaster Mitigation	97.047	61,871
Port Security Grant Program	97.056	369,231
Homeland Security Grant Program	97.067	<u>1,535,937</u>
Total U.S. Department of Homeland Security		<u>\$ 3,056,766</u>
Total Federal Awards		<u><u>\$ 33,839,123</u></u>

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**CITY OF SAINT PAUL
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**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by the City of Saint Paul. The City's reporting entity is defined in Note II to the basic financial statements. This schedule does not include \$3,154,665, \$11,323,988, and \$2,934,945 in federal awards expended by the Housing and Redevelopment Authority (HRA) of the City of Saint Paul, the Saint Paul Regional Water Services, and the Port Authority of the City of Saint Paul, respectively, component units of the City, which had separate single audits.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Saint Paul under programs of the federal government for the year ended December 31, 2012. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the City of Saint Paul, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City of Saint Paul.

3. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the basis of accounting used by the individual funds of the City of Saint Paul. Governmental funds use the modified accrual basis of accounting. Proprietary funds use the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through grant numbers were not assigned by the pass-through agencies.

4. Clusters

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

Community Development Block Grants (CDBG)/Entitlement Grants Cluster	\$ 11,099,575
JAG Program Cluster	1,155,309
Highway Safety Cluster	93,046

**CITY OF SAINT PAUL
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5. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 36,920,290
Expenditures of program income	
Edward Byrne Memorial Justice Assistance Grant Program	30,362
Expenditures occurring in 2012, but revenue recognized in 2011	
Edward Byrne Memorial Justice Assistance Grant Program	143
Expenditures occurring in 2012, but revenue deferred until 2013	
Learning Labs Grant	42,993
Grants received by blended component unit not included	
HOME Investment Partnerships Program	(3,047,072)
Shelter Plus Care Grant	(18,450)
Housing Counseling Assistance Grant Program	(30,516)
Mortgage Foreclosure Mitigation Counseling Program	(58,627)
	\$ 33,839,123
Expenditures Per Schedule of Expenditures of Federal Awards	\$ 33,839,123

6. Subrecipients

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

CFDA Number	Program Name	Amount Provided to Subrecipients
14.218	Community Development Block Grants/Entitlement Grants	\$ 3,907,475
14.253	Community Development Block Grants/Entitlement Grants - ARRA	550,000
14.231	Emergency Solutions Grants Program	332,741
14.257	Homelessness Prevention and Rapid Re-Housing Program	297,624
16.738	Edward Byrne Memorial Justice Assistance Grant Program	149,373
16.804	Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to Units of Local Government - ARRA	44,851
16.800	Internet Crimes Against Children Task Force Program (ICAC) - ARRA	172,247
16.808	Edward Byrne Memorial Competitive Grant Program - ARRA	46,026
16.523	Juvenile Accountability Block Grants	35,000
20.205	Highway Planning and Construction	157,376
	Total	\$ 5,692,713

7. American Recovery and Reinvestment Act

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