

# STATE OF MINNESOTA

## Office of the State Auditor



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

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**MANAGEMENT AND COMPLIANCE REPORT**

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

**YEAR ENDED DECEMBER 31, 2015**

## **Description of the Office of the State Auditor**

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

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

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

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

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

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

**Pension** - monitors investment, financial, and actuarial reporting for approximately 700 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, 2015**



**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, 2015**

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

**Financial Statements**

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with generally accepted accounting principles: **Unmodified**

Internal control over financial reporting:

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

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

**Federal Awards**

Internal control over major programs:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **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 2 CFR 200200.516(a)? **Yes**

The major programs are:

HOME Investment Partnerships Program	CFDA No. 14.239
Highway Planning and Construction	CFDA No. 20.205
Brownfields Assessment and Cleanup Cooperative Agreements	CFDA No. 66.818

The threshold for distinguishing between Types A and B programs was \$769,707.

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 ITEM NOT RESOLVED

Finding 2014-002

#### Bank Reconciliations and Reconciliations of Treasury Cash and Investment Balances to INFOR Balances

**Criteria:** Reconciliations are control activities designed to provide reasonable assurance that material errors will be prevented and detected in a timely manner and involve the comparison of records or balances from different sources. Effective reconciliations properly account for any differences between the records or balances. This includes investigating why the differences exist and resolving them in a timely manner. Documentation resolving any differences should be retained.

**Condition:** In the 2014 audit, we noted monthly reconciliations for the City's primary checking account were completed only through December 2013. The City later reconciled the December 2014 bank statement, but did not reconcile the other months of 2014. Also during 2014, Treasury cash and investment balances were not being reconciled to the INFOR system balances on a regular basis. At December 31, 2014, there was a substantial difference that could not be reconciled.

In 2015, all bank reconciliations were completed, but not on a timely basis. They were started in November 2015 and completed by March 2016. The Treasury cash and investment balances were not being reconciled to the INFOR system balance on a regular basis in 2015. Only the final December 2015 reconciliation was done. The substantial difference noted at December 31, 2014, was still a reconciling item in 2015.

**Context:** Bank reconciliations and reconciling the Treasury balances to the INFOR system balances are tools to help ensure bank account and the cash and investment records are complete and accurate and controls designed to detect, and allow for correction of, errors or irregularities on a timely basis.

**Effect:** When accounting records are not reconciled on a regular basis, there is an increased risk that errors or irregularities will not be detected in a timely manner.

**Cause:** The City implemented the INFOR financial management system during 2014. The City indicated staff was unsure how to perform the bank reconciliations with INFOR as the process was still in development. These delays slowed the completion of the 2014 comprehensive annual financial report (CAFR). The CAFR was completed in November 2015. Reconciliations for 2015 were started at that time. Delays in performing



reconciliations between Treasury cash and investment balances and the INFOR system balances allowed differences to accumulate over a period of time and are likely due to adjustments made to one record that, for some reason, were not carried through to the other records to ensure they balance. Once differences have accumulated, it is more difficult to find and correct them.

**Recommendation:** We recommend that bank reconciliations for all accounts be performed timely. We further recommend the City timely reconcile Treasury cash and investment balances to the INFOR system balance. Adjustments for differences should be made as necessary so that reconciled amounts agree.

Client's Response:

*2015 was the City's second year on the new Enterprise Resource Planning (ERP) system, INFOR. The first year's CAFR on the new system, fiscal year ended December 31, 2014, was delayed due to multiple business processes that were revamped to accommodate the new system. The City's turnaround time from the issuance of the 2014 CAFR to starting production on the 2015 CAFR was a period of a month. The Office of Financial Services (OFS) executed a very aggressive timeline for the 2015 bank reconciliations to be done in order for the 2015 CAFR to be timely. By the time March 2016 came around, reconciling cash on a monthly basis served no purpose when calendar year 2015 had already passed by.*

*For 2016, the City will establish a routine month-end process by the fourth quarter to ensure that bank reconciliations and cash reconciliations can be restored to being a periodic regular business process between the Treasury Department and the Accounting Department. The City plans to identify what makes up the substantial difference noted on December 31, 2014, and resolve the variance. There is a possibility that timing and external consulting recommendations could have skewed the beginning converted cash balances into INFOR.*

*We anticipate completing this by December 31, 2016.*

PREVIOUSLY REPORTED ITEMS RESOLVED

**Departmental Internal Controls (2012-003)**

No inventory system or tracking procedure was in place for the concession stand inventory or for the small workout equipment in the Parks Department recreation centers.

**Resolution**

An inventory tracking system was implemented during 2015.

### **Financial Statement Preparation (2014-001)**

The financial information necessary for the preparation of the CAFR was unable to be gathered, processed, and summarized in the time, form, and manner that would allow the City's CAFR to be prepared and submitted to oversight agencies by various required reporting deadlines.

### **Resolution**

For the year ended December 31, 2015, the City's CAFR was prepared in a timely manner and submitted by required reporting deadlines.

### **Audit Adjustments (2014-003)**

Material adjustments were identified and made to the City Capital Projects Fund and the Housing and Redevelopment Authority (HRA) Loan Enterprise Fund that resulted in significant changes to the City's financial statements.

### **Resolution**

No material audit adjustments were identified in the current year.

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

### PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding 2013-005

#### Reporting - Transparency Act

**Direct Federal Program:** U.S. Department of Housing and Urban Development (HUD)'s HOME Investment Partnerships Program (CFDA No. 14.239), 2014

**Criteria:** As required by the Federal Funding Accountability and Transparency Act (FFATA) and subsequent OMB guidance, information on the first-tier subawards related to federal contracts and grants and the executive compensation of awardees must be made publically available. Prime contractors awarded a federal contract or order that is subject to Federal Acquisition Regulation clause 52.204-10 (Reporting Executive Compensation and First-Tier Subcontract Awards) are required to file a FFATA subaward report by the end of the month following the month in which the prime contractor awards any subcontract greater than \$25,000 (\$30,000 after October 1, 2015).

**Condition:** There are no policies or procedures in place to ensure the City is reporting its first-tier subawards associated with federal grants and contracts in the FFATA Subaward System (FSRS). The City had subrecipients during 2015 that received over \$25,000/\$30,000 of pass-through funds from the City, which are required to be reported in this system. This reporting was not completed.

**Questioned Costs:** None.

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

**Effect:** The City is not in compliance with the federal requirements of the FFATA for its subrecipients during 2015.

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

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

Corrective Action Plan:

Names of Contact Persons Responsible for Corrective Action:

*Joy Thao, OFS Deputy Director - Accounting and Business Support  
Eric Willems, OFS Accounting Manager - Accounting  
Dolly Lee, OFS Accountant IV - Accounting  
Kristin Guild, Planning and Economic Development (PED) Deputy Director  
Rhonda Gillquist, PED Accountant V*

Corrective Action Planned:

*In June 2016, OFS started working on a plan to create a centralized support structure to lead, guide, and provide citywide oversight for a federal reporting plan that will comply with the Federal Funding Accountability and Transparency Act.*

*As it pertains to this particular finding related to the U.S. Department of Housing and Urban Development (HUD)'s HOME Investment Partnerships Program (CFDA No. 14.239), OFS will work with PED to develop a federal reporting procedure.*

Anticipated Completion Date:

*December 31, 2016*

## ITEMS ARISING THIS YEAR

Finding 2015-001

### Project Reporting

**Program:** U.S. Environmental Protection Agency's Brownfields Assessment and Cleanup Cooperative Agreements (CFDA No. 66.818), Award #CRLF-13-0001-Z-FY14, 2014

**Pass-Through Agency:** Minnesota Department of Employment and Economic Development (DEED)

**Criteria:** Title 2 U.S. *Code of Federal Regulations* § 200.303 states that the auditee must establish and maintain effective internal control over the federal award that provides reasonable assurance that the auditee is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award. The Minnesota Cleanup Revolving Loan Fund Loan Agreement requires the City to submit a report detailing the distribution of funds and the progress of the Project through June 30 of each year until the project goals have been met.

**Condition:** In addition to the Minnesota Cleanup Revolving Loan, the City received a Contamination Cleanup Grant from DEED for the same project. The information for the revolving loan was included in the report submitted to DEED for the grant. However, the expenditures submitted for the grant did not include all expenditure categories for the revolving loan. Demolition costs of \$195,552 were not reported.

**Questioned Costs:** None.

**Context:** The Minnesota Cleanup Revolving Loan was part of the funding obtained for the construction of the Lowertown Ballpark.

**Effect:** A complete report of the distribution of funds for the Revolving Loan was not completed and submitted to DEED as required by the loan agreement.

**Cause:** City staff involved in the project stated that DEED accepted the report for both the grant and loan because the dollar amounts reported were close to the budgeted amounts.

**Recommendation:** We recommend the City complete a report for the Revolving Loan that includes all expenditures paid from the Revolving Loan funds or obtain documentation from DEED that states they have met the reporting requirements.

Corrective Action Plan:

Names of Contact Persons Responsible for Corrective Action:

*Joy Thao, OFS Deputy Director - Accounting and Business Support  
Eric Willems, OFS Accounting Manager - Accounting  
Tom Russell, Parks and Recreation Finance and Planning Manager  
Calvin Wheeler, Parks and Recreation Accountant IV*

Corrective Action Planned:

*OFS will work with Parks and Recreation to devise a plan to complete a report for the Revolving Loan (Minnesota Cleanup Revolving Loan Fund Loan Agreement for construction of the Lowertown Ballpark) that includes all expenditures paid from the Revolving Loan funds or obtain documentation from DEED that states they have met the reporting requirements.*

Anticipated Completion Date:

*December 31, 2016*

Finding 2015-002

Reporting

**Direct Federal Program:** U.S. Department of Housing and Urban Development (HUD)'s HOME Investment Partnerships Program (CFDA No. 14.239), Award #M(2008)MC270202, M(2010-2015)MC270202

**Criteria:** Title 2 U.S. *Code of Federal Regulations* § 200.303 states that the auditee must establish and maintain effective internal control over the federal award that provides reasonable assurance that the auditee is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award.

**Condition:** The City of Saint Paul's Human Rights and Equal Economic Opportunity (HREEO) Department and Planning and Economic Development Department prepare reports to be submitted to HUD to comply with federal program requirements. It was noted that the SF-425 report and the Section 3 Report were not formally reviewed by someone other than the preparer prior to their submission to HUD. A review by a supervisor or other individual familiar with the program requirements would help to ensure the data reported are accurate and complete.

**Questioned Costs:** None.

**Context:** Because of the lack of a formal review of the SF-425 and Section 3 reports, 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 reports submitted to HUD were not in place.

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

Corrective Action Plan:

Names of Contact Persons Responsible for Corrective Action:

*Joy Thao, OFS Deputy Director - Accounting and Business Support*  
*Eric Willems, OFS Accounting Manager - Accounting*  
*Dolly Lee, OFS Accountant IV - Accounting*  
*Kristin Guild, PED Deputy Director*  
*Rhonda Gillquist, PED Accountant V*

Corrective Action Planned:

*As it pertains to this particular finding related to the U.S. Department of Housing and Urban Development (HUD)'s HOME Investment Partnerships Program (CFDA No. 14.239), OFS will work with PED to ensure that review procedures are established for the Section 3 Report.*

Anticipated Completion Date:

*On January 1, 2016, PED implemented a procedure that requires the PED lead accountant to review the SF-425 report prior to it being submitted to HUD. December 31, 2016, for the Section 3 Report.*

PREVIOUSLY REPORTED ITEM RESOLVED

**Procurement and Suspension and Debarment (CFDA Nos. 14.239 and 20.500) (2013-004)**

The City entered into contracts with vendors for projects that were federally funded. There was insufficient documentation to support that verification was performed to determine these vendors were not suspended or debarred at the time the contract was awarded.

**Resolution**

The City added a clause to its contracts stating the vendors could not be suspended or debarred. Adding such clause is one of three ways accepted to document verification under Title 2 U.S. *Code of Federal Regulations* § 180.300 of the Uniform Guidance.

**IV. OTHER FINDINGS AND RECOMMENDATIONS**

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM RESOLVED

**Prompt Payment of Invoices (2012-006)**

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. In the previous audit, 25 disbursements were selected for testing, and 11 of those had multiple invoices as part of the payment. Sixteen of the total of 78 invoices tested for compliance with this statute were not paid within 35 days.

**Resolution**

In the current audit period, invoices selected for testing were paid within 35 days.

B. OTHER MATTERS

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding 2012-004

Reporting

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

**Criteria:** Title 2 U.S. *Code of Federal Regulations* § 200.303 states that the auditee must establish and maintain effective internal control over the federal award that provides reasonable assurance that the auditee is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award.

**Condition:** The City of Saint Paul's Human Rights and Equal Economic Opportunity (HREEO) Department and Planning and Economic Development Department prepare reports to be submitted to HUD to comply with federal program requirements. It was noted that the SF-425 report and the Section 3 Report were not formally reviewed by someone other than the preparer prior to their submission to HUD. A review by a supervisor or other individual familiar with the program requirements would help to ensure the data reported are accurate and complete.

**Questioned Costs:** None.

**Context:** Because of the lack of a formal review of the SF-425 and Section 3 reports, 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 reports submitted to HUD were not in place.

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

Corrective Action Plan:

Names of Contact Persons Responsible for Corrective Action:

*Joy Thao, OFS Deputy Director - Accounting and Business Support*

*Eric Willems, OFS Accounting Manager - Accounting*

*Dolly Lee, OFS Accountant IV - Accounting*

*Kristin Guild, PED Deputy Director*

*Rhonda Gillquist, PED Accountant V*



Corrective Action Planned:

*As it pertains to this particular finding related to the U.S. Department of Housing and Urban Development (HUD)'s Community Development Block Grants/Entitlement Grants (CFDA No. 14.218), OFS will work with PED to ensure that review procedures are established for the Section 3 Report.*

Anticipated Completion Date:

*On January 1, 2016, PED implemented a procedure that requires the PED lead accountant to review the SF-425 report prior to it being submitted to HUD. December 31, 2016, for the Section 3 Report.*

Finding 2013-005a

Reporting - Transparency Act

**Direct Federal Program:** U.S. Department of Housing and Urban Development (HUD)'s Community Development Block Grants/Entitlement Grants (CFDA No. 14.218) and Emergency Solutions Grant Program (CFDA No. 14.231)

**Criteria:** As required by the Federal Funding Accountability and Transparency Act (FFATA) and subsequent OMB guidance, information on the first-tier subawards related to federal contracts and grants and the executive compensation of awardees must be made publically available. Prime contractors awarded a federal contract or order that is subject to Federal Acquisition Regulation clause 52.204-10 (Reporting Executive Compensation and First-Tier Subcontract Awards) are required to file a FFATA subaward report by the end of the month following the month in which the prime contractor awards any subcontract greater than \$25,000 (\$30,000 after October 1, 2015).

**Condition:** There are no policies or procedures in place to ensure the City is reporting its first-tier subawards associated with federal grants and contracts in the FFATA Subaward System (FSRS). The City had subrecipients during 2015 that received over \$25,000/\$30,000 of pass-through funds from the City, which are required to be reported in this system. This reporting was not completed.

**Questioned Costs:** None.

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

**Effect:** The City is not in compliance with the federal requirements of the FFATA for its subrecipients during 2015.

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

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

Corrective Action Plan:

Names of Contact Persons Responsible for Corrective Action:

*Joy Thao, OFS Deputy Director - Accounting and Business Support  
Eric Willems, OFS Accounting Manager - Accounting  
Dolly Lee, OFS Accountant IV - Accounting  
Kristin Guild, PED Deputy Director  
Rhonda Gillquist, PED Accountant V*

Corrective Action Planned:

*In June 2016, OFS started working on a plan to create a centralized support structure to lead, guide, and provide citywide oversight for a federal reporting plan that will comply with the Federal Funding Accountability and Transparency Act.*

*As it pertains to this particular finding related to the U.S. Department of Housing and Urban Development (HUD)'s Community Development Block Grants/Entitlement Grants (CFDA No. 14.218) and Emergency Solutions Grant Program (CFDA No. 14.231), OFS will work with PED to develop a federal reporting procedure.*

Anticipated Completion Date:

*December 31, 2016*



REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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

### Independent Auditor's Report

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, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 14, 2016. Our report includes a reference to other auditors who audited the financial statements of the Penfield Apartments, 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's financial statements. This report does not include the results of the 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 a deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as item 2014-002, that we consider to be a significant deficiency.

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

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

## **Other Matters**

Also included in the Schedule of Findings and Questioned Costs are unresolved other matters described as items 2012-004 and 2013-005a.

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

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

## **Purpose of This Report**

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

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

June 14, 2016

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

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REBECCA OTTO  
STATE AUDITOR

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## **REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE**

### Independent Auditor's Report

The Honorable 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) *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, 2015. 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 Port Authority of the City of Saint Paul component unit, which expended \$8,667,610 in federal awards during the year ended December 31, 2015, which are not included in the Schedule of Expenditures of Federal Awards. Our audit, described below, did not include the operations of the Port Authority because other auditors were engaged to perform a single audit in accordance with the Uniform Guidance.

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

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

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

Our responsibility is to express an opinion on compliance for 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 the

audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Saint Paul's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

### ***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, 2015.

### ***Other Matters***

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2013-005. Our opinion on each major federal program is not modified with respect to this matter.

The City of Saint Paul's response to the noncompliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs as a Corrective Action Plan. The City of Saint Paul's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

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



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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as items 2013-005, 2015-001, and 2015-002, that we consider 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 the Uniform Guidance**

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Saint Paul, Minnesota, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We have issued our report thereon dated June 14, 2016, which contained unmodified opinions on those financial statements. We did not audit the financial statements of the Penfield Apartments, a major fund (HRA Penfield Enterprise Fund) and 11 percent, 6 percent, and 6 percent, respectively, of the assets, net position, and revenues of the business-type activities; the Saint Paul RiverCentre Convention and Visitors Authority, which represent 2 percent, 4 percent, and 20 percent, respectively; and the Port Authority of the City of Saint Paul, which represent 32 percent, 10 percent, and 24 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 City of Saint Paul's basic

financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA) as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) is presented for purposes of additional analysis and is not a required part of the basic financial statements. The SEFA is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the SEFA is fairly stated in all material respects in relation to the basic financial statements as a whole.

### **Purpose of This Report**

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

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

June 14, 2016

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2015**

<b>Federal Grantor Pass-Through Agency Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grant Numbers</b>	<b>Expenditures</b>	<b>Passed Through to Subrecipients</b>
<b>U.S. Department of Housing and Urban Development</b>				
Direct				
Community Development Block Grants/Entitlement Grants	14.218		\$ 6,549,643	\$ 1,860,959
Emergency Solutions Grant Program	14.231		496,468	481,116
Home Investment Partnerships Program	14.239		4,574,424	36,507
Neighborhood Stabilization Program - ARRA	14.256		107,513	-
Passed Through Minnesota Home Ownership Center Housing Counseling Assistance Program	14.169	HC150011025-05	19,875	-
Passed Through Minnesota Housing Finance Agency Making Home Affordable Outreach and Intake Project	Unavailable	Not Provided	13,984	-
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	02-2009-14B-NSP	271,815	-
<b>Total U.S. Department of Housing and Urban Development</b>			<b>\$ 12,033,722</b>	<b>\$ 2,378,582</b>
<b>U.S. Department of Justice</b>				
Direct				
Public Safety Partnership and Community Policing Grants <i>(Total Public Safety Partnership and Community Policing Grants 16.710 \$197,190)</i>	16.710		\$ 191,269	\$ -
Edward Byrne Memorial Justice Assistance Grant (JAG) Program <i>(Total Edward Byrne Memorial JAG Program 16.738 \$379,328)</i>	16.738		268,739	74,329
Passed Through Minnesota Department of Public Safety				
Juvenile Accountability Block Grants	16.523	A-JABG-2015-SPPD-00005	5,929	-
Public Safety Partnership and Community Policing Grants <i>(Total Public Safety Partnership and Community Policing Grants 16.710 \$197,190)</i>	16.710	62586	5,921	-
Passed Through National Association of Police Athletic/Activities League				
Juvenile Mentoring Program	16.726	2013-JU-FX-0024	8,425	-

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2015  
(Continued)**

<b>Federal Grantor Pass-Through Agency Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grant Numbers</b>	<b>Expenditures</b>	<b>Passed Through to Subrecipients</b>
<b>U.S. Department of Justice (Continued)</b>				
Passed Through Ramsey County				
Edward Byrne Memorial Justice Assistance Grant (JAG) Program <i>(Total Edward Byrne Memorial JAG Program 16.738 \$379,328)</i>	16.738	Not Provided	110,589	-
<b>Total U.S. Department of Justice</b>			<b>\$ 590,872</b>	<b>\$ 74,329</b>
<b>U.S. Department of Transportation</b>				
Passed Through Metropolitan Council				
Federal Transit Capital Investment Grants	20.500	SG-2008-100	\$ 73,171	\$ -
Passed Through Minnesota Department of Public Safety				
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	A-HMEP-2014- STPFIRE-00031	8,613	-
Passed Through Minnesota Department of Transportation				
Highway Planning and Construction	20.205	99922	7,021,066	-
Highway Planning and Construction <i>(Total Highway Planning and Construction 20.205 \$7,047,861)</i>	20.205	04556	26,795	-
Highway Safety Cluster				
State and Community Highway Safety <i>(Total State and Community Highway Safety 20.600 \$47,397) (Total Highway Safety Cluster \$145,044)</i>	20.600	84049	17,231	-
Passed Through Minnesota State Patrol Division				
Highway Safety Cluster				
Alcohol Impaired Driving Countermeasures Incentive Grants I <i>(Total Highway Safety Cluster \$145,044)</i>	20.601	95329- 3000037811	381	-

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2015  
(Continued)**

<b>Federal Grantor Pass-Through Agency Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grant Numbers</b>	<b>Expenditures</b>	<b>Passed Through to Subrecipients</b>
<b>U.S. Department of Transportation (Continued)</b>				
Passed Through Ramsey County				
Highway Safety Cluster				
State and Community Highway Safety <i>(Total State and Community Highway Safety 20.600 \$47,397)</i>	20.600	Not Provided	30,166	-
National Priority Safety Programs	20.616	Not Provided	18,296	-
National Priority Safety Programs <i>(Total National Priority Safety Programs 20.616 \$97,266) (Total Highway Safety Cluster \$145,044)</i>	20.616	Not Provided	78,970	-
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	Not Provided	<u>125,297</u>	<u>-</u>
<b>Total U.S. Department of Transportation</b>			<b><u>\$ 7,399,986</u></b>	<b><u>\$ -</u></b>
<b>U.S. Department of Treasury</b>				
Passed Through Minnesota Housing Finance Agency				
National Foreclosure Mitigation Counseling	Unavailable	PL113-76X1350	\$ 5,339	\$ -
National Foreclosure Mitigation Counseling <i>(Total National Foreclosure Mitigation Counseling \$7,916)</i>	Unavailable	PL113-235X1350	2,577	-
<b>Total U.S. Department of Treasury</b>			<b><u>\$ 7,916</u></b>	<b><u>\$ -</u></b>
<b>Institute of Museum and Library Services</b>				
Passed Through Minnesota Department of Education				
Grants to States	45.310	2015-00169	\$ 9,196	\$ -
Grants to States <i>(Total Grants to States 45.310 \$11,312)</i>	45.310	2015-00184	2,116	-
<b>Total Institute of Museum and Library Services</b>			<b><u>\$ 11,312</u></b>	<b><u>\$ -</u></b>

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2015  
(Continued)**

<b>Federal Grantor Pass-Through Agency Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grant Numbers</b>	<b>Expenditures</b>	<b>Passed Through to Subrecipients</b>
<b>U.S. Environmental Protection Agency</b>				
Direct				
Brownfields Training, Research, and Technical Assistance Grants and Cooperative Agreements	66.814		\$ 1,548	\$ -
Passed Through Minnesota Department of Employment and Economic Development				
Brownfields Assessment and Cleanup Cooperative Agreements	66.818	CRLF-13-0001-Z-FY14	1,000,000	-
Passed Through Minnesota Public Facilities Authority				
Capitalization Grants for Drinking Water State Revolving Funds	66.468	MPFA-13-0051-R-FY14	230,564	-
<b>Total U.S. Environmental Protection Agency</b>			<b>\$ 1,232,112</b>	<b>\$ -</b>
<b>Corporation for National and Community Service</b>				
Direct				
Volunteers in Service to America	94.013		<b>\$ 320,650</b>	<b>\$ -</b>
<b>U.S. Department of Homeland Security</b>				
Direct				
Assistance to Firefighters Grant	97.044		\$ 1,868,614	\$ -
Port Security Grant Program	97.056		198,806	-
Passed Through Minnesota Department of Public Safety				
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	DR-4182	1,094,245	-
Emergency Management Performance Grants	97.042	A-EMPG-2014-STPAULEER MGT-0772	30,000	-
Homeland Security Grant Program	97.067	A-SHSP-2014-STPAULBOMB-0017	25,414	-
Homeland Security Grant Program	97.067	A-UASI-2013-STPAULCI-00014	408,320	-
Homeland Security Grant Program (Total Homeland Security Grant Program 97.067 \$868,673)	97.067	A-UASI-2014-STPAULCI-00013	434,939	-
<b>Total U.S. Department of Homeland Security</b>			<b>\$ 4,060,338</b>	<b>\$ -</b>
<b>Total Federal Awards</b>			<b>\$ 25,656,908</b>	<b>\$ 2,452,911</b>

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

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

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2015**

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1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by the City of Saint Paul and the Saint Paul Regional Water Services, a component unit of the City. For the year ended December 31, 2015, the level of federal funding for the Saint Paul Regional Water Services did not require that a separate single audit be performed for the component unit. This schedule does not include \$8,667,610 in federal awards expended by the Port Authority of the City of Saint Paul, a component unit of the City, which had a separate single audit. The City and the Saint Paul Regional Water Services' reporting entities are defined in Note II to the basic financial statements.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Saint Paul and the Saint Paul Regional Water Services under programs of the federal government for the year ended December 31, 2015. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the City of Saint Paul and the Saint Paul Regional Water Services, 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 or the Saint Paul Regional Water Services.

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 and the Saint Paul Regional Water Services. Governmental funds use the modified accrual basis of accounting. Proprietary funds use the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The City of Saint Paul and the Saint Paul Regional Water Services have elected to not use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

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

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4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 24,698,301
Expenditures of program income	
Community Development Block Grants Entitlement Grants	583,606
Edward Byrne Memorial Justice Assistance Grant Program	17,093
Home Investment Partnerships Program	64,855
Neighborhood Stabilization Program - ARRA	172,924
Expenditures occurring in 2014, but revenue recognized in 2015	
Homeland Security Grant Program	(125,164)
Expenditures occurring in 2015, but revenue deferred until 2016	
Homeland Security Grant Program	14,287
Port Security Grant Program	442
Expenditures for the Saint Paul Regional Water Services	
Capitalization Grants for Drinking Water State Revolving Funds	<u>230,564</u>
Expenditures Per Schedule of Expenditures of Federal Awards	<u>\$ 25,656,908</u>

5. Saint Paul Regional Water Services' Reconciliation of Schedule of Expenditures of Federal Awards to Actual Reimbursements

Saint Paul Regional Water Services had expenditures under one federal award in 2015. The Capitalization Grants for Drinking Water State Revolving Funds, which is passed through the Minnesota Public Facilities Authority (MNPFA). This award is in the form of a Drinking Water Note Payable secured by General Obligation Bonds. It will be repaid over a 20-year period.

Expenditures for the Capitalization Grants for Drinking Water State Revolving Funds during the year ended December 31, 2015, totaled \$230,564. Reimbursements during fiscal year 2015, which are reflected in the increase to the revenue notes long-term obligations, totaled \$498,858; \$268,294 is for 2014 expenditures, and the remaining \$230,564 is related to 2015 expenditures.