

State of Minnesota



Office of the State Auditor

Julie Blaha
State Auditor

Management and Compliance Report

**City of Duluth
(Including the Duluth Economic
Development Authority)
Duluth, Minnesota**

Year Ended December 31, 2021

Description of the Office of the State Auditor

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

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

The State Auditor performs approximately 100 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

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

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

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

Pension – monitors investment, financial, and actuarial reporting for Minnesota’s local public pension funds; and

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

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

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**City of Duluth
(Including the Duluth Economic
Development Authority)
Duluth, Minnesota**

Year Ended December 31, 2021



Office of the State Auditor

Management and Compliance Report

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

**CITY OF DULUTH
DULUTH, MINNESOTA**

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**CITY OF DULUTH
MANAGEMENT AND COMPLIANCE REPORT**

YEAR ENDED DECEMBER 31, 2021



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

Independent Auditor's Report

The Honorable Emily Larson, Mayor
And Members of the City Council
City of Duluth, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Duluth, Minnesota, as of and for the year ended December 31, 2021, 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 24, 2022. These financial statements include the activities of the Spirit Mountain Recreation Area Authority component unit for the year ended April 30, 2021. We issue separate management and compliance reports for the Duluth Airport Authority, the Duluth Entertainment and Convention Center Authority, the Duluth Transit Authority, and the Spirit Mountain Recreation Area Authority component units. This report does not include the results of our audit testing of these component units' internal control over financial reporting or on compliance and other matters. This report does not include the results of our audit testing of the Duluth Economic Development Authority component unit's internal control over financial reporting or compliance and other matters that are reported on separately within the Management and Compliance Report.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Duluth's internal control over financial reporting as a basis for designing 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a

timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Duluth's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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

In connection with our audit, nothing came to our attention that caused us to believe that the City of Duluth failed to comply with the provisions of the contracting – bid laws, depositories of public funds and public investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing sections of the *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, insofar as they relate to accounting matters. 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, insofar as they relate to accounting matters.

Purpose of This Report

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

/s/Julie Blaha

JULIE BLAHA
STATE AUDITOR

June 24, 2022

/s/Dianne Syverson

DIANNE SYVERSON, CPA
DEPUTY STATE AUDITOR



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

Independent Auditor's Report

The Honorable Emily Larson, Mayor
And Members of the City Council
City of Duluth, Minnesota

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the City of Duluth's compliance with the types of compliance requirements identified as subject to audit 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 of Duluth's major federal programs for the year ended December 31, 2021. The City of Duluth's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, the City of Duluth complied, in all material respects, with the 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, 2021.

Basis for Opinion on Each Major Federal Program

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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City of Duluth and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the City of Duluth's compliance with the compliance requirements referred to above.

Other Matter – Federal Expenditures Not Included in the Compliance Audit

The City of Duluth's basic financial statements include the operations of the Duluth Airport Authority, the Duluth Entertainment and Convention Center Authority, and the Duluth Transit Authority component units, which expended \$3,369,844, \$751,745, and \$2,737,731 in federal awards which are not included in the City of Duluth's Schedule of Expenditures of Federal Awards during the year ended December 31, 2021. Our compliance audit, described in the "Opinion on Each Major Federal Program," does not include the operations of the Duluth Airport Authority, the Duluth Entertainment and Convention Center Authority, and the Duluth Transit Authority because they had separate single audits in accordance with the Uniform Guidance.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the City of Duluth's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City of Duluth's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City of Duluth's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and the Uniform Guidance, we

- exercise professional judgment and maintain professional skepticism throughout the audit;

- identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the City of Duluth's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances; and
- obtain an understanding of the City of Duluth's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the City of Duluth's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 a 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 a 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.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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

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

We have audited the financial statements of the City of Duluth, Minnesota, as of and for the year ended December 31, 2021, including the Spirit Mountain Recreation Area Authority component unit as of and for the year ended April 30, 2021, and have issued our report thereon dated June 24, 2022, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards (SEFA) is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

/s/Julie Blaha

JULIE BLAHA
STATE AUDITOR

/s/Dianne Syverson

DIANNE SYVERSON, CPA
DEPUTY STATE AUDITOR

June 24, 2022

**CITY OF DULUTH
DULUTH, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2021**

I. SUMMARY OF AUDITOR’S RESULTS

Financial Statements

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

Internal control over financial reporting:

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

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

Federal Awards

Internal control over major programs:

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

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

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

The major federal programs are:

Assistance Listing Number	Name of Federal Program or Cluster
14.231	Emergency Solutions Grant Program
14.231	COVID-19 – Emergency Solutions Grant Program
20.205/20.219	Highway Planning and Construction Cluster

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

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

**CITY OF DULUTH
DULUTH, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2021**

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

None.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.



Finance Department

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REPRESENTATION OF THE CITY OF DULUTH DULUTH, MINNESOTA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED DECEMBER 31, 2021

Finding Number: 2020-001

Year of Finding Origination: 2020

Finding Title: Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Period of Performance

Program: Coronavirus Relief Fund (CFDA #21.019), U.S. Department of the Treasury, SLT0016, 2020.

Summary of Condition: The City reported police department payroll costs to the CRF program which included estimated benefit costs for holiday, vacation, personal, and sick leave based on a percentage calculation for each employee. The benefit cost percentage did not take into account actual use of vacation, holiday, personal, and sick leave paid within the expected time frame.

Summary of Corrective Action Previously Reported: The City Finance department will not use the FEMA approved worksheet for staff time for future grants without first verifying the acceptance of that method with the federal agency. This was a new federal program that had ongoing changes in guidance. The City had public safety personnel expenditures of over \$25 million during the period of the grant. The City used its best judgement and due diligence to narrow down those costs and reported expenditures of \$10,595,831, which exceeded the total grant award of \$6,570,650. In hindsight, the City of Duluth could have claimed a more broad interpretation of public safety costs resulting in several million more in eligible costs above what were reported. This would make the amount in question even more immaterial when compared to potential eligible costs.

Status: Fully Corrected. Corrective action was taken.

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

Yes _____ No X

**CITY OF DULUTH
DULUTH, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2021**

Federal Grantor Pass-Through Agency Program or Cluster Title	Assistance Listing Number	Pass-Through Grant Numbers	Expenditures	Passed Through to Subrecipients
U.S. Department of Agriculture				
Passed Through Minnesota Department of Natural Resources Urban and Community Forestry Program	10.675	140175	\$ 41,602	\$ -
Passed Through Minnesota Department of Agriculture Forest Health Protection	10.680	JPA-196182	65,000	-
Total U.S. Department of Agriculture			\$ 106,602	\$ -
U.S. Department of Commerce				
Passed Through Minnesota Department of Natural Resources Coastal Zone Management Administration Awards	11.419	19-306A-02	\$ 45,014	\$ -
Coastal Zone Management Administration Awards (Total Coastal Zone Management Administration Awards 11.419 \$54,444)	11.419	19-306A-12	9,430	-
Total U.S. Department of Commerce			\$ 54,444	\$ -
U.S. Department of Housing and Urban Development				
Direct				
CDBG – Entitlement Grants Cluster				
Community Development Block Grants/Entitlement Grants	14.218		\$ 3,187,153	\$ 2,288,485
COVID-19 – Community Development Block Grants/ Entitlement Grants (Total Community Development Block Grants/Entitlement Grants 14.218 \$4,123,051)	14.218		935,898	823,404
Emergency Solutions Grant Program	14.231		185,359	183,725
COVID-19 – Emergency Solutions Grant Program (Total Emergency Solutions Grant Program 14.231 \$987,842)	14.231		802,483	720,631
Home Investment Partnerships Program	14.239		592,758	567,963
Total U.S. Department of Housing and Urban Development			\$ 5,703,651	\$ 4,584,208
U.S. Department of Justice				
Direct				
Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	16.590		\$ 152,603	\$ -
Bulletproof Vest Partnership Program	16.607		17,221	-
Public Safety Partnership and Community Policing Grants (Total Public Safety Partnership and Community Policing Grants 16.710 \$518,368)	16.710		359,482	-
Edward Byrne Memorial Justice Assistance Grant Program	16.738		78,378	-
National Sexual Assault Kit Initiative	16.833		601,264	-
Comprehensive Opioid Abuse Site-Based Program	16.838		462,373	-
Passed Through Minnesota Department of Public Safety				
Crime Victim Assistance	16.575	A-CVSP-2020-DULUTHAO-00036	55,193	-
Project Safe Neighborhoods	16.609	A-PSN-2020-DULUTHPD-002	23,655	-
Public Safety Partnership and Community Policing Grants (Total Public Safety Partnership and Community Policing Grants 16.710 \$518,368)	16.710	167077	158,886	-
Total U.S. Department of Justice			\$ 1,909,055	\$ -

**CITY OF DULUTH
DULUTH, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2021
(Continued)**

Federal Grantor Pass-Through Agency Program or Cluster Title	Assistance Listing Number	Pass-Through Grant Numbers	Expenditures	Passed Through to Subrecipients
U.S. Department of Labor				
Passed Through Senior Service America, Inc. Senior Community Service Employment Program (Total Senior Community Service Employment Program 17.235 \$402,143)	17.235	116	\$ 245,211	\$ -
Passed Through Minnesota Department of Employment and Economic Development Senior Community Service Employment Program	17.235	1045100	34,065	-
Senior Community Service Employment Program	17.235	1045101	23,580	-
Senior Community Service Employment Program (Total Senior Community Service Employment Program 17.235 \$402,143)	17.235	9045101	99,287	-
WIOA Cluster				
WIA Adult Program	17.258	0043100	142,392	-
WIA Adult Program	17.258	1043100	70,645	-
WIA Adult Program	17.258	8043100	5,120	-
WIA Adult Program (Total WIA Adult Program 17.258 \$236,987)	17.258	9043100	18,830	-
WIOA Cluster				
WIA Youth Activities	17.259	0043601	170,469	-
WIA Youth Activities	17.259	1043600	69,229	-
WIA Youth Activities	17.259	9043600	46,079	-
WIA Youth Activities (Total WIA Youth Activities 17.259 \$289,682)	17.259	9043601	3,905	-
Workforce Investment Act (WIA) National Emergency Grants	17.277	1040100	52,830	-
Workforce Investment Act (WIA) National Emergency Grants (Total Workforce Investment Act (WIA) National Emergency Grants 17.277 \$104,453)	17.277	1043000	51,623	-
WIOA Cluster				
WIA Dislocated Worker Formula Grants	17.278	0048000	49,464	-
WIA Dislocated Worker Formula Grants	17.278	1048000	18,297	-
WIA Dislocated Worker Formula Grants	17.278	8048000	2,650	-
WIA Dislocated Worker Formula Grants (Total WIA Dislocated Worker Formula Grants 17.278 \$87,856)	17.278	9048000	17,445	-
Total U.S. Department of Labor			\$ 1,121,121	\$ -

**CITY OF DULUTH
DULUTH, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2021
(Continued)**

Federal Grantor Pass-Through Agency Program or Cluster Title	Assistance Listing Number	Pass-Through Grant Numbers	Expenditures	Passed Through to Subrecipients
U.S. Department of Transportation				
Passed Through Minnesota Department of Transportation				
Highway Planning and Construction Cluster				
Highway Planning and Construction	20.205	1029940	\$ 1,713,665	\$ -
Highway Planning and Construction	20.205	1029940	316,431	-
Highway Planning and Construction	20.205	OJT 8820 (221)	24,880	-
(Total Highway Planning and Construction 20.205 \$2,054,976)				
Passed Through Minnesota Department of Natural Resources				
Highway Planning and Construction Cluster				
Recreational Trails Program	20.219	TRAL024	25,805	-
Recreational Trails Program	20.219	TRAL025	140,625	-
(Total Recreational Trails Program 20.219 \$166,430)				
Passed Through Minnesota Department of Public Safety				
Highway Safety Cluster				
State and Community Highway Safety	20.600	A-SPEED21-2021-DULUTHPD-041	7,669	-
State and Community Highway Safety	20.600	A-ENFRC21-2021-DULUTHPD-010	29,808	-
(Total State and Community Highway Safety 20.600 \$37,477)				
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	A-ENFRC21-2021-DULUTHPD-010	91,873	-
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	A-ENFRC22-2022-DULUTHPD-024	13,096	-
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	A-OFFICR21-2021-DULUTHPD-003	48,971	-
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	A-OFFICR22-2022-DULUTHPD-0018	15,923	-
(Total Minimum Penalties for Repeat Offenders for Driving While Intoxicated 20.608 \$169,863)				
Highway Safety Cluster				
National Priority Safety Programs	20.616	A-ENFRC21-2021-DULUTHPD-010	16,728	-
National Priority Safety Programs	20.616	A-ENFRC22-2022-DULUTHPD-024	5,227	-
National Priority Safety Programs	20.616	A-OFFICR21-2021-DULUTHPD-003	16,324	-
National Priority Safety Programs	20.616	A-OFFICR22-2022-DULUTHPD-0018	9,578	-
(Total National Priority Safety Programs 20.616 \$47,857)				
Total U.S. Department of Transportation			\$ 2,476,603	\$ -
U.S. Department of the Treasury				
Direct				
Equitable Sharing	21.016		\$ 47,550	\$ -
COVID-19 – Coronavirus State and Local Fiscal Recovery Funds	21.027		274,182	-
Total U.S. Department of the Treasury			\$ 321,732	\$ -

**CITY OF DULUTH
DULUTH, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2021
(Continued)**

Federal Grantor Pass-Through Agency Program or Cluster Title	Assistance Listing Number	Pass-Through Grant Numbers	Expenditures	Passed Through to Subrecipients
U.S. Environmental Protection Agency				
Direct				
Great Lakes Program	66.469		\$ 139,085	\$ -
Brownfields Assessment and Cleanup Cooperative Agreements	66.818		199,025	-
Total U.S. Environmental Protection Agency			\$ 338,110	\$ -
U.S. Department of Education				
Passed Through Minnesota Department of Employment and Economic Development				
Rehabilitation Services – Vocational Rehabilitation Grants to States	84.126	166894 PR 59596	\$ 6,271	\$ -
U.S. Department of Health and Human Services				
Passed Through Minnesota Department of Employment and Economic Development				
Temporary Assistance for Needy Families	93.558	1047400	\$ 20,823	\$ -
Executive Office of the President				
Direct				
High Intensity Drug Trafficking Areas Program	95.001		\$ 99,423	\$ -
U.S. Department of Homeland Security				
Direct				
Port Security Grant Program	97.056		\$ 324,945	\$ -
Passed Through Minnesota Department of Public Safety				
Disaster Grants – Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-4069-DR-MN	(119)	-
Disaster Grants – Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-4414-DR-MN	(417,980)	-
Disaster Grants – Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-4531-DR-MN	(179,080)	-
(Total Disaster Grants – Public Assistance (Presidentially Declared Disasters) 97.036 (\$597,179))				
Hazard Mitigation Grant	97.039	FEMA-4414-DR-MN	83,130	-
Emergency Management Performance Grants	97.042	A-EMPG-2020-DULUTHCI-090	22,504	-
Passed Through St. Louis County, Minnesota				
Homeland Security Grant Program	97.067	OPSG FRAGO MN-ST. LOUIS FY 18	28,325	-
Homeland Security Grant Program (Total Homeland Security Grant Program 97.067 \$108,547)	97.067	OPSG OO MN-ST. LOUIS FY 19	80,222	-
Total U.S. Department of Homeland Security			\$ (58,053)	\$ -
Total Federal Awards			\$ 12,099,782	\$ 4,584,208
Totals by Cluster				
Total expenditures for CDBG – Entitlement Grants Cluster			\$ 4,123,051	
Total expenditures for WIOA Cluster			614,525	
Total expenditures for Highway Planning and Construction Cluster			2,221,406	
Total expenditures for Highway Safety Cluster			85,334	

**CITY OF DULUTH
DULUTH, MINNESOTA**

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2021

1. Summary of Significant Accounting Policies

A. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by the City of Duluth. The City's reporting entity is defined in Note 1 to the financial statements. The schedule does not include \$3,369,844, \$751,745, and \$2,737,731 in federal awards expended by the Duluth Airport Authority, the Duluth Entertainment and Convention Center Authority, and the Duluth Transit Authority, respectively, component units of the City, which had separate single audits.

B. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Duluth under programs of the federal government for the year ended December 31, 2021. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the City of Duluth, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City of Duluth.

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

2. De Minimis Cost Rate

The City of Duluth has elected not to use the ten percent de minimis indirect cost rate allowed under the Uniform Guidance.

**CITY OF DULUTH
DULUTH, MINNESOTA**

3. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$	18,413,048
Expenditures of Revolving Loan Fund		
Community Development Block Grants/Entitlement Grants		428,807
Expenditures of Equitable Sharing Funds		47,550
Police Task Force Agreements		
Minneapolis Child Exploitation and Human Trafficking Task Force		(5,004)
Grants received more than 45 days after year-end, unavailable in 2021		
Bulletproof Vest Partnership Program		17,221
Community Development Block Grants/Entitlement Grants		66,881
COVID-19 – Community Development Block Grants/Entitlement Grants		7,194
Comprehensive Opioid Abuse Site-Based Program		3,600
Disaster Grants – Public Assistance (Presidentially Declared Disasters)		691,605
Edward Bryne Memorial Justice Assistance Grant Program		37,306
Emergency Solutions Grant Program		3,192
COVID-19 – Emergency Solutions Grant Program		5,260
High Intensity Drug Trafficking Areas Program		72,019
Highway Planning and Construction		121,691
Home Investment Partnerships Program		4,785
National Sexual Assault Kit Initiative		452
Outdoor Recreation Acquisition, Development and Planning		25,000
Port Security Grant Program		1,025
Public Safety Partnership and Community Policing Grants		41,623
Rehabilitation Services – Vocational Rehabilitation Grants to States		188
Senior Community Service Employment Program		3,925
Temporary Assistance for Needy Families		5,196
WIA Adult Program		54
WIA Dislocated Worker Formula Grants		26
WIA Youth Program		215
Workforce Investment Act (WIA) National Emergency Grants		623
Unavailable in 2020, recognized as revenue in 2021		
Coastal Zone Management Administration Awards		(119,869)
Community Development Block Grants/Entitlement Grants		(243,915)
COVID-19 – Community Development Block Grants/Entitlement Grants		(334,627)
COVID-19 – Coronavirus Emergency Supplemental Funding Program		(115,217)
Disaster Grants – Public Assistance (Presidentially Declared Disasters)		(6,334,616)
Emergency Management Performance Grants		(7,496)
Emergency Solutions Grant Program		(8,460)
COVID-19 – Emergency Solutions Grant Program		(226,653)
Great Lakes Program		(43,217)
High Intensity Drug Trafficking Areas Program		(100,000)
Highway Planning and Construction		(159,756)
Home Investment Partnerships Program		(80,980)
Outdoor Recreation Acquisition, Development and Planning		(250,000)
Recreational Trails Program		(4,037)
Rehabilitation Services – Vocational Rehabilitation Grants to States		(3,107)
Senior Community Service Employment Program		(1,078)
WIA Adult Program		(4,013)
WIA Youth Program		(692)
WIA Dislocated Worker Formula Grants		(3,800)
Timing differences between expenditures and related reimbursements		26,973
Capital Contributions		
Coronavirus State and Local Fiscal Recovery Funds		120,860
		<hr/>
Expenditures Per Schedule of Expenditures of Federal Awards	\$	<u>12,099,782</u>

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

YEAR ENDED DECEMBER 31, 2021



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

Independent Auditor's Report

Board of Commissioners
Duluth Economic Development Authority
Duluth, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the City of Duluth, Minnesota, which include as Supplementary Information, the financial statements of the Duluth Economic Development Authority, a discretely presented component unit, as of and for the year ended December 31, 2021, 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 24, 2022.

Report on Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these

limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Duluth Economic Development Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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

In connection with our audit, nothing came to our attention that caused us to believe that the Duluth Economic Development Authority failed to comply with the provisions of the contracting – bid laws, depositories of public funds and public investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing sections of the *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Authority's noncompliance with the above referenced provisions, insofar as they relate to accounting matters.

Purpose of This Report

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

/s/Julie Blaha

JULIE BLAHA
STATE AUDITOR

/s/Dianne Syverson

DIANNE SYVERSON, CPA
DEPUTY STATE AUDITOR

June 24, 2022