

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

MANAGEMENT AND COMPLIANCE REPORT OF THE

CITY OF DULUTH
DULUTH, MINNESOTA

YEAR ENDED DECEMBER 31, 2011

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

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

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**CITY OF DULUTH
DULUTH, MINNESOTA**

Year Ended December 31, 2011



Management and Compliance Report

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

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**CITY OF DULUTH
DULUTH, MINNESOTA**

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**CITY OF DULUTH
DULUTH, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: **Unqualified**

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: **Unqualified**

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

The major programs are:

Community Development Block Grants/Entitlement Grants Cluster	
Community Development Block Grants/Entitlement Grants	CFDA #14.218
Community Development Block Grants/Entitlement Grants - ARRA	CFDA #14.253
Home Investment Partnerships Program	CFDA #14.239
Homelessness Prevention and Rapid Re-Housing Program - ARRA	CFDA #14.257

Edward Byrne Memorial Justice Assistance Grant Program Cluster	
Edward Byrne Memorial Justice Assistance Grant Program	CFDA #16.738
Edward Byrne Memorial Justice Assistance Grant (JAG)	
Program/Grants to States and Territories - ARRA	CFDA #16.803
Edward Byrne Memorial Justice Assistance Grant (JAG)	
Program/Grants to Units of Local Government - ARRA	CFDA #16.804
Senior Community Service Employment Program	CFDA #17.235
Highway Planning and Construction Cluster	
Highway Planning and Construction	CFDA #20.205
Highway Planning and Construction - ARRA	CFDA #20.205
Capitalization Grants for Clean Water State Revolving Funds Cluster	
Capitalization Grants for Clean Water State Revolving Funds	CFDA #66.458
Capitalization Grants for Clean Water State Revolving	
Funds - ARRA	CFDA #66.458
Energy Efficiency and Conservation Block Grant Program	
(EECBG) - ARRA	CFDA #81.128
State Energy Program - ARRA	CFDA #81.041

The threshold for distinguishing between Types A and B programs was \$350,357.

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

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

96-5 Departmental Internal Control

Criteria: Management is responsible for establishing and maintaining internal control. In order to maintain proper internal control over City revenue transactions and cash assets, cash collection duties should be segregated so the basic functions of authorization, custody, and recording are not under the control of any one employee.

Condition: Due to the limited number of office personnel within the various City departments, proper segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible.

Context: The size of the department and its staffing limits the internal control that management can design and implement into the organization. Without proper segregation of duties, errors or irregularities may not be detected timely.

Effect: Unknown errors and irregularities may happen without timely detection.

Cause: Limited staffing within the various departments because of cost considerations.

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

Client's Response:

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

06-2 Computer Risk Management

Criteria: Management is responsible for identifying and managing the risks associated with its computer system. Computer risk management suggests that a formal plan be developed to identify the risks associated with the City's information system and document the internal controls implemented to address the identified risks.

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

Context: Staffing limits the development of a formal plan. Without a formal plan, computer risks could exist that are not identified on a timely basis.

Effect: Unprotected risks could result in a loss or compromise of data that could negatively influence City operations.

Cause: Lack of providing resources needed to develop a formal computer risk management plan.

Recommendation: The City administration should develop a plan to ensure that internal controls are in place to reduce the risks associated with the City's computer systems. Internal controls implemented should be documented in a well-maintained policies and procedures manual, which should be communicated to the City's staff. Staff adherence to these policies and procedures should be monitored. Because computer systems are ever changing, the City should include in its plan periodic re-assessment of risks to ensure existing internal controls are still effective.

Client's Response:

The City's MIS staff routinely evaluates risk factors and implements safety features and policies to protect the City's technology systems. In calendar year 2011, the City's network infrastructure and directory structure has undergone substantial equipment upgrades and software enhancements; many of these changes are continually evolving into 2012. Upon completion of this major overhaul, it is the intent of the MIS department to formalize additional policies and procedures in accordance with the State of MN OET Enterprise Vulnerability Management Security Standard to ensure internal controls are in place to reduce risk associated with the City's technology systems.

PREVIOUSLY REPORTED ITEMS RESOLVED

Accounting Policies and Procedures Manual (96-10)

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

Resolution

An updated accounting policies and procedures manual was substantially completed.

Preparation of the Schedule of Expenditures of Federal Awards (10-1)

We recommended that City management develop a system and written procedures that would allow staff to adequately accumulate all information needed to be included in the Schedule of Expenditures of Federal Awards (SEFA). The City should also reconcile the SEFA amounts to the general ledger and financial statements.

Resolution

The City prepared its SEFA, which reconciled to its general ledger.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

ITEM ARISING THIS YEAR

11-1 Davis-Bacon

Program: State Energy Program - ARRA (CFDA No. 81.041)

Criteria: The Davis-Bacon Act (23 U.S.C. 113) requires contractors and subcontractors performing work on federal contracts in excess of \$2,000 pay their laborers and mechanics not less than the prevailing wage rates and fringe benefits listed in the contract's wage determination class. Each covered contractor and subcontractor must, on a weekly basis, provide a copy of the payrolls providing the information listed under recordkeeping for the preceding weekly payroll period. Each payroll submitted must be accompanied by a "Statement of Compliance." This must be completed within seven days after the regular pay date for the pay period.

The Office of Energy Security at the Minnesota Department of Commerce entered into an agreement (B49966) with the City, the Grantee, which stated the Grantee was responsible for all federal requirements involving DBA wages and reporting.

Condition: The City of Duluth does not have internal controls in place to determine if contractors are complying with the Davis-Bacon Act regarding the payment of prevailing wage rates. It was the understanding of the City that the Office of Energy Security was responsible for monitoring the DBA wages and reporting since the City sent the payroll reports to them.

Questioned Costs: None.

Context: The City of Duluth provided federal awards to Common Ground Construction, an agency, to implement the Duluth Energy Efficiency Program. Common Ground Construction submitted reimbursement requests that included payroll reports to the City. The City forwarded the payroll reports to the Office of Energy Security.

Effect: The City of Duluth had no assurance based on its lack of monitoring that the wages paid were in compliance with the Davis-Bacon Act.

Cause: City of Duluth staff were unaware that monitoring compliance with the Davis-Bacon Act regarding the payment of prevailing wage rates was a responsibility of the City.

Recommendation: We recommend that the City of Duluth develop internal controls and written policies and procedures to ensure compliance with the requirements over the Davis-Bacon Act in accordance with OMB Circular A-133.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

Keith Hamre, City of Duluth Community Development Manager

Corrective Action Planned:

The City will monitor the certified payroll reports of all contractors for Davis-Bacon unless written documentation is obtained from the Grantor that indicates that the City is not required to do so.

Anticipated Completion Date:

Changes will take effect on all new grant agreements effective as of June 30, 2012.

PREVIOUSLY REPORTED ITEM RESOLVED

Identification of Federal Awards - Coastal Zone Management Administration Awards (CFDA No. 11.419), Highway Planning and Construction (CFDA No. 20.205), Capitalization Grants for Clean Water State Revolving Funds (CFDA No. 66.458), and Great Lakes Program (CFDA No. 66.469) (10-2)

The City did not adequately identify amounts received and expended for various federal and state programs in its general ledger. If the SEFA preparation had been based only on the descriptions provided in the general ledger, the federal awards and related expenditures reported would have been misstated.

Resolution

Federal and state programs were properly recorded in the general ledger.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEMS RESOLVED

Uncollectible Receivables Policy (03-2)

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

Resolution

The City developed an uncollectible receivables policy that outlines the proper procedures to follow and authorization needed to write off uncollectible accounts.

Contracts (05-7)

We recommended the City Attorney, City Purchasing Agent, and City Auditor work together to develop a formal contract policy. The policy should address when written contracts are required, the form and content of the terms of the agreement, and responsibilities for monitoring contract requirements.

Resolution

The City developed a contract manual that provides a reference source explaining the process of developing and executing contracts including guidelines, policies, and procedures.

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

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Duluth as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 27, 2012. These financial statements include the Spirit Mountain Recreation Area Authority activities for the year ended April 30, 2011. We issue separate management and compliance letters for the Duluth Airport Authority, Duluth Economic Development Authority, Duluth Entertainment and Convention Center Authority, Duluth Transit Authority, and Spirit Mountain Recreation Area Authority. The letters for the Duluth Airport Authority and the Duluth Transit Authority include the reports required for a single audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the City of Duluth is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Duluth's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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

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

Compliance and Other Matters

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

Minnesota Legal Compliance

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

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

The results of our tests indicate that for the items tested, the City of Duluth complied with the material terms and conditions of applicable legal provisions.

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

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

June 27, 2012

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REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the City of Duluth's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011. 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. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

The City of Duluth's basic financial statements include the operations of the Duluth Airport Authority and the Duluth Transit Authority component units, which expended \$8,778,088 and \$1,594,099, respectively, in federal awards during the year ended December 31, 2011, which are not included in the Schedule of Expenditures of Federal Awards. Our audit, described below, did not include the operations of the Duluth Airport Authority and the Duluth Transit Authority because they had separate single audits in accordance with OMB Circular A-133.

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

Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Duluth's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

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, 2011. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and is described in the accompanying Schedule of Findings and Questioned Costs as item 11-1.

Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying Schedule of Findings and Questioned Costs as item 11-1. A significant

deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Duluth as of and for the year ended December 31, 2011, and have issued our report thereon dated June 27, 2012. Our audit was performed for the purpose of forming opinions on the City of Duluth's financial statements that collectively comprise the City's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. 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. The SEFA 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 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 basic financial statements taken as a whole.

The City of Duluth's corrective action plan to the federal award finding identified in our audit is included in the accompanying Schedule of Findings and Questioned Costs. We did not audit the City's corrective action plan and, accordingly, we express no opinion on it.

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

June 27, 2012

/s/Greg Hierlinger

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**CITY OF DULUTH, MINNESOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDING DECEMBER 31, 2011**

Federal Grantor Pass-Through Agency Grant Program Title	Pass-Through Grant Numbers	Federal CFDA Number	Expenditures
U.S. Department of Commerce			
Passed Through Minnesota Department of Natural Resources			
Coastal Zone Management Administration Awards	Various	11.419	\$ 52,581
Broadband Technology Opportunities Program - ARRA	0045000	11.557	<u>4,743</u>
Total U.S. Department of Commerce			<u>\$ 57,324</u>
U.S. Department of Housing and Urban Development			
Direct			
Community Development Block Grants/Entitlement Grants Cluster			
Community Development Block Grants/Entitlement Grants		14.218	\$ 3,269,893
Community Development Block Grants/Entitlement Grants - ARRA		14.253	25,340
Emergency Shelter Grants Program		14.231	116,073
Home Investment Partnerships Program		14.239	958,181
Homelessness Prevention and Rapid Re-Housing Program - ARRA		14.257	560,417
Fair Housing Assistance Program - States and Local		14.401	14,820
Lead-Based Paint Hazard Control in Privately-Owned Housing		14.900	<u>185,375</u>
Total U.S. Department of Housing and Urban Development			<u>\$ 5,130,099</u>
U.S. Department of Justice			
Direct			
Alcohol, Tobacco, and Firearms Training Assistance		16.012	\$ 61,443
Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program		16.590	219,768
Local Law Enforcement Block Grant		16.592	51,085
Bulletproof Vest Partnership Program		16.607	18,891
Edward Byrne Memorial Justice Assistance Grant Program Cluster			
Edward Byrne Memorial Justice Assistance Grant Program		16.738	44,443
Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to Units of Local Government - ARRA		16.804	30,364
Edward Byrne Memorial Competitive Grant Program - ARRA		16.808	103,462
Passed Through the City of Chisholm			
Public Safety Partnership and Community Policing Grants		16.710	74,916
Passed Through the City of Superior			
Public Safety Partnership and Community Policing Grants		16.710	9,730
Passed Through the City of Virginia			
Public Safety Partnership and Community Policing Grants		16.710	66,831
Passed through the Minnesota Department of Public Safety			
Edward Byrne Memorial Justice Assistance Grant Program Cluster			
Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories - ARRA	2010-JAGR-00351	16.803	<u>162,697</u>
Total U.S. Department of Justice			<u>\$ 843,630</u>

CITY OF DULUTH, MINNESOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDING DECEMBER 31, 2011
(Continued)

Federal Grantor			
Pass-Through Agency			
Grant Program Title	Pass-Through Grant Numbers	Federal CFDA Number	Expenditures
U.S. Department of Labor			
Passed Through Senior Service America, Inc.			
Senior Community Service Employment Program		17.235	\$ 308,693
Passed Through Minnesota Department of Employment and Economic Development			
Senior Community Service Employment Program	1045100	17.235	172,071
Workforce Investment Act (WIA) Cluster			
WIA Adult Program	PY10-004	17.258	275,450
WIA Youth Activities	PY10-004	17.259	385,191
WIA Dislocated Workers	PY10-004	17.260	92,544
WIA Dislocated Workers Formula Grant		17.278	<u>142,584</u>
Total U.S. Department of Labor			<u>\$ 1,376,533</u>
U.S. Department of Transportation			
Passed Through Minnesota Department of Transportation			
Highway Planning and Construction Cluster			
Highway Planning and Construction	Various	20.205	\$ 394,901
Highway Planning and Construction - ARRA	SP 118-140-030	20.205	1,787,465
Passed Through Minnesota Department of Public Safety			
Interagency Hazardous Materials Public Sector Training and Planning Grant	2010-HMEP-00793	20.703	<u>3,960</u>
Total U.S. Department of Transportation			<u>\$ 2,186,326</u>
U.S. Environmental Protection Agency			
Direct			
Climate Showcase Communities Grant Program		66.041	\$ 36,232
Brownfield Assessment and Cleanup Cooperative Agreements		66.818	154,261
Passed Through Minnesota Department of Employment and Economic Development			
Capitalization Grants for Clean Water State Revolving Funds Cluster			
Capitalization Grants for Clean Water State Revolving Funds	Various	66.458	8,733,125
Capitalization Grants for Clean Water State Revolving Funds - ARRA	MPFA-08-0062-R-FY09	66.458	58,653
Capitalization Grants for Drinking Water State Revolving Funds	Various	66.468	2,747,307
Passed Through Minnesota Pollution Control Agency			
Nonpoint Source Implementation Grants	C9-97593507-0	66.460	<u>54,918</u>
Total U.S. Environmental Protection Agency			<u>\$ 11,784,496</u>

CITY OF DULUTH, MINNESOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDING DECEMBER 31, 2011
(Continued)

Federal Grantor Pass-Through Agency Grant Program Title	Pass-Through Grant Numbers	Federal CFDA Number	Expenditures
U.S. Department of Energy			
Direct			
Energy Efficiency and Conservation Block Grant Program - ARRA		81.128	\$ 579,132
Passed Through the Minnesota Department of Commerce			
State Energy Program - ARRA	B49966	81.041	<u>782,867</u>
Total U.S. Department of Energy			<u>\$ 1,361,999</u>
U.S. Department of Homeland Security			
Direct			
Assistance to Firefighters Grant		97.044	\$ 99,845
Port Security Grant Programs		97.056	257,199
Passed Through Minnesota Department of Public Safety			
Port Security Grant Programs	2008-PSGP-00799	97.056	6,783
Homeland Security Grant Program	Various	97.067	77,135
Passed Through St. Louis County			
Homeland Security Grant Program	2010-OSGP-00822	97.067	<u>36,297</u>
Total U.S. Department of Homeland Security			<u>\$ 477,259</u>
Total Federal Awards			<u>\$ 23,217,666</u>

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**CITY OF DULUTH
DULUTH, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by the City of Duluth. It does not include \$8,778,088 and \$1,594,099 in federal awards expended by the Duluth Airport Authority and Duluth Transit Authority, respectively, component units of the City, which had separate single audits. The City's reporting entity is defined in Note 1 to the financial statements.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Duluth under programs of the federal government for the year ended December 31, 2011. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the City of Duluth, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the City of Duluth.

3. Summary of Significant Accounting Policies

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

4. Clusters

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

Community Development Block Grants/Entitlements Grant Cluster	\$ 3,295,233
Edward Byrne Memorial Justice Assistance Grant Program Cluster	237,504
Workforce Investment Act (WIA) Cluster	895,769
Highway Planning and Construction Cluster	2,182,366
Capitalization Grants for Clean Water State Revolving Funds Cluster	8,791,778

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5. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$	13,143,593
Grants received more than 90 days after year-end, deferred in 2011		
Brownfield Assessment and Cleanup Cooperative Agreements		21,125
Highway Planning and Construction		214,637
Home Investment Partnerships Program		49,987
Homeland Security Grant Program		23,388
Senior Community Service Employment Program		72,079
Workforce Investment Act - Youth Activities		9,638
Deferred in 2010, recognized as revenue in 2011		
Community Development Block Grants/Entitlement Grants		(52,364)
Workforce Investment Act - Adult Program		(62,160)
Workforce Investment Act - Youth Activities		(31,427)
Highway Planning and Construction		(1,563,997)
State Energy Program - ARRA		(1,063)
Port Security Grant Programs		(170,209)
Capital grants received in enterprise funds		
Capitalization Grants for Clean Water State Revolving Funds		8,733,125
Capitalization Grants for Clean Water State Revolving Funds - ARRA		58,653
Capitalization Grants for Drinking Water State Revolving Funds		2,747,307
Grant received by Component Unit - DEDA		
Coastal Zone Management Administration Award		25,354
		23,217,666
Expenditures Per Schedule of Expenditures of Federal Awards	\$	23,217,666

6. Subrecipients

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

CFDA Number	Program Name	Amount Provided to Subrecipients
14.218	Community Development Block Grants - Entitlement Grants	\$ 2,675,897
14.231	Emergency Shelter Grants Program	112,443
14.239	Home Investment Partnerships Program	915,536
14.257	Homelessness Prevention and Rapid Re-Housing Program - ARRA	540,280
14.900	Lead-Based Paint Hazard Control in Privately-Owned Housing	177,999
66.041	Climate Showcase Communities Grant Program	36,232
81.041	State Energy Program - ARRA	782,867
	Total	\$ 5,241,254

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7. American Recovery and Reinvestment Act

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