

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

MANAGEMENT AND COMPLIANCE REPORT
PREPARED AS A RESULT OF THE AUDIT OF THE

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

TABLE OF CONTENTS

	<u>Page</u>
Schedule of Findings and Questioned Costs	
I. Summary of Auditor's Results	1
II. Findings Related to Financial Statements Audited in Accordance with <i>Government Auditing Standards</i>	2
III. Findings and Questioned Costs for Federal Award Programs	6
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	12
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	15
Schedule of Expenditures of Federal Awards	19
Notes to the Schedule of Expenditures of Federal Awards	22

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**CITY OF SAINT PAUL
SAINT PAUL, 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? **Yes**
- Significant deficiencies identified? **Yes**

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

Federal Awards

Internal control over major programs:

- Material weaknesses identified? **Yes**
- Significant deficiencies identified? **Yes**

Type of auditor's report issued on compliance for major programs: **Unqualified for all major programs except for the State Energy Program - ARRA which is qualified.**

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

The major programs are:

Community Development Block Grants (CDBG)/Entitlement Grants Cluster	
CDBG/Entitlement Grants	CFDA #14.218
CDBG Grants/Entitlement Grants - ARRA	CFDA #14.218
CDBG Grants/Entitlement Grants - ARRA	CFDA #14.253
Neighborhood Stabilization Program - ARRA	CFDA #14.256
Homelessness Prevention and Rapid Re-Housing Program - ARRA	CFDA #14.257

Public Safety Partnership and Community Policing Grants Cluster	
Public Safety Partnership and Community Policing Grants	CFDA #16.710
Public Safety Partnership and Community Policing Grants - ARRA	CFDA #16.710
Highway Planning and Construction	CFDA #20.205
State Energy Program - ARRA	CFDA #81.041
Energy Efficiency and Conservation Block Grant Program (EECBG) - ARRA	CFDA #81.128

The threshold for distinguishing between Types A and B programs was \$993,735.

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

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

10-1 Notes and Loans Receivable

Criteria: Management is responsible for establishing and maintaining internal control. This responsibility includes the internal control over the various accounting cycles, the fair presentation of the financial statements and related notes, and the accuracy and completeness of all financial records and related information.

Condition: As a result of audit procedures, which included confirming the notes and loans receivable balances as of November 30, 2011, and auditing the related allowance accounts, we determined that two loans were incorrectly recorded by the Housing and Redevelopment Authority (HRA) on the Nortridge System.

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

Effect: During our audit, we proposed audit adjustments to decrease loans receivable by \$146,600, increase the allowance for loans receivable by \$78,400, and to increase allowance for interest on loans receivable by \$146,836.

Cause: One of the loans was transferred to a different loan officer/project manager, and the previous loan manager had not updated the loan records correctly. The other loan was foreclosed on after December 31, 2011, and the loan officer/project manager was not aware of the requirement to inform the HRA's Credit Committee to review the loan for a potential revaluation of the loan receivable as of December 31, 2011.

Recommendation: The HRA should review internal controls currently in place, especially related to communication, and then design and implement procedures to improve internal controls to timely detect and prevent inaccuracies in the Nortridge System and potential misstatements in the financial statements.

Client's Response:

Planning and Economic Development's (PED) Directors of Housing, Economic Development, and Administration will be responsible for continually communicating with loan officers and project managers (LO/PM) the importance of timely communication with the proper accounting personnel of any changes in amount of loan receivables. In addition, if such information is provided at either Credit Committee or Resource Committee, it will be noted in the minutes, and the minutes will be forwarded to accounting personnel as back-up to direct communication between the LO/PM and accounting staff.

10-2 Financial Statements

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

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

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

Effect: An extension to the June 30 GFOA deadline and additional audit hours resulted from delays in preparing the CAFR information along with errors discovered and to determine the necessary corrections needed.

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

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

Client's Response:

OFS will conduct a 2012 CAFR meeting with all City department accountants in December 2012. The meeting will cover the following: review a deadline schedule; stress the criticality of meeting the assigned deadlines; educate department accountants on the whole CAFR production process; address pros/cons of prior year CAFR preparation; and obtain ideas for streamlining and creating efficiencies.

ITEMS ARISING THIS YEAR

11-1 Prior Period Adjustment

Criteria: A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis. One indication of a material weakness in internal control is restatement of previously issued financial statements to reflect the correction of a material misstatement due to error.

Condition: The City's 2011 financial statements reflect a prior period adjustment to restate the January 1, 2011, net assets of the HRA Parking Enterprise Fund and of the business-type activities.

Context: The need for prior period adjustments can raise doubts as to the reliability of the City's financial information being presented.

Effect: The January 1, 2011, net assets of the HRA Parking Enterprise Fund and of the business-type activities were restated by \$1,550,477 to account for the sale of land utilized as a parking lot, the related loss on the sale, and an HRA loan to the buyer that occurred in a prior year.

Cause: Other HRA staff involved in the sale of the land and arranging the loan had not made a previous HRA accountant aware that the transactions occurred.

Recommendation: We recommend the HRA review its procedures for preparation and disclosure of financial information to ensure accurate presentation in the financial statements. All HRA staff must fully and timely communicate transactions that have taken place to the accounting staff in order for the accounting staff to properly record, as necessary, the transactions on the general ledger and on other financial records.

Client's Response:

All HRA staff will receive communication regarding their responsibility in timely communicating with the proper accounting personnel in changes in any HRA property.

11-2 Audit Adjustments

Criteria: A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis. Statement on Auditing Standards 115 defines a material weakness as a deficiency, or 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.

Condition: During our audit, we identified material adjustments that resulted in significant changes to the City's financial statements.

Context: The City prepares its own financial statements, including the related notes. The inability to detect significant misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented.

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

- Other financing sources totaling \$10,587,011 (refunding bonds issued of \$10,050,000 and a related premium of \$537,011), along with a \$11,837 reduction of cash and investments with treasurer were recorded in the General Debt Service Fund. The offsetting amounts were removed from the Capital Improvement Projects Fund where they had originally been recorded in error; and
- Bond issuance costs of \$118,225, capital lease refunded of \$9,660,000, and other expenditures totaling \$820,623 (of which \$781,429 was reclassified as a special item) were recorded in the General Debt Service Fund. The offsetting amounts were removed from the Capital Improvement Projects Fund, where they had originally been recorded in error.

Cause: When the refunding bonds were issued, the proceeds were incorrectly recorded in the Capital Improvement Projects Fund along with a related expenditure for the purchase of the Saint Paul Police Headquarters Facility. However, this building was already recorded as a capital asset when the City entered into a capital lease agreement with Ramsey County in 2002. Thus, the refunding bonds that were issued retired the capital lease payable and should have been recorded in the General Debt Service Fund, which was the fund liquidating the capital lease liability.

Recommendation: We recommend the City review its policies and procedures related to the recording of transactions, especially those related to the issuance of bonds, to ensure that the transactions are recorded in accordance with generally accepted accounting principles.

Client's Response:

The following procedures will be put into place by December 31, 2012:

- *Upon a Council resolution for a bond issuance, OFS-Treasury will meet with staff accountants from OFS-Accounting and the department of the Fund that will be affected by the issuance. The group will discuss the nature and terms of the issuance, and the accounting effects.*
- *At the time of the bond closing, the same group of accountants will meet for a review of final proceeds and verification of the proper accounting.*

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

09-1 Identification of Federal Awards

Programs: Community Development Block Grants/Entitlement Grants (CFDA No. 14.218) and Community Development Block Grants/Entitlement Grants - ARRA (CFDA No. 14.218); Neighborhood Stabilization Program - ARRA (CFDA No. 14.256); Public Safety Partnership and Community Policing Grants (CFDA No. 16.710) and Public Safety Partnership and Community Policing Grants - ARRA (CFDA No. 16.710); Highway Planning and Construction (CFDA No. 20.205); New Freedom Program (CFDA No. 20.521); State Energy Program - ARRA (CFDA No. 81.041)

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

Condition: The City did not adequately identify amounts received and expended for various federal awards as follows:

- The City's original identification of expenditures for the Community Development Block Grants/Entitlement Grants (CFDA No. 14.218) passed through the Minnesota Housing Finance Agency was non-ARRA funding. The entire pass-through amount was actually ARRA funding which the City later identified on the final Schedule of Expenditures of Federal Awards (SEFA).
- Expenditures identified by the City for the Neighborhood Stabilization Program - ARRA (CFDA No. 14.256) changed significantly during the course of the audit. In addition, those changes were not adequately communicated to auditors for consideration of the effects on federal program testing.
- Neither the City's original or final determination of expenditures for the Public Safety Partnership and Community Policing Grants (CFDA No. 16.710) properly identified a portion of the grant as non-ARRA funded.
- Expenditures identified by the City for the Highway Planning and Construction grant (CFDA No. 20.205) did not originally include a project, thus changing significantly during the course of the audit.
- The New Freedom Program (CFDA No. 20.521) was not identified by the City as a federal grant program until individual fund financial statements were prepared for financial reporting purposes.
- The City's original identification of expenditures for the State Energy Program (CFDA No. 81.041) was non-ARRA funding. The entire grant was actually ARRA funding.

Questioned Costs: None.

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

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

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

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

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

Barbara Hillesland

Corrective Action Planned:

Grants were identified as ARRA or Non-ARRA based on Federal CFDA web site listing all federal grants. Since the web site appears not to be 100 percent accurate in its identification of ARRA vs. Non-ARRA funds, the OFS – Grant Coordinator will require departments to submit a copy of Page 1 of all federal grant award documents to OFS with their award notification form.

Anticipated Completion Date:

September 30, 2012

10-4 Subrecipient Monitoring

Programs: Homelessness Prevention and Re-Housing Program - ARRA (CFDA No. 14.257) and Highway Planning and Construction (CFDA No. 20.205)

Criteria: OMB Circular A-133, Subpart C, § .400, indicates auditee responsibilities, for entities that provide federal awards to subrecipients as a pass-through entity, to include at the time of the award, identifying to the subrecipient the federal award information (CFDA title and number, award name, name of federal agency, and applicable compliance requirements).

Condition: In its agreements with its subrecipients related to the Homelessness Prevention and Re-Housing Program - ARRA (CFDA No. 14.257) and Highway Planning and Construction (CFDA No. 20.205), the City did not identify the CFDA number of the federal awards.

Questioned Costs: None.

Context: The City passes through federal awards to subrecipients for the Homelessness Prevention and Re-Housing Program - ARRA (CFDA No. 14.257) and Highway Planning and Construction (CFDA No. 20.205).

Effect: The City has no assurance that its subrecipients have correctly identified the federal award received.

Cause: The City was still disbursing payments to its subrecipients for these federal programs in accordance with agreements entered into prior to 2011. For the major federal programs, and where the City entered into new subrecipient agreements in 2011, the agreements properly identified the CFDA number of the federal award passed through to the subrecipient.

Recommendation: We recommend the City include the CFDA number of any federal award passed through to a subrecipient at the time the award is made.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

Barbara Hillesland

Corrective Action Planned:

The programs that were identified which included subrecipients, were in place in 2010 and earlier, when a procedure for subrecipient monitoring did not exist. In 2011, a new procedure was put into place to include the CDFA number and a form to be signed by the subrecipient and returned to the City, acknowledging receipt of subrecipient data. These new procedures appear to be working as no new programs were identified where subrecipients were failed to be notified of federal award information. Departments will continue to utilize the new subrecipient procedures with new federal grants awarded.

Anticipated Completion Date:

September 30, 2012

ITEM ARISING THIS YEAR

11-3 Equipment and Real Property Management

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

Criteria: OMB Circular A-133, Subpart C, § .300, indicates auditee responsibilities include maintaining internal controls over federal programs that provides reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs.

Condition: Based on our review of grant expenditures for the State Energy Program - ARRA (CFDA No. 81.041), solar panels (improvements other than buildings) were purchased and installed with federal funds of \$1,107,837; however, the solar panels were not entered into the City's capital asset system.

Questioned Costs: None.

Context: Improvements other than buildings were purchased with grant funds.

Effect: Internal controls over compliance with equipment and real property management could not be relied upon, and compliance with equipment and real property management was not met. The assets purchased with grant funds were not included as capital assets in the City's financial statements, resulting in an understatement of capital assets.

Cause: The City did not record the expenditures as capital outlay when the purchases occurred.

Recommendation: We recommend the City develop a system and written policies and procedures to ensure internal control and compliance requirements over equipment and real property management are met. Assets purchased with grant funds should be given an identifiable asset number when purchased to properly maintain asset information; this will also benefit the City if, and when, these assets are disposed of to ensure proper reporting to the respective federal agency.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

Barbara Hillesland

Corrective Action Planned:

A new accounting staff and lack of training in capital asset purchases was the reason for this oversight. To prevent this from reoccurring, all new accountants will be trained in capital asset procedures. Also, capital asset purchases will be monitored on a quarterly basis to determine that they are being properly accounted for as capital assets.

Anticipated Completion Date:

September 30, 2012

PREVIOUSLY REPORTED ITEM RESOLVED

**Davis-Bacon Act - Community Development Block Grants (CDBG)/
Entitlement Grants Cluster: CDBG/Entitlement Grants (CFDA No. 14.218),
CDBG/Entitlement Grants - ARRA (CFDA No. 14.218), and
CDBG/Entitlement Grants - ARRA (CFDA No. 14.253); Highway Planning
and Construction (CFDA No. 20.205); Energy Efficiency and Conservation
Block Grant Program (EECBG) - ARRA (CFDA No. 81.128); and Port
Security Grant Program (CFDA No. 97.056) (10-3)**

The City of Saint Paul assigned monitoring of compliance with the Davis-Bacon Act for any project financed by federal assistance funds to its Human Rights and Equal Economic Opportunity (HREEO) Department. The monitoring work performed by a staff member of HREEO was not being reviewed. Auditors also discovered that three prevailing wage amounts had been incorrectly input into the tracking system that was developed by HREEO.

Resolution

In October 2011, the HREEO Department implemented policies and procedures to improve the monitoring of compliance with the Davis-Bacon Act. The policies and procedures include peer-to-peer monitoring, a documented review for accuracy performed by the Contract Compliance Supervisor, and additional procedures to be completed before closing a project and approving a final draw request. For those projects selected by the auditor for testing of internal controls over compliance, documentation existed that a review was performed by the Contract Compliance Supervisor. Furthermore, based on testing performed for the year ended December 31, 2011, the prevailing wage amounts were correctly input into the tracking system developed by HREEO.

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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*

Mayor and Members of the City Council
City of Saint Paul, 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 Saint Paul, Minnesota, 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 July 27, 2012. Our report includes a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Saint Paul RiverCentre Convention and Visitors Authority and the Port Authority of the City of Saint Paul, as described in our report on the City of Saint Paul's financial statements. This report does not include the results of other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the Saint Paul RiverCentre Convention and Visitors Authority were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

Management of the City of Saint Paul is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Saint Paul'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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 11-1 and 11-2 to be material weaknesses.

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. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 10-1 and 10-2 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Saint Paul's financial statements are free 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 Saint Paul complied with the material terms and conditions of applicable legal provisions.

The City of Saint Paul'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 and Members of the City Council, management, others within the City of Saint Paul, 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

July 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

Mayor and Members of the City Council
City of Saint Paul, Minnesota

Compliance

We have audited the City of Saint Paul's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011. 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. 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 Saint Paul's basic financial statements include the operations of the Housing and Redevelopment Authority (HRA) of the City of Saint Paul, the Saint Paul Regional Water Services, and the Port Authority of the City of Saint Paul, component units of the City, which expended \$2,920,456, \$8,171,389, and \$8,976,443, 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 HRA and the Saint Paul Regional Water Services because they had separate single audits in accordance with OMB Circular A-133. Our audit also did not include the operations of the Port Authority because other auditors were engaged to perform a single audit in accordance with OMB Circular A-133.

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 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. Our audit does not provide a legal determination on the City's compliance with those requirements.

As described in item 11-3 in the accompanying Schedule of Findings and Questioned Costs, the City of Saint Paul did not comply with requirements regarding Equipment and Real Property Management that are applicable to its State Energy Program - ARRA. Compliance with such requirements is necessary, in our opinion, for the City of Saint Paul to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the City of Saint Paul 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.

Internal Control Over Compliance

Management of the City of Saint Paul is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine 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.

Our consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and another deficiency that we consider to be a significant deficiency.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 09-1 and 11-3 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 10-4 to be a significant deficiency.

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 Saint Paul, Minnesota, as of and for the year ended December 31, 2011, and have issued our report thereon dated July 27, 2012. We did not audit the financial statements of the Saint Paul RiverCentre Convention and Visitors Authority and the Port Authority of the City of Saint Paul, discretely presented component units. Those financial statements were audited by other auditors. Our audit was performed for the purpose of forming opinions on the City of Saint Paul'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 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 Saint Paul's corrective action plans to the federal award findings identified in our audit are included in the accompanying Schedule of Findings and Questioned Costs. We did not audit the City's corrective action plans and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Mayor and Members of the City Council, management and others within the City of Saint Paul, 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

July 27, 2012

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

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

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

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Housing and Urban Development		
Direct		
Community Development Block Grants (CDBG)/Entitlement Grants Cluster		
Community Development Block Grants/Entitlement Grants	14.218	\$ 8,155,935
Community Development Block Grants/Entitlement Grants - ARRA	14.253	496,757
Emergency Shelter Grants Program	14.231	345,846
Neighborhood Stabilization Program - ARRA	14.256	7,208,639
Homelessness Prevention and Rapid Re-Housing Program - ARRA	14.257	1,370,445
Passed Through Minnesota Housing Finance Agency		
Community Development Block Grants/Entitlement Grants Cluster		
Community Development Block Grants/Entitlement Grants - ARRA	14.218	1,510,696
Total U.S. Department of Housing and Urban Development		\$ 19,088,318
U.S. Department of Justice		
Direct		
Services for Trafficking Victims	16.320	\$ 128,503
Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	16.590	222,191
Bulletproof Vest Partnership Program	16.607	8,479
Public Safety Partnership and Community Policing Grants Cluster		
Public Safety Partnership and Community Policing Grants	16.710	434,166
Public Safety Partnership and Community Policing Grants - ARRA	16.710	1,977,455
JAG Program Cluster		
Edward Byrne Memorial Justice Assistance Grant (JAG) Program	16.738	301,002
Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to Units of Local Government - ARRA	16.804	548,384
Internet Crimes Against Children Task Force Program - ARRA	16.800	66,658
Edward Byrne Memorial Competitive Grant Program - ARRA	16.808	383,819
Passed Through Minnesota Department of Public Safety		
Juvenile Accountability Block Grants	16.523	17,794
Violence Against Women Formula Grants - ARRA	16.588	43,344
Passed Through Ramsey County		
JAG Program Cluster		
Edward Byrne Memorial Justice Assistance Grant (JAG) Program	16.738	134,767
Passed Through National Association of Police Athletic/Activities League		
Juvenile Mentoring Program	16.726	22,525
Edward Byrne Memorial Competitive Grant Program - ARRA	16.808	9,476
Total U.S. Department of Justice		\$ 4,298,563

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Labor		
Passed Through Minnesota Department of Employment and Economic Development Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors - ARRA	17.275	\$ 33,131
Passed Through Minnesota Department of Labor and Industry Occupational Safety and Health State Program	17.503	<u>8,500</u>
Total U.S. Department of Labor		<u>\$ 41,631</u>
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 1,105,693
Passed Through Metropolitan Council Federal Transit Capital Investment Grants	20.500	135,878
New Freedom Program	20.521	243,706
Passed Through Minnesota Department of Public Safety Highway Safety Cluster		
State and Community Highway Safety	20.600	24,683
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	76,800
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	<u>7,200</u>
Total U.S. Department of Transportation		<u>\$ 1,593,960</u>
U.S. Environmental Protection Agency		
Direct		
Brownfields Assessment and Cleanup Cooperative Agreements Cluster		
Brownfields Assessment and Cleanup Cooperative Agreements	66.818	\$ 4,626
Brownfields Assessment and Cleanup Cooperative Agreements - ARRA	66.818	<u>146,017</u>
Total U.S. Environmental Protection Agency		<u>\$ 150,643</u>

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Energy		
Direct		
Renewable Energy Research and Development	81.087	\$ 687,590
Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	81.117	71,175
Energy Efficiency and Conservation Block Grant Program (EECBG) - ARRA	81.128	791,401
Passed Through Minnesota Department of Commerce		
State Energy Program - ARRA	81.041	<u>1,121,419</u>
Total U.S. Department of Energy		\$ <u>2,671,585</u>
U.S. Department of Education		
Direct		
Fund for the Improvement of Education	84.215	<u>\$ 70,047</u>
Corporation for National and Community Service		
Direct		
Volunteers in Service to America	94.013	<u>\$ 256,230</u>
U.S. Department of Homeland Security		
Direct		
Assistance to Firefighters Grant	97.044	\$ 561,079
Port Security Grant Program	97.056	786,351
Staffing for Adequate Fire and Emergency Response (SAFER)	97.083	600,884
Passed Through Minnesota Department of Public Safety		
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	876,082
Emergency Management Performance Grants	97.042	29,999
Homeland Security Grant Program	97.067	1,916,895
Buffer Zone Protection Program (BZPP)	97.078	<u>182,222</u>
Total U.S. Department of Homeland Security		\$ <u>4,953,512</u>
Total Federal Awards		\$ <u>33,124,489</u>

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**CITY OF SAINT PAUL
SAINT PAUL, 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 Saint Paul. The City's reporting entity is defined in Note II to the basic financial statements. This schedule does not include \$2,920,456, \$8,171,389, and \$8,976,443 in federal awards expended by the Housing and Redevelopment Authority (HRA) of the City of Saint Paul, the Saint Paul Regional Water Services, and the Port Authority of the City of Saint Paul, respectively, component units of the City, which had separate single audits.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Saint Paul under programs of the federal government for the year ended December 31, 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 Saint Paul, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the City of Saint Paul.

3. Summary of Significant Accounting Policies

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

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

4. Clusters

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

CDBG - Entitlement Grants Cluster	\$ 10,163,388
Public Safety Partnership and Community Policing Grants Cluster	2,411,621
JAG Program Cluster	984,153
Highway Safety Cluster	101,483
Brownfields Assessment and Cleanup Cooperative Agreements Cluster	150,643

5. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 36,941,452
Expenditures occurred in 2011 and revenue recognized in 2012	
Energy Efficiency and Conservation Block Grant	20,421
Expenditures occurred prior to 2011 but reimbursed in 2011	
Safe and Sober Grant	(25,053)
New Freedom Program Grants	(770,790)
Buffer Zone Protection Program	(196)
Narcotics Control Program - Surveillance	(446)
Comprehensive Community Based Approaches to Preventing and Reducing Violent Crime	(221)
Violence Against Women	(618)
Energy Efficiency and Conservation Block Grant	(119,604)
Grants received by blended component unit not included	
HOME Investment Partnerships Program	(2,784,894)
Tax Credit Assistance Program - ARRA	(2,000)
Shelter Plus Care Grant	(45,730)
State Energy Program - ARRA	(4,489)
Housing Counseling Assistance Grant Program	(20,766)
Mortgage Foreclosure Mitigation Counseling Program	(62,577)
	<hr/>
Expenditures Per Schedule of Expenditures of Federal Awards	\$ 33,124,489

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

6. Subrecipients

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

CFDA Number	Program Name	Amount Provided to Subrecipients
14.218	Community Development Block Grants/Entitlement Grants	\$ 2,909,938
14.231	Emergency Shelter Grants Program	333,433
14.257	Homelessness Prevention and Rapid Re-Housing - ARRA	1,341,382
16.590	Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	72,650
16.738	Edward Byrne Memorial Justice Assistance Grant Program	129,312
16.804	Edward Byrne Memorial Justice Assistance Grant Program/ Grants to Units of Local Government - ARRA	84,706
16.808	Edward Byrne Memorial Competitive Grant Program - ARRA	179,884
16.588	Violence Against Women Formula Grants - ARRA	28,468
16.726	Juvenile Mentoring Program	6,500
17.275	Economic Development Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors - ARRA	33,131
20.205	Highway Planning and Construction - ARRA	104,121
81.087	Renewable Energy Research and Development	680,914
	Total	<u>\$ 5,904,439</u>

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.