

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, 2010

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.

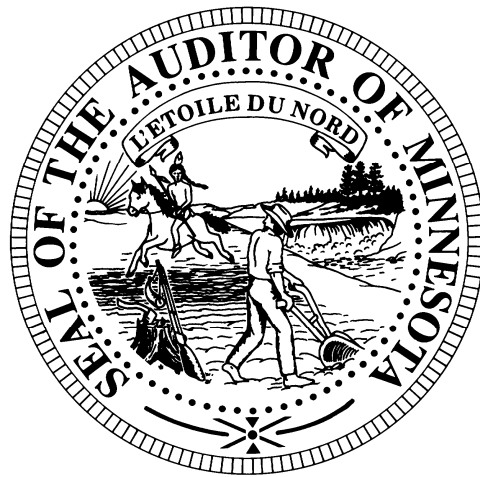
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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

Year Ended December 31, 2010



Management and Compliance Report

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

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

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2010**

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses unqualified opinions on the basic financial statements of the City of Saint Paul.
- B. Significant deficiencies in internal control were disclosed by the audit of the financial statements of the City of Saint Paul and are reported in the "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*." One of the significant deficiencies is a material weakness.
- C. No instances of noncompliance material to the financial statements of the City of Saint Paul were disclosed during the audit.
- D. Significant deficiencies relating to the audit of the major federal award programs are reported in the "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." Some of the significant deficiencies are material weaknesses.
- E. The Auditor's Report on Compliance for the major federal award programs for the City of Saint Paul expresses an unqualified opinion.
- F. Findings relative to major federal award programs for the City of Saint Paul were reported as required by Section 510(a) of OMB Circular A-133.
- G. The major programs are:

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

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
Energy Efficiency and Conservation Block Grant - ARRA	CFDA #81.128
Port Security Grant Program	CFDA #97.056
Homeland Security Grant Program	CFDA #97.067

- H. The threshold for distinguishing between Types A and B programs was \$965,130.
- I. The City of Saint Paul was not determined to be a low-risk auditee.

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

INTERNAL CONTROL

ITEMS ARISING THIS YEAR

10-1 Notes and Loans Receivable

During our audit procedure confirming the notes and loans receivable balance, we received four confirmations with a discrepancy between what the borrowers stated as their principal balance at November 30, 2010, and the balance that the Housing and Redevelopment Authority (HRA) had recorded on the Nortridge System as of the same date. According to the Nortridge System, the cumulative principal balance of these four confirmations was \$3,157,118, while the borrowers reported principal balances totaled \$572,963, a difference of \$2,584,155. For two of the four loans, representing a difference of \$1,784,155, in accordance with the stated terms and conditions, the loan principals had either been partially or completely forgiven. The loan officers/project managers were responsible for communicating with the proper accounting personnel to adjust the loan balances to ensure that the Nortridge System reflected the proper receivable balances outstanding. However, due to a lack of communication or a communication breakdown, this information was not properly received, and the Nortridge System was not accordingly adjusted as of November 30, 2010.

The discrepancy between the borrowers' and the HRA's records for \$1,740,081 of the \$1,784,155 difference was communicated to proper accounting personnel by the loan officers/project managers to allow the loan balance to be adjusted on the Nortridge System for year-end financial statement purposes and did not require an audit adjustment at year-end.

The other two loans to one borrower were recorded on the Nortridge System as a principal balance totaling \$800,000. The first loan issued in 1999 had a principal balance of \$350,000, and a subsequent loan issued in 2001 had a principal balance of \$450,000. The borrower submitted to the auditor, in response to the confirmation that was sent, a copy of a *Satisfaction of Mortgage* that had been filed with Ramsey County on September 7, 2010, and August 9, 2010, respectively. After the auditors informed HRA staff of this issue, it was determined that the respective loans indeed had not been satisfied and that the *Satisfaction of Mortgage* forms were erroneously completed and filed. The auditors resent the two loan confirmations to the borrower who then signed the confirmation that the loan balances totaling the \$800,000 were correct.

We recommend that the HRA 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. In addition, accounting personnel will perform a pre-audit of outstanding loan balances to determine if any potential loan amount changes exist.

Where there is no evidence of complete repayment of outstanding loans, mortgage satisfactions will only be issued at the written direction of the Housing Director or Economic Development Director, depending upon project type. The Housing or Economic Development Director can only authorize a satisfaction if they have reviewed written evidence that a satisfaction is proper; such evidence may include Credit Committee approval, HRA Board approval, or a City Attorney's opinion that the satisfaction may be issued in accordance with the original loan documents

10-2 Financial Statements

The City of Saint Paul's Office of Financial Services (OFS) staff is responsible for preparing the City's Comprehensive Annual Financial Report (CAFR). The information that was to be included in the City's CAFR submitted to the auditors required numerous revisions. The required revisions were necessary because amounts presented in the notes to the financial statements were not consistent with the information included in the financial statements. Furthermore, the journal entries that were prepared to convert the

fund financial statements to the government-wide financial statements were not for the same accounts or amounts that were posted to the worksheets prepared to convert the fund financial statements to the government-wide financial statements. Although none of the revisions were considered material, the notes to the financial statements must relate directly to amounts presented in the City's financial statements. Furthermore, the government-wide conversion entries should be posted as prepared to the related conversion entry worksheets. The result of these errors required additional hours from Office of the State Auditor audit staff in order to determine the necessary corrections and also delayed the completion of the City's CAFR.

Prior to submission of information included in the City's CAFR to the auditors, this information should be reviewed by an individual in OFS that has the expertise to sufficiently review, understand, and approve the specific information.

We recommend that the City of Saint Paul review internal controls in place over the preparation of its annual CAFR, especially related to the review of the work prepared by City staff or the work prepared by contractors hired by the City to perform accounting services, and then design and implement procedures to improve internal controls to detect and prevent inaccuracies of information presented in the CAFR.

Client's Response:

The Office of Financial Services (OFS) is responsible for the review of all fund statements prepared by City accountants before they are submitted to the auditors. Included in this review by OFS accountants, are checks that fund statements are reporting correctly the total transaction amounts and/or account balances that OFS have already provided to the auditors such as accrued payroll, accounts receivable, accounts payable and cash balances. The review of conversion entries, however, is performed only by one accountant. If fund statements or any other financial information are submitted late, review and preparation of government-wide conversion entries will also be delayed.

In future audits, all conversion entries will be reviewed by OFS Accountants prior to submission to the auditors, including the conversion entries provided by contractors. Other OFS accountants will be trained in next year's audit, in addition to reviewing fund statements, to prepare and/or review all conversion entries. The accountant who prepares and/or reviews the conversion entries in the past will have a second review of all conversion entries including their postings to the conversion worksheets later, to assure the auditors that they are correctly prepared and ready for inclusion in the government-wide statements.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

PREVIOUSLY REPORTED ITEM NOT RESOLVED

- 09-1 Identification of Federal Awards - CDBG/Entitlement Grants Cluster - CDBG/Entitlement Grants (CFDA #14.218), CDBG/Entitlement Grants - ARRA (CFDA #14.218), and CDBG/Entitlement Grants - ARRA (CFDA #14.253); Neighborhood Stabilization - ARRA (CFDA #14.256), and Highway Planning and Construction (CFDA #20.205)

The City of Saint Paul's Department of Planning and Economic Development (PED) staff initially provided auditors with federal awards information that included an estimate of \$775,000 for expenditures for the CDBG/Entitlement Grants Cluster - CDBG/Entitlement Grants (CFDA #14.218). At the time of the estimate, the auditor determined that the expenditures related to the Neighborhood Stabilization - ARRA (CFDA #14.256). In addition, the City of Saint Paul's Public Works staff did not include \$293,750 of expenditures related to the Highway Planning and Construction Grant (CFDA #20.205) in its initial estimate of expenditures of federal awards to the auditors. It was not until the audit of the Capital Improvement Projects Fund that the auditors were made aware of these federal expenditures.

The Office of Management and Budget's (OMB) Circular A-133, Subpart C, § .300, indicates auditee responsibilities include identifying all federal awards received and expended and the federal programs under which they were received in preparation of the Schedule of Expenditures of Federal Awards (SEFA).

We recommend the City develop a system and written procedures that will allow staff to properly identify and classify all federal awards received and expended. Procedures should include determination of the correct program CFDA number, revenue source, and program name.

Corrective Action Plan:

Contact Person:

Jerry Falksen (For Housing and Redevelopment Authority grants)

Corrective Action Plan:

Accounting personnel entering cash receipts for grants will ascertain whether or not the grants are direct or indirect federal grants by reviewing a current listing of active grants, which are identified by program name, revenue source, and CFDA number. If the grant received is new, the accounting personnel will contact the person requesting the grant to ascertain whether or not the grant is a Federal grant, and if so, obtain the CFDA number.

PED's Director of Administration receives written notices of all grants received/administered by PED. He will ensure proper accounting staff receive copies of these notices as well.

PED accounting staff providing estimates of federal award expenditures for an audit year will have their estimates reviewed and confirmed by another PED accountant before submitting the estimates to the auditors.

Anticipated Completion Date:

No later than September 1, 2011

Contact Person:

Barbara Hillesland (For City grants)

Corrective Action Plan:

The City will develop a system and written procedures to track all federal grants applied for and grants awarded. Tracking will be performed by the Grant Coordinator in OFS. We may call this tracking system a "Federal Grant Award Management Plan" and it may include the following:

- 1. All City departments will notify the Grant Coordinator in OFS whenever a new grant is applied for and awarded.*
- 2. The Grant Coordinator would keep a record of grant applications and grant awards. Grant information such as CFDA number, grant name, time period it covers, amount awarded, main eligibility requirements, City fund that will report the grant revenue and expense, grant administrator and the grant accountant.*
- 3. The Grant Coordinator will develop a form that all City fund accountants will report quarterly on each outstanding grant within their department they administer.*
- 4. The Grant Coordinator will develop a checklist that grant administrators will report periodically in cases where there is a subgrant recipient. That checklist will report that subgrant recipients have met criteria of their grant and are being periodically monitored by grant administrators. It will also report that requirements with regard to the grant administrator forwarding required grant information to the subgrant recipient have been met.*

Anticipated Completion Date:

No later than September 1, 2011

ITEMS ARISING THIS YEAR

- 10-3 Davis-Bacon Act - CDBG/Entitlement Grants Cluster - CDBG/Entitlement Grants (CFDA #14.218), CDBG/Entitlement Grants - ARRA (CFDA #14.218), and CDBG/Entitlement Grants - ARRA (CFDA #14.253); Highway Planning and Construction (CFDA #20.205), Energy Efficiency and Conservation Block Grant - ARRA (CFDA #81.128); and Port Security Grant Program (CFDA #97.056)

When required by the Davis-Bacon Act, all laborers and mechanics employed by the contractors or subcontractors to work on construction contracts in excess of \$2,000 financed by federal assistance funds must be paid wages not less than those established for the locality of the project.

The City of Saint Paul has assigned monitoring of compliance with the Davis-Bacon Act for any project financed by federal assistance funds to the City of Saint Paul's Human Rights and Equal Economic Opportunity (HREEO) Department. HREEO has developed a tracking system that allows contractors and subcontractors to submit their certified payrolls for those time periods they have employees performing construction services related to the projects funded by federal assistance funds. A staff member of HREEO has been assigned to monitor contractors' and subcontractors' compliance with Davis-Bacon Act requirements; however, there is no monitoring of this individual's work.

Furthermore, based on the testing performed by the auditor in relation to compliance with the Davis-Bacon Act for the CDBG/Entitlement Grants Cluster - CDBG/Entitlement Grants (CFDA #14.218), CDBG /Entitlement Grants - ARRA (CFDA #14.218), and CDBG/Entitlement Grants - ARRA (CFDA #14.253), the auditor discovered that three prevailing wage amounts were incorrectly input into the tracking system.

We recommend that the City's HREEO Department review its policies and procedures to ensure appropriate monitoring for compliance with the Davis-Bacon Act occurs, and that monitoring of staff's work occurs and is documented.

Corrective Action Plan:

Contact Person:

Ruth Richardson

Corrective Action Plan:

The HREEO Department will issue and implement the following policies and procedures to ensure the appropriate monitoring of compliance with the Federal Davis-Bacon Act.

- 1. The Contract Compliance Supervisor will maintain an electronic spreadsheet of all on-going Federal Davis-Bacon Requirements.*
- 2. The Contract Compliance Supervisor will develop a Federal Davis-Bacon Checklist that will document review of the Federal Davis-Bacon Compliance Officer work that provides the date of the review and a signature that the project has been reviewed for accuracy.*
- 3. The Federal Davis-Bacon Compliance Officer will engage in a minimum of 4 on-sites per month (when sufficient Federal Davis-Bacon construction projects exists) to monitor contractors and employees on-site.*
- 4. The Contract Compliance Supervisor will prepare a quarterly report for the Deputy Director on findings related to the monitoring of the Compliance Officer's work.*

Anticipated Completion Date:

December, 2011

- 10-4 Subrecipient Monitoring - CDBG/Entitlement Grants Cluster - CDBG/Entitlement Grants (CFDA #14.218), CDBG/Entitlement Grants - ARRA (CFDA #14.218), and CDBG/Entitlement Grants - ARRA (CFDA #14.253); Homelessness Prevention and Re-Housing - ARRA (CFDA #14.257), Highway Planning and Construction (CFDA #20.205); and Energy Efficiency and Conservation Block Grant - ARRA (CFDA #81.128)

The City of Saint Paul provided federal awards to subrecipients for the CDBG/Entitlement Grants Cluster - CDBG/Entitlement Grants (CFDA #14.218), CDBG/Entitlement Grants - ARRA (CFDA #14.218), and CDBG/Entitlement Grants - ARRA (CFDA #14.253); Homelessness Prevention and Re-Housing - ARRA (CFDA #14.257); Highway Planning and Construction (CFDA #20.205); and Energy Efficiency and Conservation Block Grant - ARRA (CFDA #81.128) during the year ended December 31, 2010.

OMB Circular A-133, Subpart C, § .400, indicates auditee responsibilities for entities that provide federal awards to subrecipients as a pass-through entity. Included in these responsibilities are: (1) 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); (2) monitoring the subrecipient's activities to provide reasonable assurance that the subrecipient administers the federal award in compliance with federal requirements; (3) ensuring that required audits are performed, if applicable, and requiring the subrecipient to take prompt corrective action on any audit findings; and (4) evaluating the impact of subrecipient activities on the City's ability to comply with applicable federal regulations.

Based on our review of the agreements between the City and its subrecipients, the City did not provide the CFDA number to subrecipients. Furthermore, for the Energy Efficiency and Conservation Block Grant - ARRA (CFDA #81.128), the City did not monitor its subrecipient's activities to provide reasonable assurance that the subrecipient administered the federal award in compliance with federal requirements.

We recommend the City develop a system and written policies and procedures to ensure compliance requirements over subrecipients are met, subrecipients are properly informed of all aspects of the sub-award, and subrecipients are monitored in accordance with OMB Circular A-133.

Corrective Action Plan:

Contact Person:

Jerry Falksen (HRA Funds)

Corrective Action Plan:

If federal grant funds are being passed through to a sub-recipient, all new sub-recipient grant agreements will now include the CFDA number. In addition, all PED personnel issuing sub-recipient grant agreements will be directed to include the CFDA number when applicable.

Anticipated Completion Date:

No later than September 1, 2011

Contact Person:

Barb Hillesland (For City grants)

Corrective Action Plan:

With regards to monitoring subrecipients, the City will institute a policy of monitoring them per OMB Circular A-133. This will be accomplished via a checklist form that grant administrators will complete quarterly to assure that all aspects of OMB Circular A-133 are being addressed and all requirements completed.

Anticipated Completion Date:

No later than September 1, 2011

IV. OTHER FINDINGS AND RECOMMENDATIONS

OTHER ITEM FOR CONSIDERATION

GASB Statement 54

The Governmental Accounting Standards Board's (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, is effective for the City of Saint Paul for the year ending December 31, 2011. The standard's objectives are to enhance the usefulness of fund balance information included in the financial report through clearer fund balance classifications that can be consistently applied and to clarify existing governmental fund type definitions.

Fund Balance Reporting

Statement 54 establishes new fund balance classifications based on constraints imposed on how resources can be spent. The existing components of fund balance are reserved, unreserved-designated, and unreserved-undesignated. Statement 54 replaces these components with nonspendable, restricted, committed, assigned, and unassigned as defined below:

- *Nonspendable* - amounts that cannot be spent because they are either not in spendable form (for example, inventory or prepaid items) or legally or contractually required to be maintained intact (such as the corpus of a permanent fund).
- *Restricted* - amounts that can be spent only for specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

- *Committed* - amounts that can be used only for specific purposes determined by a formal action of a government's highest level of decision-making authority.
- *Assigned* - amounts a government intends to use for a specific purpose that do not meet the criteria to be classified as restricted or committed.
- *Unassigned* - spendable amounts not contained in the other classifications.

The City should begin the process for implementing the new fund balance classifications. A key step in successfully implementing the new fund balance requirements is to plan ahead. The City can start with the following steps:

- review the requirements of GASB Statement 54;
- review current fund balances and compare to the new classifications;
- reclassify January 1, 2011, fund balance using the new classifications;
- review/update/prepare a comprehensive fund balance policy;
- prepare appropriate City Council resolutions to commit fund balance; and
- if the City Council intends to delegate authority to assign fund balance, prepare the resolutions delegating that authority.

Governmental Fund Type Definitions

The definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are clarified in the new standard. The new definition for a special revenue fund could have significant impact on the City's current fund classifications.

GASB Statement 54 provides a new and clearer description of when it is appropriate to account for an activity using a special revenue fund. Special revenue funds are used to report specific revenue sources restricted or committed to specified purposes other than debt service and capital projects, where the restricted or committed revenue sources comprise a substantial portion of the fund's resources, and are expected to continue to do so in the future. The standard does not define substantial portion; however, most recommendations are generally that the restricted or committed revenues should comprise at least 35 to 50 percent of total fund revenues. Under this definition, it is possible that some current special revenue funds will no longer meet the requirements for special revenue fund treatment. The City of Saint Paul's management should review the City's special revenue funds to ensure these funds continue to warrant treatment as special revenue funds.

The City's management should perform the following steps prior to December 31, 2011:

- prepare a list of the City's special revenue funds;
- determine the sources of revenues for each of those funds;
- identify whether any of those revenues are restricted or committed;
- determine if these restricted or committed revenues represent a substantial portion of the fund's revenues and are expected to continue to be a substantial source of revenues;
 - if yes, the fund may continue to be classified as a special revenue fund;
 - if not, determine whether the City will combine that fund with the general fund or with a similar purpose special revenue fund that meets the new definition;
- code revenues in the general ledger by source constraints--restricted, committed, assigned, or unassigned; and
- determine if there needs to be a restatement of beginning fund balances.

Additional implementation steps could include: informing any component units that they also will need to meet the requirements; deciding on how fund balance will be presented in the financials, for example, detailed vs. aggregate methods; and developing the potential note disclosures. Additional guidance on GASB Statement 54 can be found on the Office of the State Auditor's website at:

http://www.auditor.state.mn.us/other/Statements/fundbalances_postGASB54_1012_statement.pdf.



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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, 2010, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 24, 2011. 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

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 a deficiency in internal control over financial reporting that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

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 deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 10-1 to be a material weakness.

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 deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 10-2 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Saint Paul's financial statements are free 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.

Also included in the Schedule of Findings and Questioned Costs is an other item for consideration. We believe this information to be of benefit to the City, and we are reporting it for that purpose.

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

June 24, 2011

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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, 2010. 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 \$16,638,119, \$4,318,635, and \$5,757,267, respectively, in federal awards during the year ended December 31, 2010, 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 separate 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.

In our opinion, the City of Saint Paul complied, in all material respects, with the 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, 2010.

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 our 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 10-4 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 10-3 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 as of and for the year ended December 31, 2010, and have issued our report thereon dated June 24, 2011. 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

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

June 24, 2011

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Housing and Urban Development		
Direct Grants		
Community Development Block Grants/Entitlement Grants Cluster		
Community Development Block Grants/Entitlement Grants	14.218	\$ 9,260,169
Community Development Block Grants/Entitlement Grants - ARRA	14.218	1,205,163
Community Development Block Grants/Entitlement Grants - ARRA	14.253	493,548
Emergency Shelter Grants Program	14.231	360,026
Community Development Block Grants/Brownfields Economic Development Initiative	14.246	17,227
Neighborhood Stabilization - ARRA	14.256	1,803,274
Homelessness Prevention and Rehousing - ARRA	14.257	1,425,182
Passed Through Minnesota Housing Finance Agency		
Community Development Block Grants/Entitlement Grants Cluster		
Community Development Block Grants/Entitlement Grants - ARRA	14.218	<u>1,684,996</u>
Total U.S. Department of Housing and Urban Development		<u>\$ 16,249,585</u>
U.S. Department of Justice		
Direct Grants		
Services for Trafficking Victims	16.320	\$ 173,838
Missing Children's Assistance	16.543	303,666
National Institute of Justice Research, Evaluation and Development Projects Grants	16.560	14,646
Edward Byrne Memorial State and Local Law Enforcement Assistance		
Discretionary Grants Program	16.580	164,874
Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	16.590	259,468
Bulletproof Vest Partnership Program	16.607	22,479
Public Safety Partnership and Community Policing Grants Cluster		
Public Safety Partnership and Community Policing Grants	16.710	589,636
Public Safety Partnership and Community Policing Grants - ARRA	16.710	1,633,332
Gang Resistance Education and Training	16.737	42,131
Edward Byrne Memorial Justice Assistance Grant Program	16.738	309,010
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	108,495
Internet Crimes Against Children Task Force Program - ARRA	16.800	236,684
Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to Units of Local Government - ARRA	16.804	395,952
Edward Byrne Memorial Competitive Grant Program - ARRA	16.808	132,744
Passed Through Minnesota Department of Public Safety		
Juvenile Accountability Block Grants	16.523	26,524
Juvenile Justice and Delinquency Prevention	16.540	60,000
Violence Against Women Formula Grants - ARRA	16.588	141,617

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Justice (Continued)		
Passed Through Ramsey County Edward Byrne Memorial Justice Assistance Grant Program	16.738	111,896
Passed Through National Association of Police Athletic/Activities League Edward Byrne Memorial Competitive Grant Program - ARRA	16.808	<u>12,506</u>
Total U.S. Department of Justice		<u>\$ 4,739,498</u>
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 3,602,011
Passed Through Metropolitan Council Federal Transit Capital Investment Grants	20.500	222,405
Passed Through Minnesota Department of Public Safety Highway Safety Cluster State and Community Highway Safety - Safe and Sober Grant	20.600	1,000
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	<u>73,895</u>
Total U.S. Department of Transportation		<u>\$ 3,899,311</u>
U.S. Environmental Protection Agency		
Direct Grant Brownfields Assessment and Cleanup Cooperative Agreements Cluster Brownfields Assessment and Cleanup Cooperative Agreements	66.818	\$ 1,657
Brownfields Assessment and Cleanup Cooperative Agreements - ARRA	66.818	<u>176,661</u>
Total U.S. Environmental Protection Agency		<u>\$ 178,318</u>
U.S. Department of Energy		
Direct Grant Renewable Energy Research and Development	81.087	\$ 342,410
Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	81.117	53,319
Energy Efficiency and Conservation Block Grant - ARRA	81.128	<u>1,191,079</u>
Total U.S. Department of Energy		<u>\$ 1,586,808</u>
U.S. Department of Education		
Direct Grant Fund for the Improvement of Education	84.215	<u>\$ 70,172</u>

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
Corporation for National and Community Service		
Direct Grant		
Volunteers in Service to America	94.013	\$ <u>256,775</u>
U.S. Department of Homeland Security		
Direct		
Assistance to Firefighters Grant	97.044	\$ 373,932
Port Security Grant Program	97.056	1,417,951
Staffing for Adequate Fire and Emergency Response (SAFER)	97.083	695,558
Passed Through Minnesota Department of Public Safety		
President-Declared Disaster Assistance	97.036	455,019
Emergency Management Performance Grants	97.042	29,956
Homeland Security Grant Program	97.067	1,845,370
Buffer Zone Protection Program (BZPP)	97.078	<u>372,744</u>
Total U.S. Department of Homeland Security		\$ <u>5,190,530</u>
Total Federal Awards		\$ <u>32,170,997</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, 2010**

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 2 to the basic financial statements. This schedule does not include \$16,638,119, \$4,318,635, and \$5,757,267 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, 2010. 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. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 48,825,991
Expenditures occurring prior to 2010 but reimbursed in 2010	
Homeland Security Grant Program	(16,127)
Solving Cold Cases with DNA Grant	(748)
Grants received by blended component unit not included	
American Dream Down Payment Initiative	(10,000)
HOME Investment Partnerships Programs	(1,888,376)
Energy Rehabilitation Grant	(13,044)
Section 1602 Tax Exchange Program	(11,302,314)
Tax Credit Assistance Program	(3,164,171)
Shelter Plus Care Grants	(47,023)
Housing Counseling Grant	(53,212)
Mortgage Foreclosure Prevention Assistance Program	(155,229)
Highway Planning and Construction	(4,750)
	\$ 32,170,997
Expenditures Per Schedule of Expenditures of Federal Awards	\$ 32,170,997

5. 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	\$ 2,834,928
14.231	Emergency Shelter Grants Program	342,347
14.246	Community Development Block Grants/Brownfields Economic Development Initiative	17,227
14.257	Homelessness Prevention and Rehousing - ARRA	1,396,487
16.590	Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	106,612
16.738	Edward Byrne Memorial Justice Assistance Grant Program	155,692
16.804	Edward Byrne Memorial Justice Assistance Grant Program/ Grants to Units of Local Government - ARRA	395,265
16.808	Edward Byrne Memorial Competitive Grant Program - ARRA	99,946
16.540	Juvenile Justice and Delinquency Prevention	60,000
16.588	Violence Against Women Formula Grants - ARRA	49,282
20.205	Highway Planning and Construction	231,533
20.500	Federal Transit Capital Investment Grants	222,405
97.067	Homeland Security Grant Program	48,467
	Total	\$ 5,960,191

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

6. 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.