

# STATE OF MINNESOTA

## Office of the State Auditor



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

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**MANAGEMENT AND COMPLIANCE REPORT**

**CITY OF DULUTH**  
**DULUTH, MINNESOTA**

**YEAR ENDED DECEMBER 31, 2016**

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

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

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

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

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

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

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

**Pension** - monitors investment, financial, and actuarial reporting for approximately 650 public pension funds; and

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

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

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**CITY OF DULUTH  
DULUTH, MINNESOTA**

**Year Ended December 31, 2016**



**Management and Compliance Report**

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

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**CITY OF DULUTH  
DULUTH, MINNESOTA**

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**CITY OF DULUTH**  
**MANAGEMENT AND COMPLIANCE REPORT**  
**YEAR ENDED DECEMBER 31, 2016**

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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

### Independent Auditor's Report

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Duluth, Minnesota, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 18, 2017. These financial statements include the Spirit Mountain Recreation Area Authority activities for the year ended April 30, 2016. We issue separate management and compliance reports for the Duluth Airport Authority, the Duluth Economic Development Authority, the Duluth Entertainment and Convention Center Authority, the Duluth Transit Authority, and the Spirit Mountain Recreation Area Authority. This report does not include the results of our audit testing of these component units' internal control over financial reporting or on compliance and other matters. The management and compliance reports for the Duluth Airport Authority, the Duluth Transit Authority, and the Spirit Mountain Recreation Area Authority include the reports required for a single audit. The results of our testing of the Duluth Economic Development Authority component unit's internal control over financial reporting and on compliance and other matters are reported on separately within this Management and Compliance Report.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City of Duluth's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial

statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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

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

### **Compliance and Other Matters**

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

### **Minnesota Legal Compliance**

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

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

### **Purpose of This Report**

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

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

May 18, 2017

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REBECCA OTTO  
STATE AUDITOR

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

### Independent Auditor's Report

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

#### **Report on Compliance for the Major Federal Program**

We have audited City of Duluth's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on the City's major federal program for the year ended December 31, 2016. The City of Duluth's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

The City of Duluth's basic financial statements include the operations of the Duluth Airport Authority and the Duluth Transit Authority component units, which expended \$3,792,475 and \$2,880,263 in federal awards during the year ended December 31, 2016, and the operations of the Spirit Mountain Recreation Area Authority component unit, which expended \$962,869 in federal awards during the year ended April 30, 2016, which are not included in the Schedule of Expenditures of Federal Awards. Our audit, described below, did not include the operations of the Duluth Airport Authority, the Duluth Transit Authority, and the Spirit Mountain Recreation Area Authority because they had separate single audits in accordance with the Uniform Guidance.

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

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

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

Our responsibility is to express an opinion on compliance for the City of Duluth's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the

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

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

#### ***Opinion on the Major Federal Program***

In our opinion, the City of Duluth complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2016.

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

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Duluth, Minnesota, as of and for the year ended December 31, 2016, including the Spirit Mountain Recreation Area Authority as of and for the year ended April 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We have issued our report thereon dated May 18, 2017, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA) as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) is presented for purposes of additional analysis and is not a required part of the basic financial statements. The SEFA is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the SEFA is fairly stated in all material respects in relation to the basic financial statements as a whole.

### **Purpose of This Report**

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

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

May 18, 2017

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**CITY OF DULUTH  
DULUTH, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

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

**Financial Statements**

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

Internal control over financial reporting:

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

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

**Federal Awards**

Internal control over major programs:

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

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

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

The major federal program is:

Community Development Block Grants/Entitlement Grants      CFDA No. 14.218

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

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

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

None.

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

None.

**IV. PREVIOUSLY REPORTED ITEMS RESOLVED**

1996-005 Departmental Internal Control

2006-002 Computer Risk Management

**REPRESENTATION OF THE CITY OF DULUTH  
DULUTH, MINNESOTA**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

**Finding Number: 1996-005**

**Finding Title: Departmental Internal Control**

**Summary of Condition:** Due to the limited number of office personnel within the various City departments, proper segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible. The size of the department and its staffing limits the internal control that management can design and implement into the organization.

**Summary of Corrective Action Previously Reported:** The City is aware that, in some departments, staffing levels prevent an ideal segregation of duties. The City has implemented, and will be implementing, additional software systems in various departments that help streamline processes and improve internal controls. In addition, the ability to pay by credit card in various departments diminishes the risk of loss due to the decreased use of cash.

**Status:** Fully Corrected. Corrective action was taken.

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

Yes \_\_\_\_\_ No   X  

**Finding Number: 2006-002**

**Finding Title: Computer Risk Management**

**Summary of Condition:** Management is responsible for identifying and managing the risks associated with its computer system. A formal plan should be developed to identify the risks associated with the City's information system and document the internal controls implemented to address the identified risks. The City's Management Information Systems department completed a risk analysis of the City's computer systems to be used to develop a formal plan on how to manage risks, but the formal plan had not yet been completed.

**Summary of Corrective Action Previously Reported:** Information Technology (IT) Management will continue to update the IT Risk Profile, utilize the ITSC governance process, implement additional vulnerability assessment tools, and formalize additional policies and procedures in accordance with the State of Minnesota OET Enterprise Vulnerability Management Security Standard to ensure internal controls are in place to reduce risks associated with the City's ongoing technology system. IT management will use the ITSC Governance Process, Risk Profile, Assessment Results, and Project Lists to complete a Risk Management Plan.

**Status:** Fully Corrected. Corrective action was taken.

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

Yes \_\_\_\_\_ No  X

**CITY OF DULUTH  
DULUTH, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

<b>Federal Grantor Pass-Through Agency Program or Cluster Title</b>	<b>Pass-Through Grant Numbers</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>	<b>Passed Through to Subrecipients</b>
<b>U.S. Department of Agriculture</b>				
Direct				
Urban and Community Forestry Program		10.675	\$ 13,673	\$ -
Passed Through Minnesota Department of Natural Resources				
Emergency Watershed Protection Program	P12-5586	10.923	27,799	-
<b>Total U.S. Department of Agriculture</b>			<b>\$ 41,472</b>	<b>\$ -</b>
<b>U.S. Department of Commerce</b>				
Passed Through Minnesota Department of Natural Resources				
Coastal Zone Management Administration Awards	15-306A	11.419	<b>\$ 183,542</b>	<b>\$ -</b>
<b>U.S. Department of Defense</b>				
Direct				
Military Construction, National Guard		12.400	<b>\$ 174,045</b>	<b>\$ -</b>
<b>U.S. Department of Housing and Urban Development</b>				
Direct				
Community Development Block Grants/Entitlement Grants		14.218	\$ 2,227,389	\$ 1,570,539
Emergency Solutions Grant Program		14.231	176,586	169,294
Home Investment Partnerships Program		14.239	627,007	611,202
Fair Housing Assistance Program - State and Local		14.401	43,800	-
Lead-Based Paint Hazard Control in Privately-Owned Housing		14.900	670,325	651,046
<b>Total U.S. Department of Housing and Urban Development</b>			<b>\$ 3,745,107</b>	<b>\$ 3,002,081</b>
<b>U.S. Department of the Interior</b>				
Passed Through Minnesota Historical Society				
Historic Preservation Fund Grants-In-Aid	P16AF00068.026	15.904	<b>\$ 1,017</b>	<b>\$ -</b>
<b>U.S. Department of Justice</b>				
Direct				
Alcohol, Tobacco, and Firearms - Training Assistance		16.012	\$ 55,379	\$ -
Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program		16.590	155,109	-
Local Law Enforcement Block Grant Program		16.592	52,633	-
Bulletproof Vest Partnership Program		16.607	17,930	-
Edward Byrne Memorial Justice Assistance Grant Program		16.738	15,000	-
National Sexual Assault Kit Initiative		16.833	235,735	-
<b>Total U.S. Department of Justice</b>			<b>\$ 531,786</b>	<b>\$ -</b>

**CITY OF DULUTH  
DULUTH, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(Continued)**

<b>Federal Grantor Pass-Through Agency Program or Cluster Title</b>	<b>Pass-Through Grant Numbers</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>	<b>Passed Through to Subrecipients</b>
<b>U.S. Department of Labor</b>				
Passed Through Senior Service America, Inc.				
Senior Community Service Employment Program <i>(Total Senior Community Service Employment Program 17.235 \$341,094)</i>	116	17.235	\$ 233,424	\$ -
Passed Through Minnesota Department of Employment and Economic Development				
Senior Community Service Employment Program	6045100	17.235	56,756	-
Senior Community Service Employment Program <i>(Total Senior Community Service Employment Program 17.235 \$341,094)</i>	7045100	17.235	50,914	-
Workforce Investment Act (WIA) National Incentive Grants - WIA Section 503	5043400	17.267	4,558	-
WIOA National Dislocated Worker Grants/WIA National Emergency Grants	5047200	17.277	13,048	-
WIOA National Dislocated Worker Grants/WIA National Emergency Grants <i>(Total WIOA National Dislocated Worker Grants/WIA National Emergency Grants 17.277 \$17,572)</i>	5047201	17.277	4,524	-
Workforce Investment Act (WIA) Cluster				
WIA/WIOA Adult Program	4043100	17.258	835	-
WIA/WIOA Adult Program	5043100	17.258	171,400	-
WIA/WIOA Adult Program <i>(Total WIA/WIOA Adult Program 17.258 \$229,951)</i>	6043100	17.258	57,716	-
WIA/WIOA Youth Activities	4043600	17.259	336	-
WIA/WIOA Youth Activities	5043600	17.259	179,400	-
WIA/WIOA Youth Activities <i>(Total WIA/WIOA Youth Activities 17.259 \$297,663)</i>	6043600	17.259	117,927	-
WIA/WIOA Dislocated Worker Formula Grants	4048000	17.278	2,738	-
WIA/WIOA Dislocated Worker Formula Grants	5048000	17.278	69,274	-
WIA/WIOA Dislocated Worker Formula Grants <i>(Total WIA/WIOA Dislocated Worker Formula Grants 17.278 \$85,757)</i> <i>(Total expenditures for Workforce Investment Act (WIA) Cluster \$613,371)</i>	6048000	17.278	13,745	-
<b>Total U.S. Department of Labor</b>			<b>\$ 976,595</b>	<b>\$ -</b>
<b>U.S. Department of Transportation</b>				
Passed Through Minnesota Department of Transportation				
Highway Planning and Construction Cluster				
Highway Planning and Construction	99887	20.205	\$ 448,501	\$ -
Highway Planning and Construction <i>(Total Highway Planning and Construction 20.205 \$617,113)</i>	94505	20.205	59,616	-

**CITY OF DULUTH  
DULUTH, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(Continued)**

<b>Federal Grantor Pass-Through Agency Program or Cluster Title</b>	<b>Pass-Through Grant Numbers</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>	<b>Passed Through to Subrecipients</b>
<b>U.S. Department of Transportation (Continued)</b>				
Passed Through Minnesota Department of Public Safety				
Highway Planning and Construction Cluster				
Highway Planning and Construction - Emergency Relief Program				
	ER MN 12	20.205	108,996	-
<i>(Total Highway Planning and Construction 20.205 \$617,113)</i>				
Passed Through Minnesota Department of Natural Resources				
Highway Planning and Construction Cluster				
Recreational Trails Program				
	47856	20.219	17,124	-
<i>(Total expenditures for Highway Planning and Construction Cluster \$634,237)</i>				
Passed Through Minnesota Department of Public Safety				
Highway Safety Cluster				
State and Community Highway Safety				
	A-ENFRC16-2016-DULUTHPD-00063	20.600	20,837	-
Minimum Penalties for Repeat Offenders for Driving While Intoxicated				
	A-ENFRC16-2016-DULUTHPD-00063	20.608	181,336	-
Minimum Penalties for Repeat Offenders for Driving While Intoxicated				
	A-ENFRC17-2017-DULUTHPD-014	20.608	43,427	-
Minimum Penalties for Repeat Offenders for Driving While Intoxicated				
	A-OFFICR16-2016-DULUTHPD-0002	20.608	35,671	-
Minimum Penalties for Repeat Offenders for Driving While Intoxicated				
	A-OFFICR17-2017-DULUTHPD-0002	20.608	17,046	-
<i>(Total Minimum Penalties for Repeat Offenders for Driving While Intoxicated 20.608 \$277,480)</i>				
Highway Safety Cluster				
National Priority Safety Programs				
	A-ENFRC16-2016-DULUTHPD-00063	20.616	14,585	-
National Priority Safety Programs				
	A-ENFRC17-2017-DULUTHPD-014	20.616	8,572	-
National Priority Safety Programs				
	A-OFFICR16-2016-DULUTHPD-0002	20.616	34,129	-
National Priority Safety Programs				
	A-OFFICR17-2017-DULUTHPD-0002	20.616	8,396	-
National Priority Safety Programs				
	A-CMPTR16-2016-DULUTHPD-00014	20.616	23,180	-
<i>(Total National Priority Safety Programs 20.616 \$88,862)</i>				
<i>(Total expenditures for Highway Safety Cluster \$109,699)</i>				
Passed through Minnesota Department of Homeland Security and Emergency Management				
Interagency Hazardous Materials Public Sector Training and Planning Grants				
	A-HMEP-2015-DULUTHFD-012	20.703	4,611	-
<b>Total U.S. Department of Transportation</b>			<b>\$ 1,026,027</b>	<b>\$ -</b>

**CITY OF DULUTH  
DULUTH, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(Continued)**

<b>Federal Grantor Pass-Through Agency Program or Cluster Title</b>	<b>Pass-Through Grant Numbers</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>	<b>Passed Through to Subrecipients</b>
<b>U.S. Environmental Protection Agency</b>				
Direct				
Urban Waters Small Grants		66.440	\$ 27,463	\$ -
Great Lakes Program		66.469	208,528	-
Brownfields Training, Research, and Technical Assistance Grants and Cooperative Agreements		66.814	59,513	-
Brownfields Assessment and Cleanup Cooperative Agreements		66.818	299,280	-
Passed through Minnesota Department of Employment and Economic Development				
Capitalization Grants for Clean Water State Revolving Funds	MPFA-13-0050-R-FY15	66.458	7,124	-
<b>Total U.S. Environmental Protection Agency</b>			<b>\$ 601,908</b>	<b>\$ -</b>
<b>U.S. Department of Health and Human Services</b>				
Passed Through Minnesota Department of Employment and Economic Development				
Temporary Assistance for Needy Families	7047400	93.558	<b>\$ 10,000</b>	<b>\$ -</b>
<b>Corporation for National and Community Service</b>				
Passed Through SOAR Career Solutions				
Social Innovation Fund	15SIHMN001	94.019	<b>\$ 1,939</b>	<b>\$ -</b>
<b>U.S. Department of Homeland Security</b>				
Direct				
Port Security Grant Program		97.056	\$ 100,970	\$ -
Passed Through Minnesota Department of Public Safety				
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	4069DRMNP0000001	97.036	411,771	-
Emergency Management Performance Grants	A-EMPG-2015-DULUTHCI-00022	97.042	18,186	-
Emergency Management Performance Grants (Total Emergency Management Performance Grants 97.042 \$25,615)	A-EMPG-2015-DULUTHCI-106	97.042	7,429	-
Homeland Security Grant Program (Total Homeland Security Grant Program 97.067 \$110,979)	A-DECN-SHSP-2014-NERRB-0003	97.067	83,220	-
Passed through Minnesota Department of Homeland Security and Emergency Management				
Hazard Mitigation Grant	FEMA-4069-DR-MN	97.039	(6,221)	-



**CITY OF DULUTH  
DULUTH, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(Continued)**

<b>Federal Grantor Pass-Through Agency Program or Cluster Title</b>	<b>Pass-Through Grant Numbers</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>	<b>Passed Through to Subrecipients</b>
<b>U.S. Department of Homeland Security (Continued)</b>				
Passed Through St. Louis County, Minnesota				
Homeland Security Grant Program	A-OSGP-2014-STLOUICO-0007	97.067	24,158	-
Homeland Security Grant Program <i>(Total Homeland Security Grant Program 97.067 \$110,979)</i>	A-OSGP-2015-STLOUICO-0007	97.067	3,601	-
<b>Total U.S. Department of Homeland Security</b>			<b>\$ 643,114</b>	<b>\$ -</b>
<b>Total Federal Awards</b>			<b>\$ 7,936,552</b>	<b>\$ 3,002,081</b>

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**CITY OF DULUTH  
DULUTH, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

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1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by the City of Duluth. It does not include \$3,792,475, \$2,880,263, and \$962,869 in federal awards expended by the Duluth Airport Authority, the Duluth Transit Authority, and the Spirit Mountain Recreation Area Authority, respectively, component units of the City, which had separate single audits. The City's reporting entity is defined in Note 1 to the financial statements.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Duluth under programs of the federal government for the year ended December 31, 2016. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the City of Duluth, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City of Duluth.

3. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The City of Duluth has elected not to use the 10 percent de minimus indirect cost rate allowed under the Uniform Guidance.

**CITY OF DULUTH  
DULUTH, MINNESOTA**

4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 8,191,252
Grants received more than 45 days after year-end, unavailable in 2016	
Urban and Community Forestry Program	1,760
Brownfields Assessment and Cleanup Cooperative Agreements	14,848
Coastal Zone Management Administration Awards	183,542
Community Development Block Grants/Entitlement Grants	149,319
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	1,444,950
Emergency Solutions Grant Program	6,028
Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	26,209
Highway Planning and Construction	220,935
Highway Planning and Construction - Emergency Relief Program	42,371
Home Investment Partnerships Program	10,517
Homeland Security Grant Program	83,220
Lead-Based Paint Hazard Control in Privately-Owned Housing	39,289
Military Construction, National Guard	19,734
Social Innovation Fund	1,939
Senior Community Service Employment Program	2,018
WIOA National Dislocated Worker Grants/WIA National Emergency Grants	1,382
WIA/WIOA Adult Program	14,255
WIA/WIOA Youth Activities	11,291
WIA/WIOA Dislocated Worker Formula Grants	5,804
Unavailable in 2015, recognized as revenue in 2016	
Community Development Block Grants/Entitlement Grants	(84,651)
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	(1,523,253)
Emergency Solutions Grant Program	(2,315)
Great Lakes Program	(40,244)
Hazard Mitigation Grant	(6,221)
Highway Planning and Construction	(633,063)
Highway Planning and Construction - Emergency Relief Program	(271,298)
Home Investment Partnerships Program	(1,427)
Lead-Based Paint Hazard Control in Privately-Owned Housing	(139,659)
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	(33,622)
WIA/WIOA Adult Program	(14,177)
WIA/WIOA Youth Activities	(2,748)
WIA/WIOA Dislocated Worker Formula Grants	(422)
Timing differences between expenditures and related reimbursements	250
Capital grants received in enterprise funds	
Capitalization Grants for Clean Water State Revolving Funds	7,124
Grant received by Component Unit - Duluth Economic Development Authority	
Brownfields Assessment and Cleanup Cooperative Agreements	<u>211,615</u>
Expenditures Per Schedule of Expenditures of Federal Awards	<u>\$ 7,936,552</u>

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

**YEAR ENDED DECEMBER 31, 2016**

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REBECCA OTTO  
STATE AUDITOR

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

### Independent Auditor's Report

Board of Commissioners  
Duluth Economic Development Authority  
Duluth, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the City of Duluth, Minnesota, which include as supplementary information the financial statements of the Duluth Economic Development Authority, a discretely presented component unit, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 18, 2017.

### **Internal Control Over Financial Reporting**

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

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

financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit the attention of those charged with governance.

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

### **Compliance and Other Matters**

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

### **Minnesota Legal Compliance**

The *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested in connection with the audit of the Authority's financial statements: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories in conjunction with the audit of the financial statements of the City of Duluth, except we did not test for compliance with the provisions for public indebtedness because the Authority does not have any outstanding debt.

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



## **Purpose of This Report**

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

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

May 18, 2017