STATE OF MINNESOTA
Office of the State Auditor

Rebecca Otto
State Auditor

MANAGEMENT AND COMPLIANCE REPORT OF THE

CITY OF DULUTH
DULUTH, MINNESOTA

YEAR ENDED DECEMBER 31, 2011
Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

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

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I. SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued: Unqualified

Internal control over financial reporting:
- Material weaknesses identified? No
- Significant deficiencies identified? Yes

Noncompliance material to the financial statements noted? No

Federal Awards

Internal control over major programs:
- Material weaknesses identified? No
- Significant deficiencies identified? Yes

Type of auditor’s report issued on compliance for major programs: Unqualified

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

The major programs are:

- Community Development Block Grants/Entitlement Grants Cluster CFDA #14.218
- Community Development Block Grants/Entitlement Grants - ARRA CFDA #14.253
- Home Investment Partnerships Program CFDA #14.239
- Homelessness Prevention and Rapid Re-Housing Program - ARRA CFDA #14.257
Edward Byrne Memorial Justice Assistance Grant Program Cluster
Edward Byrne Memorial Justice Assistance Grant Program CFDA #16.738
Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories - ARRA CFDA #16.803
Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to Units of Local Government - ARRA CFDA #16.804
Senior Community Service Employment Program CFDA #17.235
Highway Planning and Construction Cluster
Highway Planning and Construction CFDA #20.205
Highway Planning and Construction - ARRA CFDA #20.205
Capitalization Grants for Clean Water State Revolving Funds Cluster
Capitalization Grants for Clean Water State Revolving Funds CFDA #66.458
Capitalization Grants for Clean Water State Revolving Funds - ARRA CFDA #66.458
Energy Efficiency and Conservation Block Grant Program (EECBG) - ARRA CFDA #81.128
State Energy Program - ARRA CFDA #81.041

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

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

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

96-5 Departmental Internal Control

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

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

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

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

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

**Client’s Response:**

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

06-2 **Computer Risk Management**

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

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

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

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

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

**Client’s Response:**

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

**PREVIOUSLY REPORTED ITEMS RESOLVED**

**Accounting Policies and Procedures Manual (96-10)**

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

**Resolution**

An updated accounting policies and procedures manual was substantially completed.

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

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

**Resolution**

The City prepared its SEFA, which reconciled to its general ledger.
III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

ITEM ARISING THIS YEAR

11-1 Davis-Bacon

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

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

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

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

Questioned Costs: None.

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

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

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

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

Name of Contact Person Responsible for Corrective Action:

Keith Hamre, City of Duluth Community Development Manager

Corrective Action Planned:

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

Anticipated Completion Date:

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

PREVIOUSLY REPORTED ITEM RESOLVED

Identification of Federal Awards - Coastal Zone Management Administration Awards (CFDA No. 11.419), Highway Planning and Construction (CFDA No. 20.205), Capitalization Grants for Clean Water State Revolving Funds (CFDA No. 66.458), and Great Lakes Program (CFDA No. 66.469) (10-2)
The City did not adequately identify amounts received and expended for various federal and state programs in its general ledger. If the SEFA preparation had been based only on the descriptions provided in the general ledger, the federal awards and related expenditures reported would have been misstated.

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

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEMS RESOLVED

Uncollectible Receivables Policy (03-2)
We recommended the City administration adopt a policy outlining the proper procedures to follow and authorization needed to write off uncollectible accounts.

Resolution
The City developed an uncollectible receivables policy that outlines the proper procedures to follow and authorization needed to write off uncollectible accounts.
Contracts (05-7)
We recommended the City Attorney, City Purchasing Agent, and City Auditor work together to develop a formal contract policy. The policy should address when written contracts are required, the form and content of the terms of the agreement, and responsibilities for monitoring contract requirements.

Resolution
The City developed a contract manual that provides a reference source explaining the process of developing and executing contracts including guidelines, policies, and procedures.
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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

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

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

Internal Control Over Financial Reporting

Management of the City of Duluth is responsible for establishing and maintaining effective
internal control over financial reporting. In planning and performing our audit, we considered
the City of Duluth’s internal control over financial reporting as a basis for designing our auditing
procedures for the purpose of expressing our opinions on the financial statements, but not for the
purpose of expressing an opinion on the effectiveness of the City’s internal control over financial
reporting. Accordingly, we do not express an opinion on the effectiveness of the City’s internal
control over financial reporting.
A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the City’s financial statements will not be prevented, or detected and corrected, on a timely basis.

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

Compliance and Other Matters

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

Minnesota Legal Compliance

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

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

The results of our tests indicate that for the items tested, the City of Duluth complied with the material terms and conditions of applicable legal provisions.
The City of Duluth’s written responses to the internal control findings identified in our audit have been included in the Schedule of Findings and Questioned Costs. We did not audit the City’s responses and, accordingly, we express no opinion on them.

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

/s/Rebecca Otto          /s/Greg Hierlinger

REBECCA OTTO          GREG HIERLINGER, CPA
STATE AUDITOR          DEPUTY STATE AUDITOR

June 27, 2012
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REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

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

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

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.
Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Duluth’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City’s compliance with those requirements.

In our opinion, the City of Duluth complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and is described in the accompanying Schedule of Findings and Questioned Costs as item 11-1.

Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying Schedule of Findings and Questioned Costs as item 11-1. A significant
deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Duluth as of and for the year ended December 31, 2011, and have issued our report thereon dated June 27, 2012. Our audit was performed for the purpose of forming opinions on the City of Duluth’s financial statements that collectively comprise the City’s basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. The SEFA is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The SEFA has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the SEFA is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

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

/s/Rebecca Otto          /s/Greg Hierlinger

REBECCA OTTO          GREG HIERLINGER, CPA
STATE AUDITOR          DEPUTY STATE AUDITOR

June 27, 2012
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### CITY OF DULUTH, MINNESOTA
### SCHEDULE OF EXPENDitures OF FEDERAL AWARDS
### FOR THE YEAR ENDING DECEMBER 31, 2011

<table>
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<tr>
<th>Federal Grantor</th>
<th>Pass-Through Agency</th>
<th>Grant Program Title</th>
<th>Grant Numbers</th>
<th>Federal CFDA Number</th>
<th>Expenditures</th>
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<tbody>
<tr>
<td>U.S. Department of Commerce</td>
<td>Passed Through Minnesota Department of Natural Resources</td>
<td>Coastal Zone Management Administration Awards</td>
<td>Various</td>
<td>11.419</td>
<td>$52,581</td>
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<tr>
<td></td>
<td></td>
<td>Broadband Technology Opportunities Program - ARRA</td>
<td>0045000</td>
<td>11.557</td>
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<td><strong>Total U.S. Department of Commerce</strong></td>
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<td><strong>$57,324</strong></td>
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<td>U.S. Department of Housing and Urban Development</td>
<td>Direct</td>
<td>Community Development Block Grants/Entitlement Grants Cluster</td>
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<tr>
<td></td>
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<td>Community Development Block Grants/Entitlement Grants</td>
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<td>$3,269,893</td>
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<td>Community Development Block Grants/Entitlement Grants - ARRA</td>
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<td>Emergency Shelter Grants Program</td>
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<td>Home Investment Partnerships Program</td>
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<td>Homelessness Prevention and Rapid Re-Housing Program - ARRA</td>
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<td>Fair Housing Assistance Program - States and Local</td>
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<td>Lead-Based Paint Hazard Control in Privately-Owned Housing</td>
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<td>14.900</td>
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<td></td>
<td><strong>Total U.S. Department of Housing and Urban Development</strong></td>
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<td><strong>$5,130,099</strong></td>
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<td>U.S. Department of Justice</td>
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<td>Alcohol, Tobacco, and Firearms Training Assistance</td>
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<td>Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program</td>
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<td>Local Law Enforcement Block Grant</td>
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<td>Bulletproof Vest Partnership Program</td>
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<td>Edward Byrne Memorial Justice Assistance Grant Program Cluster</td>
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<td>Edward Byrne Memorial Justice Assistance Grant Program</td>
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<td>Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to Units of Local Government - ARRA</td>
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<td>16.804</td>
<td>30,364</td>
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<td>Edward Byrne Memorial Competitive Grant Program - ARRA</td>
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<td>Passed Through the City of Chisholm</td>
<td>Public Safety Partnership and Community Policing Grants</td>
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<td>Passed Through the City of Superior</td>
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<td>9,730</td>
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<td>Edward Byrne Memorial Justice Assistance Grant Program</td>
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<td>Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories - ARRA</td>
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<td>16.803</td>
<td>162,697</td>
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<td></td>
<td><strong>Total U.S. Department of Justice</strong></td>
<td></td>
<td></td>
<td></td>
<td><strong>$843,630</strong></td>
</tr>
</tbody>
</table>

The notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.
CITY OF DULUTH, MINNESOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDING DECEMBER 31, 2011
(Continued)

<table>
<thead>
<tr>
<th>Federal Grantor</th>
<th>Pass-Through Agency</th>
<th>Grant Program Title</th>
<th>Pass-Through Grant Numbers</th>
<th>Federal CFDA Number</th>
<th>Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>U.S. Department of Labor</strong></td>
<td></td>
<td>Senior Community Service Employment Program</td>
<td></td>
<td>17.235</td>
<td>$308,693</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Workforce Investment Act (WIA) Cluster</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>WIA Adult Program PY10-004</td>
<td>17.258</td>
<td>275,450</td>
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<tr>
<td></td>
<td></td>
<td>WIA Youth Activities PY10-004</td>
<td>17.259</td>
<td>385,191</td>
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<tr>
<td></td>
<td></td>
<td>WIA Dislocated Workers PY10-004</td>
<td>17.260</td>
<td>92,544</td>
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</tr>
<tr>
<td></td>
<td></td>
<td>WIA Dislocated Workers Formula Grant 17.278</td>
<td>142,584</td>
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<tr>
<td></td>
<td></td>
<td>Senior Community Service Employment Program</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Various 1045100</td>
<td>17.235</td>
<td>172,071</td>
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<tr>
<td><strong>Total U.S. Department of Labor</strong></td>
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<td></td>
<td></td>
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<td>$1,376,533</td>
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</tbody>
</table>

| **U.S. Department of Transportation** | | Highway Planning and Construction Cluster | | | |
| | | Various SP 118-140-030 | 20.205 | $394,901 |
| | | Highway Planning and Construction - ARRA | | | |
| | | Various 20.205 | SP 118-140-030 | 1,787,465 |
| | | Interagency Hazardous Materials Public Sector Training and Planning Grant 2010-HMEP-00793 | | 3,960 |
| **Total U.S. Department of Transportation** | | | | | $2,186,326 |

| **U.S. Environmental Protection Agency** | | Climate Showcase Communities Grant Program | | 66.041 | $36,232 |
| | | Brownfield Assessment and Cleanup Cooperative Agreements | | 66.818 | 154,261 |
| | | Capitalization Grants for Clean Water State Revolving Funds Cluster | | | |
| | | Capitalization Grants for Clean Water State Revolving Funds Various | 66.458 | 8,733,125 |
| | | Capitalization Grants for Clean Water State Revolving Funds - ARRA MPFA-08-0062-R-FY09 | 66.458 | 58,653 |
| | | Capitalization Grants for Drinking Water State Revolving Funds | | 66.468 | 2,747,307 |
| | | Nonpoint Source Implementation Grants C9-97593507-0 | 66.460 | 54,918 |
| **Total U.S. Environmental Protection Agency** | | | | | $11,784,496 |

The notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.
### CITY OF DULUTH, MINNESOTA  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
FOR THE YEAR ENDING DECEMBER 31, 2011  
(Continued)

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

The notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.
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NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011

1. Reporting Entity

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

2. Basis of Presentation

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

3. Summary of Significant Accounting Policies

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

4. Clusters

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

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

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

Expenditures Per Schedule of Expenditures of Federal Awards $ 23,217,666

6. Subrecipients

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

<table>
<thead>
<tr>
<th>CFDA Number</th>
<th>Program Name</th>
<th>Amount Provided to Subrecipients</th>
</tr>
</thead>
<tbody>
<tr>
<td>14.218</td>
<td>Community Development Block Grants - Entitlement Grants</td>
<td>$ 2,675,897</td>
</tr>
<tr>
<td>14.231</td>
<td>Emergency Shelter Grants Program</td>
<td>112,443</td>
</tr>
<tr>
<td>14.239</td>
<td>Home Investment Partnerships Program</td>
<td>915,536</td>
</tr>
<tr>
<td>14.900</td>
<td>Lead-Based Paint Hazard Control in Privately-Owned Housing</td>
<td>177,999</td>
</tr>
<tr>
<td>66.041</td>
<td>Climate Showcase Communities Grant Program</td>
<td>36,232</td>
</tr>
<tr>
<td>81.041</td>
<td>State Energy Program - ARRA</td>
<td>782,867</td>
</tr>
</tbody>
</table>

Total $ 5,241,254
7. American Recovery and Reinvestment Act

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