

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, 2008

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

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

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**CITY OF DULUTH
DULUTH, MINNESOTA**

Year Ended December 31, 2008



Management and Compliance Report

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

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**CITY OF DULUTH
DULUTH, MINNESOTA**

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**CITY OF DULUTH
DULUTH, MINNESOTA**

Schedule 1

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2008**

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses unqualified opinions on the basic financial statements of the City of Duluth.
- B. Significant deficiencies in internal control were disclosed by the audit of financial statements of the City of Duluth 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*.” None were material weaknesses.
- C. No instances of noncompliance material to the financial statements of the City of Duluth were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award programs were reported in the “Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133.”
- E. The Auditor’s Report on Compliance for the major federal award programs for the City of Duluth expresses an unqualified opinion.
- F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major programs are:

Community Development Block Grant	CFDA #14.218
Home Investments Partnerships Program	CFDA #14.239
Capitalization Grant for Clean Water	
State Revolving Funds	CFDA #66.458
Port Security Grant Program	CFDA #97.056
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. The City of Duluth was not determined to be a low-risk auditee.

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

The limited number of office personnel within various City departments prevents a proper segregation of the revenue accounting functions necessary to ensure adequate internal accounting control. The revenue accounting functions consist of collecting and recording fines, permits, licenses, utility billings, tourism taxes, and miscellaneous revenues.

Such a situation is not unusual in small departmental operations or where cash collection is decentralized. However, the City's management should constantly be aware that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an accounting point of view.

We recommend that the City administration 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 feasible. The City is planning on implementing a new software module that will allow us to integrate departmental cash collection reporting with the City Treasurer's Office and the general ledger.

96-10 Accounting Policies and Procedures Manual

The City does not have a current and comprehensive accounting policies and procedures manual. All governments should document their accounting policies and procedures. Although other methods might suffice, this documentation is traditionally in the form of an accounting policies and procedures manual. This manual should document the accounting policies and procedures which make up the City's internal control system.

Schedule 1
(Continued)

An accounting policies and procedures manual will enhance employees' understanding of their role and function in the internal control system, establish responsibilities, provide guidance for employees, improve efficiency and consistency of transaction processing, and improve compliance with established policies. It can also help to prevent deterioration of key elements in the City's internal control system and can help to avoid circumvention of City policies.

We recommend the City Finance Director 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.

Client's Response:

The Finance Department will develop a procedure manual that addresses accounting-related items. Accounting policies that are incorporated into the City-wide policy and procedure manual will be reviewed and updated.

06-2 Computer Risk Management

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.

Risk management begins with a risk assessment of the City's computer system to identify those risks that could negatively influence computer operations. Internal controls should be implemented to reduce the identified risks. 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 reassessment of risk to ensure existing internal controls are still effective.

We recommend the City administration develop a plan to ensure that internal controls are in place to reduce the risk associated with the City's computer systems.

Schedule 1
(Continued)

Client's Response:

The City's MIS staff routinely evaluates risk factors and implements safety features to protect the City's computerized systems. The City is in the process of establishing an MIS steering committee and, by the end of 2009, plans on contracting for an external data security audit. Upon completion of the external data security audit, a formal plan will be developed addressing risks that could impact the City's computer system and appropriate policies and procedures put in place.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

ITEMS ARISING THIS YEAR

08-1 Safekeeping of Investments

Minn. Stat. § 118A.06 requires that all investments be held in safekeeping with:

- a federal reserve bank;
- any bank authorized under the laws of the United States or any state to exercise corporate trust powers including, but not limited to, the bank from which the investment is purchased;
- a primary reporting dealer in United States government securities to the Federal Reserve Bank of New York; or
- a securities broker-dealer having its principal executive office in Minnesota licensed under chapter 80A, or an affiliate of it, and regulated by the Securities and Exchange Commission.

Schedule 1
(Continued)

The City has on hand at December 31, 2008, negotiable certificates of deposit totaling \$15,104,530 which were purchased through FTN Financial, headquartered in Memphis, Tennessee. This firm is not a reporting dealer nor does it have its principal executive office in Minnesota. The negotiable certificates of deposit were purchased in book entry form. For purposes of custody, the securities are effectively “held” or safekept by the party who controls their movement which, in this case, is the brokerage firm. Therefore, these investments are not being safekept in accordance with Minn. Stat. § 118A.06.

We recommend the City Treasurer comply with the requirements of Minn. Stat. § 118A.06. Investments may be held only by brokerage firms that are primary reporting dealers or have their principal offices in Minnesota. If investments are purchased through these dealers, they must be held at a bank rather than at the brokerage firm.

Client's Response:

FTN Financial, a division of First Tennessee Bank National Association, believes the safekeeping requirements under Minn. Stat. § 118A.06 are being met, since First Tennessee Bank National Association is acting as the record keeper of the book entry deposit held at the FDIC-insured issuing financial institution. Since the State of Minnesota Office of the State Auditor does not agree, the City of Duluth is taking the necessary steps to liquidate the certificate of deposit positions purchased through FTN Financial.

08-2

Restrictive Bid Specifications

Minn. Stat. § 471.35 states, “When any county, city, town, or school district calls for bids for the purchase of supplies or equipment, specifications shall not be so prepared as to exclude all but one type or kind but shall include competitive supplies or equipment.”

During our testing of bids, we noted the following two bid specifications that appear to be too restrictive to be competitive.

- The City posted on its website the following request for bids, “2009 GMC 4500 Cab and Chassis with attached description of accessories and equipment specifications. All vehicles of this size and use in fleet are GMC. Please bid GMC in this case.” The City received only one truck bid proposal with a bid price of \$79,449.

Schedule 1
(Continued)

- The City posted on its website the following request for bids, “supply and install Crysteel dump bodies w/hoists, hydraulic rotary angle brooms, straight blade plows, hydraulic packages, stroke packages and options. Added specifications are attached. Equipment to be fitted on two (2) 2008 Chevrolet Silverado K3500HD Cab and Chassis.” The City received three bid proposals. The bidder who was awarded the contract submitted a low bid price of \$51,631. The low bid included dump bodies of a manufacturer other than Crysteel.

When bid specifications are too restrictive, potential bidders might be eliminated that could have provided a similar product at a lower cost. The acceptance of dump bodies other than Crysteel indicates that there are other products available that would meet the City’s needs.

We recommend that bid specifications not be written so restrictively as to exclude all but one type or kind of supplies or equipment.

Client’s Response:

Bid specification procedures have been modified to ensure that a wide range of specifications are utilized. In addition, bid specifications will stipulate that alternates will be accepted if equal quality is proven. Purchasing will continue to issue bids that are not restrictive in nature while at the same time getting the quality desired.

08-3

Late Payment of Claims

Minn. Stat. § 471.425 requires a municipality to make payment to a vendor according to the terms of the contract, or within 35 days. The statute also requires a municipality to pay interest on the outstanding balance of a late payment at the rate of 1.5 percent per month or part of a month.

Schedule 1
(Continued)

Our tests of disbursements detected eleven instances of late vendor payments.

Check #46761 -	invoice date 04/17/2008 paid on 08/15/2008 -	120 days
-	invoice date 06/10/2008 paid on 08/15/2008 -	66 days
-	invoice date 06/20/2008 paid on 08/15/2008 -	56 days
-	invoice date 06/26/2008 paid on 08/15/2008 -	50 days
-	invoice date 07/07/2008 paid on 08/15/2008 -	39 days
-	invoice date 07/09/2008 paid on 08/15/2008 -	37 days
Check #46886 -	invoice date 07/07/2008 paid on 08/22/2008 -	46 days
Check #49538 -	invoice date 08/25/2008 paid on 11/21/2008 -	88 days
-	invoice date 09/17/2008 paid on 11/21/2008 -	65 days
-	invoice date 10/06/2008 paid on 11/21/2008 -	46 days
-	invoice date 10/16/2008 paid on 11/21/2008 -	36 days

We recommend the City review the payment process and establish procedures to comply with Minn. Stat. § 471.425.

Client's Response:

The City will review its procedures for processing vendor payments to assure that vendor payments are made within the time limits specified in Minn. Stat. § 471.425.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

03-2 Uncollectible Receivables Policy

The City does not have a formal policy addressing the proper procedures and authorization needed to write off uncollectible miscellaneous and billed receivables from the City's accounting records. Uncollectible accounts should be written off only in accordance with applicable legal and policy requirements and be approved by a responsible official who is not associated with the detailed receivable and cash functions.

Schedule 1
(Continued)

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

Client's Response:

The vast majority of account receivable adjustments occur in our utility billing system which does have formal procedures for write-offs incorporated into the City Code. All other miscellaneous billing adjustments are approved informally by management, after consultation with legal staff. A miscellaneous billing policy will be developed together with updating the accounting policies and procedures manual reported as finding 96-10.

05-7

Contracts

The City enters into a large number of contracts each year; however, the City does not have formal contract policies and procedures in place. Contract policies provide guidelines for consistency and efficiency in the contracting process as well as requirements for monitoring terms specified in the contracts. Contract policies address when written contracts are needed and the form or content of contracts. A signed contract indicates a mutual agreement of the terms between the parties involved and can serve as an important tool in resolving contract disputes.

We recommend 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. The City Purchasing Department and the City Auditor's Office should ensure that, when required, signed contracts are in place before disbursements are made. We recommend all contract noncompliance be reported to the Mayor and City Council.

Client's Response:

The City does have some contract requirements detailed in the City Charter, City Code, and in the City Policy & Procedure Manual. In 2008, city-wide training was conducted on purchasing and contracting procedures. Complete written contracting procedures will be developed together with updating the accounting policies and procedures manual reported as finding 96-10.

Schedule 1
(Continued)

PREVIOUSLY REPORTED ITEMS RESOLVED

Premium Hours (01-6)

We recommended the City review the necessity of premium hours compensated. The City compensated employees approximately \$3,000,000 for premium hours worked in 2008, which was \$400,000 less than what was compensated in 2007. The 120,000 premium hours compensated in 2008 was a decrease of approximately 35,000 hours from the prior year.

Resolution

The City established an overtime monitoring policy in 2008 that requires the review and approval of employee overtime and comp time on a bi-weekly basis.

Special Assessment Debt Service Fund (01-7)

The Special Assessment Debt Service Fund had a negative cash balance of \$861,783 and \$683,243 after the February 1, 2008 and 2007, respectively, principal and interest payments and remained negative through part of each year. We recommended the City administration estimate the unfunded amount each year and develop a plan to fund these amounts.

Resolution

The City Auditor estimates \$100,000 will be available annually to apply towards the shortfall.

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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, 2008, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 25, 2009. These financial statements include the Spirit Mountain Recreation Area Authority activities for the year ended April 30, 2008. Our report was modified to include reference to other auditors. Separate management and compliance letters have been issued for the Duluth Airport 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. Other auditors audited the financial statements of the Steam District #2 Enterprise Fund, which is a nonmajor fund, as described in our report on the City of Duluth's financial statements. This report does not include the results of the other auditor's 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 Steam District #2 Enterprise Fund 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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We considered the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 96-5, 96-10, and 06-2 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe none of the significant deficiencies described above is a material weakness.

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 Local Government*, 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 Local Government* 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, except as described in the Schedule of Findings and Questioned Costs as items 08-1 through 08-3.

Also included in the Schedule of Findings and Questioned Costs are management practices comments. We believe these recommendations to be of benefit to the City of Duluth, and they are reported for that purpose.

The City of Duluth's written responses to the significant deficiencies, legal compliance findings, and management practices comments 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 City's management, the Mayor, the City Council, 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
STATE AUDITOR

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

June 25, 2009

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND 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 compliance of the City of Duluth with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2008. The City'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 financial statements include the operations of the Duluth Airport Authority and the Duluth Transit Authority component units, which expended \$2,994,251 and \$3,256,461, respectively, in federal awards during the year ended December 31, 2008, 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 on the City's compliance with those requirements.

In our opinion, the City of Duluth complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2008.

Internal Control Over Compliance

The 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 in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 control deficiency in internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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.

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, 2008, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 25, 2009. We did not audit the financial statements of the Steam District #2 Enterprise Fund. Those financial statements were audited by other auditors. Our audit was performed for the purpose of forming opinions on the City of Duluth's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

June 25, 2009

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**CITY OF DULUTH
DULUTH, MINNESOTA**

Schedule 2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDING DECEMBER 31, 2008**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures	Passed Through to Subrecipients
U.S. Department of Commerce			
Passed Through Minnesota Department of Natural Resources Coastal Zone Management Administration Awards	11.419	\$ <u>69,500</u>	\$ <u>-</u>
U.S. Department of Defense - Army Engineers			
Direct Northeastern Minnesota Environmental Infrastructure and Resource Development Section 569 Program Morgan Park Wastewater Collection System Improvements	12.unknown	\$ <u>1,680</u>	\$ <u>-</u>
U.S. Department of Housing and Urban Development			
Direct Community Development Block Grant Emergency Shelter Home Investment Partnerships Program Human Rights Grant	14.218 14.231 14.239 14.401	\$ <u>3,094,391</u> <u>135,249</u> <u>943,058</u> <u>128,500</u>	\$ <u>2,499,752</u> <u>134,391</u> <u>866,757</u> <u>-</u>
Total U.S. Department of Housing and Urban Development		<u>\$ <u>4,301,198</u></u>	<u>\$ <u>3,500,900</u></u>
U.S. Department of Justice			
Direct Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program Local Law Enforcement Block Grant Bulletproof Vest Partnership Program Anti-Gang Initiative	16.590 16.592 16.607 16.744	\$ <u>146,186</u> <u>22,954</u> <u>6,092</u> <u>8,300</u>	\$ <u>-</u> <u>-</u> <u>-</u> <u>-</u>
Passed Through Minnesota Department of Public Safety Edward Byrne Memorial Formula Grant Program	16.579	<u>\$ <u>70,870</u></u>	<u>\$ <u>-</u></u>
Total U.S. Department of Justice		<u>\$ <u>254,402</u></u>	<u>\$ <u>-</u></u>
U.S. Department of Labor			
Passed Through Senior Service America, Inc. Senior Community Service Employment Program	17.235	\$ <u>372,302</u>	\$ <u>-</u>
Passed Through Minnesota Department of Employment and Economic Development WIA Cluster Workforce Investment Act - Adult Program Workforce Investment Act - Youth Activities Dislocated Worker	17.258 17.259 17.260	\$ <u>238,595</u> <u>219,497</u> <u>103,727</u>	\$ <u>-</u> <u>-</u> <u>-</u>
Total U.S. Department of Labor		<u>\$ <u>934,121</u></u>	<u>\$ <u>-</u></u>

**CITY OF DULUTH
DULUTH, MINNESOTA**

Schedule 2
(Continued)

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDING DECEMBER 31, 2008**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures	Passed Through to Subrecipients
U.S. Department of Transportation			
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 1,934,378	\$ -
Passed Through Minnesota Department of Public Safety Alcohol Traffic Safety and Drunken Driving Prevention Incentive Grants	20.601	25,876	-
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	<u>6,951</u>	<u>-</u>
Total U.S. Department of Transportation		\$ 1,967,205	\$ -
U.S. Environmental Protection Agency			
Direct Brownfield Assessment and Cleanup Cooperative Agreements	66.818	\$ 56,347	\$ -
Passed through Minnesota Department of Employment and Economic Development Capitalization Grant for Clean Water State Revolving Funds	66.458	523,811	-
Passed through Minnesota Pollution Control Agency Nonpoint Source Implementation Grants	66.460	<u>15,169</u>	<u>-</u>
Total U.S. Environmental Protection Agency		\$ 595,327	\$ -
U.S. Department of Health and Human Services			
Passed Through Arrowhead Regional Development Commission Senior Nutrition Program	93.045	\$ 197,795	\$ -
U.S. Department of Homeland Security			
Direct Assistance to Firefighters Grant Port Security Grant Program	97.044 97.056	\$ 191,933 275,846	\$ - -
Passed Through Minnesota Department of Public Safety State and Local Homeland Security Exercise Support Homeland Security Grant Program	97.006 97.067	28,968 <u>172,142</u>	- <u>-</u>
Total U.S. Department of Homeland Security		\$ 668,889	\$ -
Total Federal Awards		\$ 8,990,117	\$ 3,500,900

**CITY OF DULUTH
DULUTH, MINNESOTA**

Schedule 2
(Continued)

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDING DECEMBER 31, 2008**

Notes to the Schedule of Expenditures of Federal Awards

1. The Schedule of Expenditures of Federal Awards presents the activity of federal award programs expended by the City of Duluth primary government only and does not include activities of its component units. The City's reporting entity is defined in Note 1 to the basic financial statements. The discretely presented component units have separate single audits, as applicable.
2. The expenditures on this schedule are on the basis of accounting used by the individual funds of the City. Governmental funds use the modified accrual basis and proprietary funds use the accrual basis. Expenditures on this schedule differ from federal revenues reported on the Schedule of Intergovernmental Revenues because some expenditures are reported when the revenues are not available for recognition. These timing differences result in adjustments to deferred revenue of \$233,826. Also, in 2008, \$63,070 in Homeland Security Grant Program funds expended in the prior year were not recognized as revenue until the current year. Capitalization grants for Clean Water State Revolving Funds of \$523,811 expended in the current year are not revenues, but are reported as loans payable by the City. Highway Planning and Construction funds of \$481,144 recognized as revenues in the prior year are included in the current year Schedule of Expenditures of Federal Awards. Lastly, an immaterial reconciling difference of \$8 exists between the expenditures on this schedule and the revenues on the Schedule of Intergovernmental Revenues.
3. Pass-through grant numbers were not assigned by the pass-through agencies.