

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, 2012

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, 2012



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 OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: **Unmodified**

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? **No**

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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? **No**

The major programs are:

Capitalization Grants for Drinking Water State Revolving Funds	CFDA #66.468
State Energy Program - ARRA	CFDA #81.041
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	CFDA #97.036
Port Security Grant Program	CFDA #97.056

The threshold for distinguishing between Types A and B programs was \$504,108.

The City of Duluth qualified as a 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.

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 late 2012, the City implemented a new software system, TRACKiT, in the City's Planning and Construction Services Office (One Stop Shop). Also, in early 2013, the City implemented new procedures for business licensing and permitting in the City Clerk's Office using software that is integrated with the City's financial management system. The new software and procedures strengthens internal controls in the City Clerk's Office and in the One Stop Shop. Finally, as payment options expand to include credit cards the risk of loss diminishes due to the decreased use of cash.

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. Beginning in 2011, the City's network infrastructure and directory structure underwent substantial equipment upgrades and software enhancements. These system upgrades and enhancements continued through 2012 and into 2013. MIS Management staff have already begun the necessary research regarding the implementation of a formalized plan and upon completion of this project, it is the intent of MIS 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. It is our intent to have a formal plan in place by the end of 2013.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

PREVIOUSLY REPORTED ITEM RESOLVED

Davis-Bacon (11-1)

The City did not have internal controls in place under the State Energy Program - ARRA (CFDA No. 81.041) to determine if contractors were complying with the Davis-Bacon Act regarding the payment of prevailing wage.

Resolution

There were no expenditures under the State Energy Program - ARRA (CFDA No. 81.041) in 2012 that required compliance with the Davis-Bacon Act regarding the payment of prevailing wages.



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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 Don Ness, 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 as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 27, 2013. These financial statements include the Spirit Mountain Recreation Area Authority activities for the year ended April 30, 2012. 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.

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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as items 96-5 and 06-2, that we consider to be significant deficiencies.

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 Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, 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 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 Political Subdivisions*. 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.

Other Matters

The City of Duluth's responses to the internal control findings identified in our audit have been included in the Schedule of Findings and Questioned Costs. The City's responses were not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 Political Subdivisions* 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

June 27, 2013

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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Independent Auditor's Report

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

Report on Compliance for Each Major Federal Program

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 the City's major federal programs for the year ended December 31, 2012. 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.

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 \$18,088,144 and \$2,054,691, respectively, in federal awards during the year ended December 31, 2012, 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Duluth's major federal programs 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 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance with those requirements.

Opinion on Each 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 each of its major federal programs for the year ended December 31, 2012.

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 each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program 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. 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 the 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 OMB Circular A-133

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, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We have issued our report thereon dated June 27, 2013, 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 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. Such information 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 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

June 27, 2013

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

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**CITY OF DULUTH
DULUTH, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDING DECEMBER 31, 2012**

Federal Grantor Pass-Through Agency Grant Program Title	Pass-Through Grant Numbers	Federal CFDA Number	Expenditures
U.S. Department of Commerce			
Passed Through Minnesota Department of Natural Resources Coastal Zone Management Administration Awards	Various	11.419	\$ 27,352
Passed Through Minnesota Department of Employment and Economic Development Broadband Technology Opportunities Program - ARRA	0045000	11.557	<u>3,999</u>
Total U.S. Department of Commerce			\$ <u>31,351</u>
U.S. Department of Housing and Urban Development			
Direct			
Community Development Block Grants/Entitlement Grants Cluster			
Community Development Block Grants/Entitlement Grants		14.218	\$ 2,293,553
Community Development Block Grants/Entitlement Grants - ARRA		14.253	79,376
Emergency Solutions Grant Program		14.231	134,740
Home Investment Partnerships Program		14.239	628,257
Homelessness Prevention and Rapid Re-Housing Program - ARRA		14.257	37,004
Fair Housing Assistance Program - State and Local		14.401	16,000
Lead-Based Paint Hazard Control in Privately-Owned Housing		14.900	173,242
Passed Through Minnesota Housing Finance Agency Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	02-2009-05-NSP	14.228	<u>68,390</u>
Total U.S. Department of Housing and Urban Development			\$ <u>3,430,562</u>
U.S. Department of the Interior			
Passed Through Minnesota Historical Society Historic Preservation Fund Grants-In-Aid	28C6346	15.904	\$ <u>30,165</u>
U.S. Department of Justice			
Direct			
Alcohol, Tobacco, and Firearms Training Assistance		16.012	\$ 13,361
Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program		16.590	239,888
Local Law Enforcement Block Grant		16.592	28,043
Bulletproof Vest Partnership Program		16.607	19,383
Edward Byrne Memorial Justice Assistance Grant Program Cluster			
Edward Byrne Memorial Justice Assistance Grant Program		16.738	10,278
Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to Units of Local Government - ARRA		16.804	370
Edward Byrne Memorial Competitive Grant Program - ARRA		16.808	59,172
Passed Through the City of Chisholm Public Safety Partnership and Community Policing Grants		16.710	26,153

**CITY OF DULUTH
DULUTH, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDING DECEMBER 31, 2012
(Continued)**

Federal Grantor Pass-Through Agency Grant Program Title	Pass-Through Grant Numbers	Federal CFDA Number	Expenditures
U.S. Department of Justice (Continued)			
Passed Through the City of Superior Public Safety Partnership and Community Policing Grants		16.710	55,328
Passed Through the City of Virginia Public Safety Partnership and Community Policing Grants (Total Public Safety Partnership and Community Policing Grants 16.710 \$141,303)		16.710	59,822
Passed Through the Minnesota Department of Public Safety Edward Byrne Memorial Justice Assistance Grant Program Cluster Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories - ARRA	2010-JAGR-00351	16.803	<u>67,830</u>
Total U.S. Department of Justice			<u>\$ 579,628</u>
U.S. Department of Labor			
Passed Through Senior Service America, Inc. Senior Community Service Employment Program		17.235	\$ 278,477
Passed Through Minnesota Department of Employment and Economic Development Senior Community Service Employment Program (Total Senior Community Service Employment Program 17.235 \$409,349)	1045100	17.235	130,872
Incentive Grants - WIA Section 503	1047800	17.267	43,029
Workforce Investment Act (WIA) National Emergency Grants	2041400	17.277	192,396
Workforce Investment Act (WIA) Cluster WIA Adult Program	PY10-004	17.258	293,668
WIA Youth Activities	PY10-004	17.259	366,170
WIA Dislocated Workers Formula Grant		17.278	<u>133,709</u>
Total U.S. Department of Labor			<u>\$ 1,438,321</u>
U.S. Department of Transportation			
Passed Through Minnesota Department of Transportation Highway Planning and Construction Cluster Highway Planning and Construction	Various	20.205	\$ 304,726
Highway Planning and Construction - ARRA	SP 118-140-030	20.205	27,160
Passed Through Minnesota Department of Public Safety Highway Planning and Construction Cluster Highway Planning and Construction - Emergency Relief Program (Total Highway Planning and Construction 20.205 \$499,408)	Various	20.205	167,522

**CITY OF DULUTH
DULUTH, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDING DECEMBER 31, 2012
(Continued)**

Federal Grantor Pass-Through Agency Grant Program Title	Pass-Through Grant Numbers	Federal CFDA Number	Expenditures
U.S. Department of Transportation (Continued)			
Passed Through Minnesota Department of Public Safety			
Highway Safety Cluster			
State and Community Highway Safety	Various	20.600	24,300
Occupant Protection Incentive Grants	Various	20.602	5,048
Safety Belt Performance Grants	Various	20.609	19,784
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	Various	20.608	64,545
Interagency Hazardous Materials Public Sector Training and Planning Grants	2010-HMEP-00793	20.703	<u>4,760</u>
Total U.S. Department of Transportation			<u>\$ 617,845</u>
U.S. Environmental Protection Agency			
Direct			
Climate Showcase Communities Grant Program		66.041	\$ 218,957
Brownfields Assessment and Cleanup Cooperative Agreements		66.818	27,141
Passed Through Minnesota Department of Employment and Economic Development			
Capitalization Grants for Clean Water State Revolving Funds Cluster			
Capitalization Grants for Clean Water State Revolving Funds	Various	66.458	3,113,764
Capitalization Grants for Clean Water State Revolving Funds With Principal Forgiveness	Various	66.458	1,050,680
Capitalization Grants for Clean Water State Revolving Funds - ARRA (Total Clean Water State Revolving Funds 66.458 \$4,307,718)	MPFA-08-0062-R-FY09	66.458	143,274
Capitalization Grants for Drinking Water State Revolving Funds	Various	66.468	<u>1,212,708</u>
Total U.S. Environmental Protection Agency			<u>\$ 5,766,524</u>
U.S. Department of Energy			
Passed Through the Minnesota Department of Commerce			
State Energy Program - ARRA	B49966	81.041	<u>\$ 574,381</u>
U.S. Department of Homeland Security			
Direct			
Assistance to Firefighters Grant		97.044	\$ 211,973
Port Security Grant Program (Total Port Security Grant Program 97.056 \$1,113,643)		97.056	760,500
Passed Through Minnesota Department of Public Safety			
Emergency Management Performance Grants	A-EMPG-2011-DULUTHCI-00249	97.042	1,956
Port Security Grant Program (Total Port Security Grant Program 97.056 \$1,113,643)	2008-PSGP-00799	97.056	353,143
Homeland Security Grant Program (Total Homeland Security Grant Program 97.067 \$37,075)	Various	97.067	6,265

**CITY OF DULUTH
DULUTH, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDING DECEMBER 31, 2012
(Continued)**

Federal Grantor Pass-Through Agency Grant Program Title	Pass-Through Grant Numbers	Federal CFDA Number	Expenditures
U.S. Department of Homeland Security (Continued)			
Passed Through Minnesota Department of Transportation Disaster Grants - Public Assistance (Presidentially Declared Disasters)	Various	97.036	2,970,175
Passed Through St. Louis County Homeland Security Grant Program (Total Homeland Security Grant Program 97.067 \$37,075)	2010-OSGP-00822	97.067	30,810
Total U.S. Department of Homeland Security			\$ 4,334,822
Total Federal Awards			\$ 16,803,599

**CITY OF DULUTH
DULUTH, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

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 \$18,088,144 and \$2,054,691 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, 2012. 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 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 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 entity identifying numbers are presented where available.

**CITY OF DULUTH
DULUTH, MINNESOTA**

4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$	11,007,313
Grants received more than 90 days after year-end, deferred in 2012		
Brownfields Assessment and Cleanup Cooperative Agreements		10,413
Community Development Block Grants		91,028
Disaster Grants - Public Assistance		1,118,868
Edward Byrne Memorial Justice Assistance Program		945
Emergency Solutions Grant Program		34,385
Highway Planning and Construction		10,414
Home Investment Partnerships Program		90,740
Homeland Security Grant Program		11,113
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii		6,549
Deferred in 2011, recognized as revenue in 2012		
Brownfields 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)
Capital grants received in enterprise funds		
Capitalization Grants for Clean Water State Revolving Funds		3,113,764
Capitalization Grants for Clean Water State Revolving Funds - ARRA		143,274
Capitalization Grants for Drinking Water State Revolving Funds		1,212,708
Timing Differences Between Expenditures and Related Reimbursements		319,858
Grant received by Component Unit - Duluth Economic Development Authority		
Coastal Zone Management Administration Award		23,081
		23,081
Expenditures Per Schedule of Expenditures of Federal Awards	\$	16,803,599

5. 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	\$	2,372,929
Edward Byrne Memorial Justice Assistance Grant Program Cluster		78,478
Workforce Investment Act (WIA) Cluster		793,547
Highway Planning and Construction Cluster		499,408
Highway Safety Cluster		49,132
Capitalization Grants for Clean Water State Revolving Funds Cluster		4,307,718

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6. Subrecipients

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

<u>CFDA Number</u>	<u>Program Name</u>	<u>Amount Provided to Subrecipients</u>
14.218	Community Development Block Grants/Entitlement Grants	\$ 1,798,276
14.228	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	56,850
14.231	Emergency Solutions Grant Program	126,687
14.239	Home Investment Partnerships Program	602,739
14.257	Homelessness Prevention and Rapid Re-Housing Program - ARRA	33,965
14.900	Lead-Based Paint Hazard Control in Privately-Owned Housing	169,882
66.041	Climate Showcase Communities Grant Program	218,957
81.041	State Energy Program - ARRA	574,381
	Total	<u>\$ 3,581,737</u>

7. American Recovery and Reinvestment Act

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