

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

MANAGEMENT AND COMPLIANCE REPORT

CITY OF SAINT PAUL
SAINT PAUL, MINNESOTA

YEAR ENDED DECEMBER 31, 2014

Description of the Office of the State Auditor

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

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

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

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

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

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

Pension - monitors investment, financial, and actuarial reporting for approximately 700 public pension funds; and

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

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

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

Year Ended December 31, 2014



Management and Compliance Report

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

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

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2014**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Internal control over financial reporting:

- Material weaknesses identified? **Yes**
- 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: **Unmodified**

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	CFDA #14.218
Emergency Solutions Grant Program	CFDA #14.231
HOME Investment Partnerships Program	CFDA #14.239
Neighborhood Stabilization Program - ARRA	CFDA #14.256
Highway Planning and Construction	CFDA #20.205
Federal Transit Capital Investment Grants	CFDA #20.500
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	CFDA #97.036

The threshold for distinguishing between Types A and B programs was \$545,375.

City of Saint Paul qualified as a low-risk auditee? **No**

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding 2012-003

Departmental Internal Controls

Criteria: Management is responsible for establishing and maintaining internal control. The City should design and implement controls to protect from the risk of loss of revenue, inventory, and other assets.

Condition: Several internal control deficiencies were noted during a site visit to one of the Parks Department recreation centers (the Center) for the 2012 audit. A follow-up site visit was conducted for the 2013 and 2014 audits. During 2013, the Center resolved previously noted internal control deficiencies relating to employee access to the safe and tracking electronic ID access cards for the facility. During 2014, the Center resolved a previously noted deficiency for not reconciling the number of wristbands given out (for pool access) to the number sold in the financial system. The following internal control deficiencies still exist:

- There is no inventory system or tracking procedure for the concession stand inventory.
- There is no inventory system or tracking procedure for the small workout equipment. These items could easily be taken without knowledge to the Center.

Context: The Center is currently working on an inventory system with ActiveNet for its concession inventory.

Effect: A lack of controls over inventory puts the City at risk for the loss of revenue. A lack of controls over small assets puts the City at risk for theft of assets.

Cause: Lack of policies and procedures designed and implemented to provide oversight and safeguards for revenues and assets.

Recommendation: Management should implement controls over its inventory and small equipment in order to protect the City from loss of revenue and assets.

Client's Response:

The Office of Financial Services (OFS) will review the following internal controls topics with the Parks Department's senior management and encourage that those policies and procedures get established to safeguard City assets.

- 1. Inventory system or tracking procedure for the concession stand inventory*
- 2. Inventory system or tracking procedure for the small workout equipment*

We anticipate completing this by June 30, 2016.

ITEMS ARISING THIS YEAR

Finding 2014-001

Financial Statements Preparation

Criteria: Management is responsible for preparing the City's Comprehensive Annual Financial Report (CAFR) in accordance with generally accepted accounting principles (GAAP). Preparation of the CAFR in accordance with GAAP requires internal control over both: (1) recording, processing, and summarizing accounting data (that is, maintaining internal books and records); and (2) preparing and reporting appropriate government-wide and fund financial statements, including the related notes to the financial statements.

Condition: Financial information necessary for the preparation of the CAFR was unable to be gathered, processed, and summarized in the time, form, and manner that would allow the City's CAFR to be prepared and submitted to oversight agencies by various required reporting deadlines.

Context: For purposes of financial reporting, the City is the primary government. The Housing and Redevelopment Authority (HRA) of the City of Saint Paul is a blended component unit, and the Saint Paul Regional Water Services is a discretely presented component unit in the City's CAFR. Portions of the information included in the HRA and Saint Paul Regional Water Services financial reports are processed and prepared by the City's Office of Financial Services. The Office of Financial Services also processes and prepares the remaining information included in the City's CAFR. Financial information is to be provided to the HRA and the Saint Paul Regional Water Services in the time, form, and manner to allow staff to adequately review it, submit the information for audit, and to finalize their financial reports in order for various reporting deadlines to be met.

Effect: Delays in processing and preparing the information needed for the HRA, Saint Paul Regional Water Services, and City of Saint Paul to prepare their financial reports resulted in missing the Government Finance Officers Association's (GFOA) June 30 deadline for the HRA and City, the Single Audit September 30 deadline for the Saint Paul Regional Water Services and City, and the reporting to the Office of the State Auditor - Government Information Division required for the City to receive local government aid. Significant reporting delays could be reason for the GFOA to deny awarding the City of Saint Paul and the HRA Certificates of Achievement for Excellence in Financial Reporting, increase the risk that the City and Saint Paul Regional Water Services lose federal funding, and increase the risk that the City of Saint Paul loses local government aid crucial to operations.

Cause: The City of Saint Paul and the component units implemented the INFOR financial management system during 2014. Implementation of the INFOR system caused significant delays and difficulties for both the City and the component units to record and process accounting data in an efficient and timely manner. The City of Saint Paul's Office of Financial Services, and the Planning and Economic Development (PED) Department that prepares the HRA's CAFR, also experienced turnover in personnel key to the financial statement closing and reporting process, limiting their ability to gather, process, and summarize information needed for financial reporting.

Recommendation: We recommend recording, processing, and summarizing of accounting data related to the new financial management system be timely to ensure that the City and its component units will be able to issue future reports by required reporting deadlines.

Client's Response:

The City has identified bottlenecks and constraints and will work with the Office of State Auditor (OSA) staff necessary to ensure that eliminating the bottlenecks and constraints does not compromise internal controls. In addition, senior management in OFS will be reorganizing the Accounting and Business Support departments to better support the dataflow, departments, and the City's business structure. Senior management in OFS will also work with OSA to establish a comprehensive annual financial report (CAFR) "due dates" schedule that is practical and reasonable given the new technology platform. Taking the action steps above will mitigate the risk of late CAFRs for the City and component units whose data is contained within INFOR.

We anticipate completing this by March 15, 2016.

Finding 2014-002

Bank Reconciliations and Reconciliations of Treasury Cash and Investment Balances to INFOR Balances

Criteria: Reconciliations are control activities designed to provide reasonable assurance that material errors will be prevented and detected in a timely manner and involve the comparison of records or balances from different sources. Effective reconciliations properly account for any differences between the records or balances. This includes investigating why the differences exist and resolving them in a timely manner. Documentation resolving any differences should be retained.

Condition: As of April 2015, reconciliations for the City's primary checking account were completed only through December 2013. The City later reconciled the December 2014 bank statement, but did not perform the other months of 2014. Also during 2014, Treasury cash and investment balances were not being reconciled to the INFOR system balances on a regular basis. At December 31, 2014, there was a substantial difference that could not be reconciled.

Context: Bank reconciliations and reconciling the Treasury balances to the INFOR system balances are tools to help ensure bank account and the cash and investment records are complete and accurate and controls designed to detect, and allow for correction of, errors or irregularities on a timely basis.

Effect: When accounting records are not reconciled on a regular basis, there is an increased risk that errors or irregularities will not be detected in a timely manner.

Cause: The City implemented the INFOR financial management system during 2014. The City indicated staff was unsure how to perform the bank reconciliations with INFOR as the process was still in development. Delays in performing reconciliations between Treasury cash and investment balances and the INFOR system balances allowed differences to accumulate over a period of time and are likely due to adjustments made to one record that, for some reason, were not carried through to the other records to ensure they balance. Once differences have accumulated, it is more difficult to find and correct them.

Recommendation: We recommend that bank reconciliations for all accounts be performed timely. We further recommend the City timely reconcile Treasury cash and investment balances to the INFOR system balance. Adjustments for differences should be made as necessary so that reconciled amounts agree.

Client's Response:

Senior management in OFS will be reviewing "lessons learned" with staff in both the Accounting and Treasury departments to ensure that bank accounts are timely reconciled by leveraging the new technology and revamped business processes. A coordinated effort will be made between the two departments to accurately and timely record and reconcile cash and investment balances.

We anticipate completing this by March 15, 2016.

Finding 2014-003

Audit Adjustments

Criteria: 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 of the financial statements on a timely basis. Auditing standards define a material weakness as a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Condition: During our audit, we identified material adjustments that resulted in significant changes to the City's financial statements.

Context: The inability to make appropriate accrual adjustments or to detect material misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented.

Effect: The following audit adjustments were reviewed and approved by the appropriate City staff and are reflected in the financial statements:

City Capital Projects Fund -

- accounts payable and capital outlay expenditures were decreased by \$3,398,733 to reverse a payable that had already been paid;
- capital outlay expenditures and intergovernmental and contribution revenues were increased by \$9,512,693 to record additional expenditures and revenues that had not been recorded; and
- due from other governmental units and intergovernmental and contribution revenues were increased by \$6,113,960 to accrue a receivable related to year-end funding.

HRA Loan Enterprise Fund -

- unearned revenue was increased and unrestricted net position was decreased by \$2,092,719.

Cause: In addition to other projects, the City Capital Projects Fund accounted for construction of the new baseball stadium project. The funding mechanisms to cover construction costs of the baseball stadium were complex and new to the City.

The City of Saint Paul and the HRA implemented the INFOR financial management system in 2014 and underwent a major fund structure change when the City and HRA implemented the new INFOR system. The City of Saint Paul's Office of Financial Services and Planning and Economic Development Department also experienced turnover in personnel key to the financial statement closing and reporting process. When preparing the fund financial statements for the HRA Loan Enterprise Fund as of and for the year ended December 31, 2014, the fund preparer made an adjustment to remove the unearned revenue previously reported in a special revenue fund from the beginning net position. This unearned revenue was related to grants received by the HRA that have specified restrictions; thus, the balance as of December 31, 2014, should still be reported as unearned revenue.

Recommendation: We recommend the City review internal controls currently in place and design and implement procedures to improve internal controls over financial reporting which will prevent, or detect and correct, misstatements in the financial statements.

Client's Response:

Having a full staff in the Accounting department allows OFS sufficient time and resources to better analyze and assist departments with accounting entries to comply with generally accepted accounting principles.

This will be an ongoing process.

PREVIOUSLY REPORTED ITEMS RESOLVED

Monitoring Internal Controls (2012-001)

Management had not yet formalized its assessment of risks in its review of internal controls, nor had it documented the significant internal controls, performed monitoring of those controls on a regular basis, or documented the monitoring activity.

Resolution

During the implementation of the INFOR financial management system during 2014, management performed significant assessments of risks and internal controls. Modifications were made to the system where it was determined that original procedures were not adequately designed.

Procurement Cards (2012-002)

Through testing of procurement cards and inquiry of staff, the following issues were noted for the 2013 audit:

- There continued to be evidence of the splitting of payments to bypass the \$2,500 procurement card limit. This was noted for several different employees, and some employees were noted for several of these infractions.
- The City could not provide documentation for the initial authorization of another employee to receive a procurement card.
- Employees who were identified as being noncompliant with procurement card policies continued to not have their cards inactivated as the City's Procurement Card policy states.

Resolution

During the current year testing of procurement card activity, we noted all employees tested had completed procurement card authorizations on file. We also noted two employees split payments to bypass the \$2,500 procurement card limit, and one of these employees had their card inactivated. The implementation of INFOR resulted in a marked increase in the use of procurement cards. While this item is considered resolved for the 2014 audit, internal controls over procurement cards will continue to be tested during future audits.

Prior Period Adjustment (2013-001)

During our previous audit, Public Works staff identified the need to restate the beginning net position of the Sewer Utility Enterprise Fund to properly state the public improvements and construction in progress capital asset accounts.

Resolution

During the current audit year, there were no material prior period adjustments.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding 2012-004

Reporting

Direct Federal Program: U.S. Department of Housing and Urban Development (HUD)'s Community Development Block Grants/Entitlement Grants (CFDA No. 14.218)

Criteria: OMB Circular A-133 § .300(b) states that the auditee shall maintain internal control over federal programs that provides reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its programs.

Condition: The City of Saint Paul's Human Rights and Equal Economic Opportunity (HREEO) Department and Planning and Economic Development Department prepare reports to be submitted to HUD to comply with federal program requirements. It was noted that the SF-425 report was not formally reviewed by someone other than the preparer prior to its submission to HUD. A review by a supervisor or other individual familiar with the program requirements would help to ensure the data reported are accurate and complete.

Questioned Costs: None.

Context: Because of the lack of a formal review of the SF-425 reports, we performed a more detailed examination of the reports to ensure the data reported were accurate and complete.

Effect: The lack of a formal review increases the potential risk that errors or omissions may occur and not be detected prior to report submission to HUD.

Cause: Policies and procedures requiring a formal review of reports submitted to HUD were not in place.

Recommendation: We recommend the City establish and implement policies and procedures to provide reasonable assurance that information reported to HUD is subject to review by someone other than the preparer prior to its submission.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

*Rhonda Gillquist, Planning and Economic Development Department -
Accountant V*

Corrective Action Planned:

*The Accounting department will work with the Planning and Economic
Development Department to establish a review process for HUD reporting.*

Anticipated Completion Date:

June 30, 2016

Finding 2013-004

Procurement and Suspension and Debarment

Direct Federal Program: U.S. Department of Housing and Urban Development (HUD)'s HOME Investment Partnerships Program (CFDA No. 14.239)

Program Passed Through Metropolitan Council: U.S. Department of Transportation's Federal Transit Capital Investment Grants (CFDA No. 20.500)

Criteria: Federal Regulation 45 C.F.R. § 92.35 prohibits any state or agency from purchasing goods and services with federal money from vendors who have been suspended or debarred by the federal government.

Condition: The City entered into contracts with vendors for projects that were federally funded. There was insufficient documentation to support that verification was performed to determine these vendors were not suspended or debarred at the time the contract was awarded.

Questioned Cost: None.

Context: The contractors hired by the City to work on federally funded projects may have been suspended or debarred, yet payments were made to these contractors.

Effect: The City did not ensure that its contractors on projects funded with these federal awards had not been suspended or debarred by the federal government.

Cause: City staff stated they had checked the sam.gov website to determine if the vendor was suspended or debarred. However, documentation supporting this was insufficient.

Recommendation: We recommend the City develop written policies and procedures to ensure compliance with the requirements over procurement and suspension and debarment. Such procedures should be completed prior to awarding contracts to vendors on federally funded projects. Documentation should exist to support the monitoring of and compliance with this requirement.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

Joy Thao, Director - Accounting and Business Support/Jessica Brokaw, Deputy Director - Procurement

Corrective Action Planned:

Senior management in OFS will work with the Human Rights and Equal Economic Opportunities (HREEO) to develop written policies and procedures to ensure compliance with the requirements over procurement and suspension and debarment. Documentation of due diligence will be required. This ensures that the City does not conduct business with contractors on projects funded by federal awards that have been suspended or debarred by the federal government.

Anticipated Completion Date:

February 29, 2016

Finding 2013-005

Reporting - Transparency Act

Direct Federal Programs: U.S. Department of Housing and Urban Development (HUD)'s Community Development Block Grants/Entitlement Grants (CFDA No. 14.218), Emergency Solutions Grant Program (CFDA No. 14.231), and HOME Investment Partnerships Program (CFDA No. 14.239)

Criteria: As required by the Federal Funding Accountability and Transparency Act (FFATA) and subsequent OMB guidance, information on the first-tier subawards related to federal contracts and grants and the executive compensation of awardees must be made publically available. Prime contractors awarded a federal contract or order that is subject to Federal Acquisition Regulation clause 52.204-10 (Reporting Executive Compensation and First-Tier Subcontract Awards) are required to file a FFATA subaward report by the end of the month following the month in which the prime contractor awards any subcontract greater than \$25,000.

Condition: There are no policies or procedures in place to ensure the City is reporting its first-tier subawards associated with federal grants and contracts in the Central Contractor Registration System (CCR) and the FFATA Subaward System (FSRS). The City had subrecipients during 2014 that received over \$25,000 of pass-through funds from the City, which are required to be reported in these two systems.

Questioned Costs: None.

Context: This requirement is applicable for all new federal, non-Recovery Act funded grant awards.

Effect: The City is not in compliance with the federal requirements of the FFATA for its subrecipients during 2014.

Cause: The City has not designated a person to be responsible for this reporting requirement.

Recommendation: We recommend the City establish and implement policies and procedures to ensure the entity's compliance with these federal reporting requirements.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

Joy Thao, Director - Accounting and Business Support/Dolly Lee, Accounting - Accountant IV

Corrective Action Planned:

OFS will work with establishing a federal reporting plan which includes a review process.

Anticipated Completion Date:

March 15, 2016

PREVIOUSLY REPORTED ITEMS RESOLVED

Reporting (CFDA No. 14.228) (2012-004)

Section 3 reports were not formally reviewed by someone other than the preparer prior to submission to HUD.

Resolution

HUD's Section 3 online reporting system was unavailable during 2014 due to technical problems, so reporting was suspended.

Activities Allowed or Unallowed (CFDA No. 14.256) (2013-002)

The City requested and received reimbursement on the purchase of three properties. Upon further review, City staff determined the purchase fell outside of the program guidelines. Questioned costs totaled \$28,209.

Resolution

No questioned costs were noted in the 2014 audit.

Cash Management (CFDA No. 20.205) (2013-003)

The City requested reimbursement from the pass-through agency for federal program expenditures before some of the costs for which reimbursement was requested were paid.

Resolution

Testing for the 2014 audit noted the reimbursement requests were submitted to the pass-through agency after the costs were paid by the City.

Procurement and Suspension and Debarment (CFDA Nos. 14.218, 14.228, and 14.256) (2013-004)

There was insufficient documentation to support that verification was performed to determine that vendors were not suspended or debarred at the time the contract was awarded.

Resolution

Documentation was sufficient to support that vendors were not suspended or debarred.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding 2012-006

Prompt Payment of Invoices

Criteria: As stated in Minn. Stat. § 471.425, the City is required to make payment on vendor invoices according to the terms of the contract, or within 35 days of the completed delivery of the goods or services or the receipt of the invoice, whichever is later.

Condition: Twenty-five disbursements were selected for testing, and 11 of those had multiple invoices as part of the payment. Sixteen of the total of 78 invoices tested for compliance with this statute were not paid within 35 days.

Context: The payment function is centralized at the City; departments are sending the invoices to be paid late or not time stamping invoices upon receipt.

Effect: Making payment on invoices after 35 days of the completed delivery of the goods or services or the receipt of the invoice, whichever is later, is in noncompliance with Minnesota law.

Cause: Additional processing time is incurred when invoices or other supporting documentation are sent to individual departments. Departments are responsible for date stamping invoices received and promptly sending them to the Office of Financial Services to be paid if the vendor has not directly mailed or emailed the Office of Financial Services. Invoice processing was also affected by the implementation of INFOR during 2014.

Recommendation: We recommend the City make payments on vendor invoices in accordance with Minn. Stat. § 471.425.

Client's Response:

Accounts Payable (AP) was centralized in 2014 on the new INFOR system; therefore, 2014 was not the opportune year to resolve this 2012 finding. Going forward, an additional accountant has been added to the AP team to ensure that the volume is sustainable.

We anticipate completing this by December 31, 2015.

B. OTHER ITEM FOR CONSIDERATION

GASB Statement No. 68, Accounting and Financial Reporting for Pensions

The Governmental Accounting Standards Board (GASB) is the independent organization that establishes standards of accounting and financial reporting for state and local governments. Effective for your calendar year 2015 financial statements, the GASB changed those standards as they apply to employers that provide pension benefits.

GASB Statement 68 significantly changes pension accounting and financial reporting for governmental employers that prepare financial statements on the accrual basis by separating pension accounting methodology from pension funding methodology. Statement 68 requires employers to include a portion of the Public Employees Retirement Association (PERA) total employers' unfunded liability, called the "net pension liability" on the face of the City's government-wide statement of financial position. The City's financial position will be immediately impacted by its unfunded share of the pension liability.

Statement 68 changes the amount employers report as pension expense and defers some allocations of expenses to future years—deferred outflows or inflows of resources. It requires pension costs to be calculated by an actuary; whereas, in the past pension costs were equal to the amount of employer contributions sent to PERA during the year. Additional footnote disclosures and required supplementary information schedules are also required by Statement 68.

The net pension liability that will be reported in the City of Saint Paul's financial statements is an accounting estimate of the proportionate share of PERA's unfunded liability at a specific point in time. That number will change from year to year and is based on assumptions about the probability of the occurrence of events far into the future. Those assumptions include how long people will live, how long they will continue to work, projected salary increases, and how well pension trust investments will do. PERA has been proactive in taking steps toward implementation and will be providing most of the information needed by employers to report the net pension liability and deferred outflows/inflows of resources.

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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 Christopher B. Coleman, Mayor
and Members of the City Council
City of Saint Paul, 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 Saint Paul, Minnesota, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 30, 2015. Our report includes a reference to other auditors. Other auditors audited the financial statements of the Penfield Apartments, the Saint Paul RiverCentre Convention and Visitors Authority, and the Port Authority of the City of Saint Paul, as described in our report on the City of Saint Paul's financial statements. This report does not include the results of other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the Saint Paul RiverCentre Convention and Visitors Authority were not audited in accordance with *Government Auditing Standards*.

In planning and performing our audit of the financial statements, we considered the City of Saint Paul'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.

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. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness and other items that we consider to be significant deficiencies.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2014-003 to be a material weakness.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2012-003, 2014-001, and 2014-002 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Saint Paul'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 in connection with the audit of the City's financial statements: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories.

In connection with our audit, nothing came to our attention that caused us to believe that the City of Saint Paul failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, except as described in the Schedule of Findings and Questioned Costs as item 2012-006. 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

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

City of Saint Paul's Response to Findings

The City of Saint Paul's responses to the internal control and legal compliance findings identified in our audit have been included in the Schedule of Findings and Questioned Costs. The City's responses were not subjected 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

November 30, 2015

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REBECCA OTTO
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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

Independent Auditor's Report

The Honorable Christopher B. Coleman, Mayor
and Members of the City Council
City of Saint Paul, Minnesota

Report on Compliance for Each Major Federal Program

We have audited the City of Saint Paul's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2014. The City of Saint Paul's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

The City of Saint Paul's basic financial statements include the operations of the Saint Paul Regional Water Services and the Port Authority of the City of Saint Paul component units, which expended \$1,854,305 and \$3,679,567, respectively, in federal awards during the year ended December 31, 2014, which are not included in the Schedule of Expenditures of Federal Awards. Our audit, described below, did not include the operations of the Saint Paul Regional Water Services because the Saint Paul Regional Water Services had a separate single audit in accordance with OMB Circular A-133. Our audit also did not include the operations of the Port Authority because other auditors were engaged to perform a single audit 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 Saint Paul'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 Saint Paul's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion 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 Saint Paul 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, 2014.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which 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 2013-005. Our opinion on each major federal program is not modified with respect to this matter.

The City of Saint Paul's response to the noncompliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs as a Corrective Action Plan. The City of Saint Paul's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the City of Saint Paul 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 an 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 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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as items 2012-004, 2013-004, and 2013-005, that we consider to be significant deficiencies.

The City of Saint Paul's responses to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs as Corrective Action Plans. The City of Saint Paul's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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 Saint Paul, Minnesota, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We have issued our report thereon dated November 30, 2015, which contained unmodified opinions on those financial statements. We did not audit the financial statements of the Penfield Apartments, a major fund (HRA Penfield Enterprise Fund) and 11 percent, 6 percent, and 5 percent, respectively, of the assets, net position, and revenues of the business-type activities, the Saint Paul RiverCentre Convention and Visitors Authority, which represent 1 percent, 2 percent, and 18 percent, respectively, and the

Port Authority of the City of Saint Paul, which represent 34 percent, 12 percent, and 19 percent, respectively, of the assets, net position, and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors. 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

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

November 30, 2015

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Housing and Urban Development		
Direct		
Housing Counseling Assistance Program	14.169	\$ 6,085
(Total Housing Counseling Assistance Program CFDA 14.169 \$18,785)		
Community Development Block Grants/Entitlement Grants	14.218	7,337,670
Emergency Solutions Grant Program	14.231	710,865
Home Investment Partnerships Program	14.239	994,619
Neighborhood Stabilization Program - ARRA	14.256	1,016,172
Passed Through Minnesota Home Ownership Center		
Housing Counseling Assistance Program	14.169	12,700
(Total Housing Counseling Assistance Program CFDA 14.169 \$18,785)		
Passed Through Minnesota Housing Finance Agency		
Making Home Affordable Outreach and Intake Project	Unassigned	1,350
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	250,558
Total U.S. Department of Housing and Urban Development		\$ 10,330,019
U.S. Department of Justice		
Direct		
Services for Trafficking Victims	16.320	\$ 293,354
Public Safety Partnership and Community Policing Grants	16.710	49,191
(Total Public Safety Partnership and Community Policing Grants CFDA 16.710 \$52,909)		
Edward Byrne Memorial Justice Assistance Grant (JAG) Program	16.738	358,040
(Total Edward Byrne Memorial JAG Program CFDA 16.738 \$482,960)		
Passed Through Minnesota Department of Public Safety		
Juvenile Accountability Block Grants	16.523	35,269
Public Safety Partnership and Community Policing Grants	16.710	3,718
(Total Public Safety Partnership and Community Policing Grants CFDA 16.710 \$52,909)		
Passed Through National Association of Police Athletic/Activities League		
Juvenile Mentoring Program	16.726	6,496
Passed Through Ramsey County		
Edward Byrne Memorial Justice Assistance Grant (JAG) Program	16.738	124,920
(Total Edward Byrne Memorial JAG Program CFDA 16.738 \$482,960)		
Total U.S. Department of Justice		\$ 870,988

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SAINT PAUL, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2014
(Continued)**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Transportation		
Passed Through Metropolitan Council		
Federal Transit Capital Investment Grants	20.500	\$ 932,285
New Freedom Program	20.521	212,756
Passed Through Minnesota Department of Public Safety		
State and Community Highway Safety	20.600	8,107
(Total State and Community Highway Safety CFDA 20.600 \$68,402)		
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	10,000
Passed Through Minnesota Department of Transportation		
Highway Planning and Construction	20.205	3,295,217
National Infrastructure Investments	20.933	45,021
Passed Through Ramsey County		
State and Community Highway Safety	20.600	60,295
(Total State and Community Highway Safety CFDA 20.600 \$68,402)		
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	90,959
National Priority Safety Programs	20.616	39,529
Total U.S. Department of Transportation		\$ 4,694,169
U.S. Department of Treasury		
Passed Through Minnesota Housing Finance Agency		
National Foreclosure Mitigation Counseling	21.000	\$ 11,221
Institute of Museum and Library Services		
Direct		
National Leadership Grants	45.312	\$ 5,495
Passed Through Minnesota Department of Education		
Grants to States	45.310	74,219
Total Institute of Museum and Library Services		\$ 79,714
U.S. Environmental Protection Agency		
Direct		
Brownfields Assessment and Cleanup Cooperative Agreements	66.818	\$ 397,322
Corporation for National and Community Service		
Direct		
Volunteers in Service to America	94.013	\$ 168,114

**CITY OF SAINT PAUL
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**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2014
(Continued)**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Homeland Security		
Direct		
Assistance to Firefighters Grant	97.044	\$ 464,034
Port Security Grant Program	97.056	301,250
Passed Through Minnesota Department of Public Safety		
Emergency Management Performance Grants	97.042	30,000
Homeland Security Grant Program	97.067	832,347
Total U.S. Department of Homeland Security		\$ 1,627,631
Total Federal Awards		\$ 18,179,178

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

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by the City of Saint Paul. The City's reporting entity is defined in Note II to the basic financial statements. This schedule does not include \$1,854,305 and \$3,679,567 in federal awards expended by the Saint Paul Regional Water Services and the Port Authority of the City of Saint Paul, respectively, component units of the City, which had separate single audits.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Saint Paul under programs of the federal government for the year ended December 31, 2014. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the City of Saint Paul, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City of Saint Paul.

3. Summary of Significant Accounting Policies

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

**CITY OF SAINT PAUL
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4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 15,950,524
Expenditures of program income	
Community Development Block Grants (CDBG)/Entitlement Grants	922,851
Edward Byrne Memorial Justice Assistance Grant Program	18,231
Home Investment Partnerships Program	144,607
Neighborhood Stabilization Program - ARRA	1,016,172
Grants received more than 60 days after year-end, unavailable in 2014	
Brownfields Assessment and Cleanup Cooperative Agreements	1,629
Homeland Security Grant Program	<u>125,164</u>
 Expenditures Per Schedule of Expenditures of Federal Awards	 <u><u>\$ 18,179,178</u></u>

5. Subrecipients

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

CFDA Number	Program Name	Amount Provided to Subrecipients
14.218	Community Development Block Grants/Entitlement Grants	\$ 3,127,103
14.231	Emergency Solutions Grants Program	685,587
14.239	Home Investment Partnerships Program	732,698
16.320	Services for Trafficking Victims	52,256
16.523	Juvenile Accountability Block Grants	24,058
16.738	Edward Byrne Memorial Justice Assistance Grant Program	<u>84,183</u>
	Total	<u><u>\$ 4,705,885</u></u>

6. American Recovery and Reinvestment Act

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