State of Minnesota

Office of the State Auditor

Julie Blaha
State Auditor

Management and Compliance Report

City of Duluth
Duluth, Minnesota

Year Ended December 31, 2019

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 100 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 Minnesota's local 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, 2019

Office of the State Auditor

Management and Compliance Report

Audit Practice Division
Office of the State Auditor
State of Minnesota

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CITY OF DULUTH
DULUTH, MINNESOTA

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CITY OF DULUTH
MANAGEMENT AND COMPLIANCE REPORT

YEAR ENDED DECEMBER 31, 2019

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

Independent Auditor's Report

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Duluth, Minnesota, as of and for the year ended December 31, 2019, 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 29, 2020. These financial statements include the activities of the Spirit Mountain Recreation Area Authority component unit for the year ended April 30, 2019. We issue separate management and compliance reports for the Duluth Airport Authority, the Duluth Economic Development Authority, the Duluth Entertainment and Convention Center Authority, the Duluth Transit Authority, and the Spirit Mountain Recreation Area Authority component units. This report does not include the results of our audit testing of these component units' internal control over financial reporting or on compliance and other matters. The results of our testing of the Duluth Economic Development Authority component unit's internal control over financial reporting and on compliance and other matters are reported on separately within this Management and Compliance Report.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Minnesota Legal Compliance

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 contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing sections of the *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, insofar as they relate to accounting matters. 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, insofar as they relate to accounting matters.

Purpose of This Report

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

/s/Julie Blaha	*/s/Greg Hierlinger*
JULIE BLAHA STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

June 29, 2020

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STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

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

Independent Auditor's Report

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

Report on Compliance for the Major Federal Program

We have audited the City of Duluth's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on the City's major federal program for the year ended December 31, 2019. The City of Duluth's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

The City of Duluth's basic financial statements include the operations of the Duluth Airport Authority and the Duluth Transit Authority component units, which expended $11,882,956 and $3,110,945, respectively, in federal awards during the year ended December 31, 2019, 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 Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

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

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

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

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

Opinion on the Major Federal Program

In our opinion, the City of Duluth complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2019.

Report on Internal Control Over Compliance

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

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

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

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Duluth, Minnesota, as of and for the year ended December 31, 2019, including the Spirit Mountain Recreation Area Authority component unit as of and for the year ended April 30, 2019, 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 29, 2020, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Duluth's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA), as required by the Uniform Guidance, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The SEFA is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the SEFA is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

/s/Julie Blaha | */s/Greg Hierlinger*

JULIE BLAHA
STATE AUDITOR

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

June 29, 2020

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CITY OF DULUTH
DULUTH, MINNESOTA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2019

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Internal control over financial reporting:
- Material weaknesses identified? **No**
- Significant deficiencies identified? **None reported**

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

Federal Awards

Internal control over major programs:
- Material weaknesses identified? **No**
- Significant deficiencies identified? **None reported**

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

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

The major federal program is:

Community Development Block Grants/Entitlement Grants	CFDA No. 14.218

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

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

CITY OF DULUTH
DULUTH, MINNESOTA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2019

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

None.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. PREVIOUSLY REPORTED ITEMS RESOLVED

2018-001 Equipment and Real Property Management (CFDA No. 16.833)
2018-002 Procurement, Suspension, and Debarment (CFDA No. 16.833)
2018-003 Special Tests and Provisions – Davis-Bacon Act (CFDA No. 20.219)

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REPRESENTATION OF CITY OF DULUTH
DULUTH, MINNESOTA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2019

Finding Number: 2018-001
Finding Title: Equipment and Real Property Management
Program: U.S. Department of Justice's National Sexual Assault Kit Initiative (CFDA 16.833)

Summary of Condition: The City of Duluth did not properly record an acquisition as a capital asset in 2018 or document the federal award identification number, the acquisition date, and the percentage of federal funding used in making the purchase on its Fixed Asset Property Record.

Summary of Corrective Action Previously Reported: The City Auditor's office will develop a process for incorporating the federal award identification number and percentage of funding used into the capital asset records.

Status: Fully Corrected. Corrective action was taken.
Was corrective action taken significantly different than the action previously reported?
Yes _______ No ___X___

Finding Number: 2018-002
Finding Title: Procurement, Suspension, and Debarment
Program: U.S. Department of Justice's National Sexual Assault Kit Initiative (CFDA 16.833)

Summary of Condition: The City did not verify and retain documentation that vendors receiving federal funds were not suspended or debarred at the time the agreement was awarded.

Summary of Corrective Action Previously Reported: The City purchasing policy was revised to include suspension and debarment review for all projects funded in whole or in part with state or federal funds. Purchasing will include the results of the search in the contract file.

Status: Fully Corrected. Corrective action was taken.
Was corrective action taken significantly different than the action previously reported?
Yes _______ No ___X___

Finding Number: 2018-003
Finding Title: Special Tests and Provision – Davis Bacon
Program: US. Department of Transportation's Highway Planning and Construction Cluster, Recreational Trails Program (CFDA #20.219)

Summary of Condition: The City of Duluth did not receive or review certified payrolls from the contractors and subcontractors for the recreational trails projects that involved federal payroll-related expenditures in 2018.

Summary of Corrective Action Previously Reported: The City of Duluth coordinated the receiving and reviewing of certified payrolls in relation to the Davis Bacon act.

Status: Fully Corrected. Corrective action was taken.
Was corrective action taken significantly different than the action previously reported?
Yes ______ No ___X___

CITY OF DULUTH
DULUTH, MINNESOTA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2019

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal CFDA Number	Pass-Through Grant Numbers	Expenditures	Passed Through to Subrecipients
U.S. Department of Agriculture				
Direct				
Cooperative Forestry Assistance	10.664		$ 6,750	$ -
Passed Through Minnesota Department of Natural Resources				
Urban and Community Forestry Program	10.675	140175	42,064	-
Passed Through Minnesota Department of Agriculture				
Forest Health Protection	10.680	JPA-133100	65,000	-
Total U.S. Department of Agriculture			**$ 113,814**	**$ -**
U.S. Department of Commerce				
Passed Through Minnesota Department of Natural Resources				
Coastal Zone Management Administration Awards	11.419	16-306A	**$ 73,177**	**$ -**
U.S. Department of Housing and Urban Development				
Direct				
CDBG – Entitlement Grants Cluster				
Community Development Block Grants/Entitlement Grants	14.218		$ 2,510,955	$ 2,000,792
Emergency Solutions Grant Program	14.231		163,741	150,151
Home Investment Partnerships Program	14.239		540,469	509,933
Total U.S. Department of Housing and Urban Development			**$ 3,215,165**	**$ 2,660,876**
U.S. Department of Justice				
Direct				
Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	16.590		$ 134,087	$ -
Bulletproof Vest Partnership Program	16.607		7,627	-
Public Safety Partnership and Community Policing Grants (Total Public Safety Partnership and Community Policing Grants 16.710 $72,687)	16.710		609	-
Edward Byrne Memorial Justice Assistance Grant Program	16.738		47,012	-
National Sexual Assault Kit Initiative	16.833		470,859	-
Comprehensive Opioid Abuse Site-Based Program	16.838		134,473	-
Passed Through the Minnesota Department of Public Safety				
Crime Victim Assistance	16.575	A-CVSP-2018-DULUTHAO-00031	71,395	-
Public Safety Partnership and Community Policing Grants (Total Public Safety Partnership and Community Policing Grants 16.710 $72,687)	16.710	167077	72,078	-
Total U.S. Department of Justice			**$ 938,140**	**$ -**

The notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

CITY OF DULUTH
DULUTH, MINNESOTA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2019
(Continued)

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal CFDA Number	Pass-Through Grant Numbers	Expenditures	Passed Through to Subrecipients
U.S. Department of Labor				
Passed Through Senior Service America, Inc.				
Senior Community Service Employment Program	17.235	116	$ 202,793	$ -
(Total Senior Community Service Employment Program 17.235 $341,818)				
Passed Through Minnesota Department of Employment and Economic Development				
Senior Community Service Employment Program	17.235	0045100	36,881	-
Senior Community Service Employment Program	17.235	9045100	44,329	-
Senior Community Service Employment Program	17.235	9045101	57,815	-
(Total Senior Community Service Employment Program 17.235 $341,818)				
WIOA Cluster				
WIA Adult Program	17.258	6043101	5,593	-
WIA Adult Program	17.258	7043100	27,341	-
WIA Adult Program	17.258	8043100	221,091	-
WIA Adult Program	17.258	9043100	1,036	-
(Total WIA Adult Program 17.258 $255,061)				
WIA Youth Activities	17.259	7043600	34,052	-
WIA Youth Activities	17.259	8043600	238,147	-
WIA Youth Activities	17.259	9043600	80,440	-
(Total WIA Youth Activities 17.259 $352,639)				
WIA Dislocated Worker Formula Grants	17.278	6048001	9,504	-
WIA Dislocated Worker Formula Grants	17.278	7048000	12,110	-
WIA Dislocated Worker Formula Grants	17.278	8048000	50,286	-
WIA Dislocated Worker Formula Grants	17.278	9048000	18,064	-
(Total WIA Dislocated Worker Formula Grants 17.278 $89,964)				
Total U.S. Department of Labor			**$ 1,039,482**	**$ -**

The notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

CITY OF DULUTH
DULUTH, MINNESOTA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2019
(Continued)

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal CFDA Number	Pass-Through Grant Numbers	Expenditures	Passed Through to Subrecipients
U.S. Department of Transportation				
Passed Through Minnesota Department of Transportation				
Highway Planning and Construction Cluster				
Highway Planning and Construction	20.205	1029940	$ 1,875,440	$ -
Highway Planning and Construction	20.205	99887	14,620	-
(Total Highway Planning and Construction 20.205 $1,890,060)				
Passed Through Minnesota Department of Natural Resources				
Highway Planning and Construction Cluster				
Recreational Trails Program	20.219	TRAL023	28,461	-
Passed Through Minnesota Department of Public Safety				
Highway Safety Cluster				
State and Community Highway Safety	20.600	A-ENFRC19-2019-DULUTHPD-037	26,129	-
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	A-ENFRC19-2019-DULUTHPD-037	137,971	-
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	A-ENFRC20-2020-DULUTHPD-082	38,841	-
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	A-OFFICR19-2019-DULUTHPD-003	16,813	-
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	A-OFFICR20-2020-DULUTHPD-008	48,038	-
(Total Minimum Penalties for Repeat Offenders for Driving While Intoxicated 20.608 $241,663)				
Highway Safety Cluster				
National Priority Safety Programs	20.616	A-ENFRC19-2019-DULUTHPD-037	17,549	-
National Priority Safety Programs	20.616	A-ENFRC20-2020-DULUTHPD-082	7,844	-
National Priority Safety Programs	20.616	A-OFFICR19-2019-DULUTHPD-003	8,281	-
National Priority Safety Programs	20.616	A-OFFICR20-2020-DULUTHPD-008	23,660	-
(Total National Priority Safety Programs 20.616 $57,334)				
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	A-HMEP-2017-DULUTHFD-012	6,417	-
Total U.S. Department of Transportation			**$ 2,250,064**	**$ -**
U.S. Department of the Treasury				
Direct				
Equitable Sharing	21.016		**$ 204,425**	**$ -**

The notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

CITY OF DULUTH
DULUTH, MINNESOTA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2019
(Continued)

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal CFDA Number	Pass-Through Grant Numbers	Expenditures	Passed Through to Subrecipients
U.S. Environmental Protection Agency				
Direct				
Great Lakes Program	66.469		$ 103,079	$ -
Brownfields Assessment and Cleanup Cooperative Agreements	66.818		151,992	-
Total U.S. Environmental Protection Agency			**$ 255,071**	**$ -**
U.S. Department of Education				
Passed Through the Minnesota Department of Employment and Economic Development				
Rehabilitation Services – Vocational Rehabilitation Grants to States	84.126	7047300	**$ 29,618**	**$ -**
U.S. Department of Homeland Security				
Direct				
Assistance to Firefighters Grant	97.044		$ 61,403	$ -
Port Security Grant Program	97.056		308,584	-
Passed Through Minnesota Department of Public Safety				
Disaster Grants – Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-4069-DR-MN	37,210	-
Disaster Grants – Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-4414-DR-MN	90,891	-
(Total Disaster Grants – Public Assistance (Presidentially Declared Disasters) 97.036 $128,101)				
Emergency Management Performance Grants	97.042	A-EMPG-2017-DULUTHCI-00022	20,000	-
Passed Through St. Louis County, Minnesota				
Homeland Security Grant Program	97.067	A-OPSG-2017-STLOUICO-008	27,630	-
Total U.S. Department of Homeland Security			**$ 545,718**	**$ -**
Total Federal Awards			**$ 8,664,674**	**$ 2,660,876**

Totals by Cluster

Total expenditures for CDBG – Entitlement Grants Cluster	$ 2,510,955
Total expenditures for WIOA Cluster	697,664
Total expenditures for Highway Planning and Construction Cluster	1,918,521
Total expenditures for Highway Safety Cluster	83,463

The notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

CITY OF DULUTH
DULUTH, MINNESOTA

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2019

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1. Summary of Significant Accounting Policies

A. 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 $11,882,956 and $3,110,945 in federal awards expended by the Duluth Airport Authority and the 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.

B. 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, 2019. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the City of Duluth, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City of Duluth.

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

2. De Minimis Cost Rate

The City of Duluth has elected not to use the ten percent de minimis indirect cost rate allowed under the Uniform Guidance.

CITY OF DULUTH
DULUTH, MINNESOTA

3. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	$	9,256,866
Expenditures of Revolving Loan Fund		
Community Development Block Grants/Entitlement Grants		130,820
Expenditures of Equitable Sharing Funds		204,425
Police Task Force Agreements		
Minneapolis Child Exploitation and Human Trafficking Task Force		(1,719)
Grants received more than 45 days after year-end, unavailable in 2019		
Urban and Community Forestry Program		21,016
Brownfields Assessment and Cleanup Cooperative Agreements		226
Coastal Zone Management Administration Awards		55,530
Community Development Block Grants/Entitlement Grants		206,610
Comprehensive Opioid Abuse Site-Based Program		54,877
Crime Victim Assistance		14,449
Disaster Grants – Public Assistance (Presidentially Declared Disasters)		527,370
Edward Byrne Memorial Justice Assistance Grant Program		6,623
Emergency Solutions Grant Program		18,859
Forest Health Protection		65,000
Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program		32,324
Highway Planning and Construction		390,784
Home Investment Partnerships Program		102,558
National Sexual Assault Kit Initiative		98,326
Public Safety Partnership and Community Policing Grants		609
Senior Community Service Employment Program		2,026
WIA Adult Program		6,153
Unavailable in 2018, recognized as revenue in 2019		
Urban and Community Forestry Program		(6,091)
Brownfields Assessment and Cleanup Cooperative Agreements		(5,551)
Bulletproof Vest Partnership Program		(3,494)
Community Development Block Grants/Entitlement Grants		(157,102)
Disaster Grants – Public Assistance (Presidentially Declared Disasters)		(1,927,353)
Emergency Solutions Grant Program		(8,994)
Highway Planning and Construction		(368,896)
Home Investment Partnerships Program		(7,597)
Recreational Trails Program		(19,101)
Senior Community Service Employment Program		(18)
WIA Dislocated Worker Formula Grants		(8,288)
WIA Adult Program		(1,081)
WIA National Emergency Grants		(6)
WIA Youth Activities		(7)
Timing differences between expenditures and related reimbursements		(15,479)
Expenditures Per Schedule of Expenditures of Federal Awards	$	8,664,674

DULUTH ECONOMIC DEVELOPMENT AUTHORITY
MANAGEMENT AND COMPLIANCE REPORT

YEAR ENDED DECEMBER 31, 2019

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

Independent Auditor's Report

Board of Commissioners
Duluth Economic Development Authority
Duluth, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the City of Duluth, Minnesota, which include as Supplementary Information the financial statements of the Duluth Economic Development Authority, a discretely presented component unit, as of and for the year ended December 31, 2019, 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 29, 2020.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Minnesota Legal Compliance

In connection with our audit, nothing came to our attention that caused us to believe that the Duluth Economic Development Authority failed to comply with the provisions of the contracting and bidding, deposits and investments, conflicts of interest, claims and disbursements, miscellaneous provisions, and tax increment financing sections of the *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Authority's noncompliance with the above referenced provisions, insofar as they relate to accounting matters.

Purpose of This Report

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

/s/Julie Blaha	*/s/Greg Hierlinger*
JULIE BLAHA STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

June 29, 2020