

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, 2020

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, 2020



Office of the State Auditor

Management and Compliance Report

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

**CITY OF DULUTH
DULUTH, MINNESOTA**

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**CITY OF DULUTH
MANAGEMENT AND COMPLIANCE REPORT**

YEAR ENDED DECEMBER 31, 2020



**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, 2020, 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 15, 2021. These financial statements include the activities of the Spirit Mountain Recreation Area Authority component unit for the year ended April 30, 2020. 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 audit testing of the Duluth Economic Development Authority component unit's internal control over financial reporting and 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 as a basis for designing 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 financial statements. 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

JULIE BLAHA
STATE AUDITOR

/s/Dianne Syverson

DIANNE SYVERSON, CPA
DEPUTY STATE AUDITOR

June 15, 2021



**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 Each Major Federal Program

We have audited the City of Duluth's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *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, 2020. The City of Duluth's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

The City of Duluth's basic financial statements include the operations of the Duluth Airport Authority and the Duluth Transit Authority component units, which expended \$11,859,301 and \$11,350,573, respectively, in federal awards, which are not included in the Schedule of Expenditures of Federal Awards during the year ended December 31, 2020. 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 the 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 each of the City of Duluth's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in

Government Auditing Standards, issued by the Comptroller General of the United States; and the audit 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). 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 each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Duluth complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2020.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2020-001. Our opinion on each major federal program is not modified with respect to this matter.

The City of Duluth's response to the noncompliance finding identified in our audit is described in the accompanying Corrective Action Plan. The City'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 Duluth is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each 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 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 did identify a deficiency in internal control over compliance, described in the accompanying Schedule of Findings and Questioned Costs as item 2020-001, that we consider to be a significant deficiency.

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, 2020, including the Spirit Mountain Recreation Area Authority component unit as of and for the year ended April 30, 2020, 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 15, 2021, 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

JULIE BLAHA
STATE AUDITOR

/s/Dianne Syverson

DIANNE SYVERSON, CPA
DEPUTY STATE AUDITOR

June 15, 2021

**CITY OF DULUTH
DULUTH, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2020**

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 principles: **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? **Yes**

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)? **Yes**

The major federal programs are:

Coronavirus Relief Fund	CFDA No. 21.019
Disaster Grants – Public Assistance (Presidentially Declared Disasters)	CFDA No. 97.036

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, 2020

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

None.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

Finding Number: 2020-001

Prior Year Finding Number: N/A

Repeat Finding Since: N/A

Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Period of Performance

Program: Coronavirus Relief Fund, CFDA No. 21.019, U. S. Department of the Treasury, SLT0016, 2020.

Pass-Through Agency: The State of Minnesota Office of Management and Budget

Criteria: Title 2 U.S. Code of Federal Regulations § 200.303 states that the auditee must establish and maintain effective internal control over the federal award that provides reasonable assurance that the auditee is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award.

Section 5001(d) of the *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act) provides the eligible purposes for which Coronavirus Relief Fund payments may be used and generally requires that payments are necessary expenditures incurred due to the public health emergency during the covered period.

Additionally, the State of Minnesota Office of Management and Budget *FAQs for Local Governments receiving Coronavirus Relief Funds (CRF) from the State of Minnesota* (dated October 20, 2020) states in question 11 that, for cities: "...any aid amount remaining unexpended by an eligible city or town on November 15, 2020 must be sent to the home county in which the city or town is located...." It also lists two exceptions, one of which

**CITY OF DULUTH
DULUTH, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2020**

is: “CRF eligible payroll expenses incurred through Nov. 15 (for cities and towns) are allowed, even if not paid until after Nov. 15 (for cities and towns).” Federal guidance indicates it is generally expected payments will take place within 90 days of a cost being incurred.

Condition: The City reported police department payroll costs to the CRF program which included estimated benefit costs for holiday, vacation, personal, and sick leave based on a percentage calculation for each employee. The benefit cost percentage did not take into account actual use of vacation, holiday, personal, and sick leave paid within the expected time frame.

Questioned Costs: \$308,944 relating to estimated vacation, holiday, personal, and sick hours reported.

Context: The City of Duluth identified \$10,595,831 of grant expenditures, which exceeded the total grant award of \$6,570,650. If grant expenditures were reduced by known and likely questioned costs, they would continue to exceed the total grant award. The sample size was based on guidance from chapter 11 of the AICPA Audit Guide, *Government Auditing Standards and Single Audits*.

Effect: The City identified expenditures as relating to the CRF program which are not in compliance with the activities allowed or unallowed, allowable costs/cost principles, and period of performance requirements.

Cause: The City’s benefit calculation is based on a worksheet provided by the Federal Emergency Management Agency for the Presidentially Declared Disaster Grant, CFDA No. 97.036 and is calculated based on value of an employee.


Recommendation: We recommend that the City implement procedures to follow the guidance related to the CRF, CFDA No. 21.019 and claim the actual costs incurred under the grant and within the covered period.

View of Responsible Official: Acknowledged



Finance Department

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REPRESENTATION OF THE CITY OF DULUTH DULUTH, MINNESOTA

CORRECTIVE ACTION PLAN FOR THE YEAR ENDED DECEMBER 31, 2020

Finding Number: 2020-001

Finding Title: Activities Allowed or Unallowed, Allowable Costs/Cost Principles and Period of Performance

Program: U.S. Department of the Treasury's Coronavirus Relief Fund (CFDA # 21.019)

Name of Contact Person Responsible for Corrective Action:

Joshua Bailey – City Auditor

Corrective Action Planned:

The City Finance department will not use the FEMA approved worksheet for staff time for future grants without first verifying the acceptance of that method with the federal agency. This was a new federal program that had ongoing changes in guidance. The City had public safety personnel expenditures of over \$25 million during the period of the grant. The City used its best judgement and due diligence to narrow down those costs and reported expenditures of \$10,595,831, which exceeded the total grant award of \$6,570,650. In hindsight, the City of Duluth could have claimed a more broad interpretation of public safety costs resulting in several million more in eligible cost above what were reported. This would make the amount in question even more immaterial when compared to potential eligible costs.

Anticipated Completion Date:

Not applicable for this specific grant as it is fully drawn and closed out. Action on any future grants will be taken immediately.

**CITY OF DULUTH
DULUTH, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2020**

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		\$ 1,750	\$ -
Passed Through Minnesota Department of Natural Resources Urban and Community Forestry Program	10.675	140175	76,842	-
Total U.S. Department of Agriculture			\$ 78,592	\$ -
U.S. Department of Commerce				
Passed Through Minnesota Department of Natural Resources Coastal Zone Management Administration Awards	11.419	17-306A	\$ 45,512	\$ -
Coastal Zone Management Administration Awards (Total Coastal Zone Management Administration Awards 11.419 \$146,251)	11.419	19-306A	100,739	-
Total U.S. Department of Commerce			\$ 146,251	\$ -
U.S. Department of Housing and Urban Development				
Direct				
CDBG – Entitlement Grants Cluster				
Community Development Block Grants/Entitlement Grants	14.218		\$ 2,037,020	\$ 1,385,625
COVID-19 – Community Development Block Grants/ Entitlement Grants (Total Community Development Block Grants/Entitlement Grants 14.218 \$2,615,403)	14.218		578,383	395,688
Emergency Solutions Grant Program	14.231		215,510	184,637
COVID-19 – Emergency Solutions Grant Program (Total Emergency Solutions Grant Program 14.231 \$442,163)	14.231		226,653	182,518
Home Investment Partnerships Program	14.239		599,498	570,610
Total U.S. Department of Housing and Urban Development			\$ 3,657,064	\$ 2,719,078
U.S. Department of the Interior				
Passed Through Minnesota Department of Natural Resources Outdoor Recreation Acquisition, Development and Planning	15.916	LW17-01427	\$ 250,000	\$ -
U.S. Department of Justice				
Direct				
COVID-19 – Coronavirus Emergency Supplemental Funding Program	16.034		\$ 115,217	\$ -
Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	16.590		103,238	-
Bulletproof Vest Partnership Program	16.607		16,418	-
Public Safety Partnership and Community Policing Grants (Total Public Safety Partnership and Community Policing Grants 16.710 \$171,855)	16.710		108,215	-
Edward Byrne Memorial Justice Assistance Grant Program	16.738		18,370	-
National Sexual Assault Kit Initiative	16.833		434,778	-
Comprehensive Opioid Abuse Site-Based Program	16.838		267,027	-

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, 2020
(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 Justice (Continued)				
Passed Through Minnesota Department of Public Safety				
Crime Victim Assistance	16.575	A-CVSP-2020-DULUTHAO-00036	57,197	-
Project Safe Neighborhoods	16.609	A-PSN-2020-DULUTHPD-002	8,850	-
Public Safety Partnership and Community Policing Grants (Total Public Safety Partnership and Community Policing Grants 16.710 \$171,855)	16.710	167077	<u>63,640</u>	<u>-</u>
Total U.S. Department of Justice			\$ 1,192,950	\$ -
U.S. Department of Labor				
Passed Through Senior Service America, Inc.				
Senior Community Service Employment Program (Total Senior Community Service Employment Program 17.235 \$490,170)	17.235	116	\$ 280,617	\$ -
Passed Through Minnesota Department of Employment and Economic Development				
Senior Community Service Employment Program	17.235	0045100	63,148	-
Senior Community Service Employment Program	17.235	1045100	41,829	-
Senior Community Service Employment Program (Total Senior Community Service Employment Program 17.235 \$490,170)	17.235	9045101	104,576	-
WIOA Cluster				
WIA Adult Program	17.258	7043101	4,250	-
WIA Adult Program	17.258	8043100	34,941	-
WIA Adult Program	17.258	9043100	218,584	-
WIA Adult Program (Total WIA Adult Program 17.258 \$299,469)	17.258	0043100	41,694	-
WIA Youth Activities	17.259	7043601	4,120	-
WIA Youth Activities	17.259	8043600	2,464	-
WIA Youth Activities	17.259	9043600	206,416	-
WIA Youth Activities (Total WIA Youth Activities 17.259 \$302,977)	17.259	0043600	89,977	-
WIA Dislocated Worker Formula Grants	17.278	70480001	661	-
WIA Dislocated Worker Formula Grants	17.278	8048000	25,484	-
WIA Dislocated Worker Formula Grants	17.278	9048000	50,171	-
WIA Dislocated Worker Formula Grants (Total WIA Dislocated Worker Formula Grants 17.278 \$93,616)	17.278	0048000	<u>17,300</u>	<u>-</u>
Total U.S. Department of Labor			\$ 1,186,232	\$ -

**CITY OF DULUTH
DULUTH, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2020
(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	99887	\$ 1,434,647	\$ -
Highway Planning and Construction	20.205	1029940	1,827,086	-
Highway Planning and Construction	20.205	OJT 8820 (221)	3,975	-
(Total Highway Planning and Construction 20.205 \$3,265,708)				
Passed Through Minnesota Department of Natural Resources				
Highway Planning and Construction Cluster				
Recreational Trails Program	20.219	TRAL023	9,790	-
Recreational Trails Program	20.219	TRAL024	4,037	-
(Total Recreational Trails Program 20.219 \$13,827)				
Passed Through Minnesota Department of Public Safety				
Highway Safety Cluster				
State and Community Highway Safety	20.600	A-ENFRC20-2020-DULUTHPD-082	39,277	-
State and Community Highway Safety	20.600	A-ENFRC21-2021-DULUTHPD-010	254	-
(Total State and Community Highway Safety 20.600 \$39,531)				
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	A-ENFRC20-2020-DULUTHPD-082	101,278	-
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	A-ENFRC21-2021-DULUTHPD-010	19,012	-
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	A-OFFICR20-2020-DULUTHPD-008	38,575	-
(Total Minimum Penalties for Repeat Offenders for Driving While Intoxicated 20.608 \$158,865)				
Highway Safety Cluster				
National Priority Safety Programs	20.616	A-ENFRC20-2020-DULUTHPD-082	35,688	-
National Priority Safety Programs	20.616	A-ENFRC21-2021-DULUTHPD-010	3,583	-
National Priority Safety Programs	20.616	A-OFFICR20-2020-DULUTHPD-008	14,779	-
(Total National Priority Safety Programs 20.616 \$54,050)				
Total U.S. Department of Transportation			\$ 3,531,981	\$ -
U.S. Department of the Treasury				
Direct				
Equitable Sharing	21.016		\$ 189,245	\$ -
Passed Through Minnesota Department of Management and Budget				
COVID-19 – Coronavirus Relief Fund	21.019	SLT0016	6,570,650	-
Total U.S. Department of the Treasury			\$ 6,759,895	\$ -

**CITY OF DULUTH
DULUTH, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2020
(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		\$ 43,217	\$ -
Brownfields Assessment and Cleanup Cooperative Agreements	66.818		211,145	-
Total U.S. Environmental Protection Agency			\$ 254,362	\$ -
U.S. Department of Education				
Passed Through Minnesota Department of Employment and Economic Development				
Rehabilitation Services – Vocational Rehabilitation Grants to States	84.126	166894 PR 59596	\$ 8,238	\$ -
U.S. Department of Health and Human Services				
Passed Through Minnesota Department of Employment and Economic Development				
Temporary Assistance for Needy Families	93.558	1047400	\$ 5,177	\$ -
Executive Office of the President				
Direct				
High Intensity Drug Trafficking Areas Program	95.001		\$ 100,000	\$ -
U.S. Department of Homeland Security				
Passed Through Minnesota Department of Public Safety				
Disaster Grants – Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-4069-DR-MN	\$ 5,461	\$ -
Disaster Grants – Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-4414-DR-MN	5,740,367	-
Disaster Grants – Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-4531-DR-MN	179,080	-
(Total Disaster Grants – Public Assistance (Presidentially Declared Disasters) 97.036 \$5,924,908)				
Emergency Management Performance Grants	97.042	A-EMPG-2020-DULUTHCI-090	21,169	-
COVID-19 – Emergency Management Performance Grants	97.042	A-EMPG-S-2020-DULUTHCI-022	10,000	-
(Total Emergency Management Performance Grants 97.042 \$31,169)				
Passed Through St. Louis County, Minnesota				
Homeland Security Grant Program	97.067	OPSG FRAGO MN-ST. LOUIS FY 18	43,094	-
Total U.S. Department of Homeland Security			\$ 5,999,171	\$ -
Total Federal Awards			\$ 23,169,913	\$ 2,719,078
Totals by Cluster				
Total expenditures for CDBG – Entitlement Grants Cluster			\$ 2,615,403	
Total expenditures for WIOA Cluster			696,062	
Total expenditures for Highway Planning and Construction Cluster			3,279,535	
Total expenditures for Highway Safety Cluster			93,581	

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, 2020

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 \$11,859,301 and \$11,350,573 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, 2020. 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	\$	16,327,448
Expenditures of Revolving Loan Fund		
Community Development Block Grants/Entitlement Grants		210,302
Expenditures of Equitable Sharing Funds		189,245
Police Task Force Agreements		
Minneapolis Child Exploitation and Human Trafficking Task Force		(966)
Grants received more than 45 days after year-end, unavailable in 2020		
Coastal Zone Management Administration Awards		119,869
Community Development Block Grants/Entitlement Grants		243,915
COVID-19 – Community Development Block Grants/Entitlement Grants		334,627
COVID-19 – Coronavirus Emergency Supplemental Funding Program		115,217
Disaster Grants – Public Assistance (Presidentially Declared Disasters)		6,334,616
Emergency Management Performance Grants		7,496
Emergency Solutions Grant Program		8,460
COVID-19 – Emergency Solutions Grant Program		226,653
Great Lakes Program		43,217
High Intensity Drug Trafficking Areas Program		100,000
Highway Planning and Construction		159,756
Home Investment Partnerships Program		80,980
Outdoor Recreation Acquisition, Development and Planning		250,000
Recreational Trails Program		4,037
Rehabilitation Services – Vocational Rehabilitation Grants to States		3,107
Senior Community Service Employment Program		1,078
WIA Adult Program		4,013
WIA Youth Program		692
WIA Dislocated Worker Formula Grants		3,800
Unavailable in 2019, recognized as revenue in 2020		
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)
Urban and Community Forestry Program		(21,016)
WIA Adult Program		(6,153)
Timing differences between expenditures and related reimbursements		5,691
		<hr/>
Expenditures Per Schedule of Expenditures of Federal Awards	\$	<u>23,169,913</u>

**DULUTH ECONOMIC DEVELOPMENT AUTHORITY
MANAGEMENT AND COMPLIANCE REPORT**

YEAR ENDED DECEMBER 31, 2020



**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, 2020, 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 15, 2021.

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 as a basis for designing 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 financial statements. 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 Duluth Economic Development Authority 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 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

JULIE BLAHA
STATE AUDITOR

/s/Dianne Syverson

DIANNE SYVERSON, CPA
DEPUTY STATE AUDITOR

June 15, 2021