

State of Minnesota



Office of the State Auditor

Julie Blaha
State Auditor

Audit Practice Division

City of Saint Paul Saint Paul, Minnesota

Management and Compliance Report

Year Ended December 31, 2023

City of Saint Paul
Saint Paul, Minnesota

Table of Contents

	<u>Page</u>
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1
Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance	3
Schedule of Findings and Questioned Costs	6
Corrective Action Plan	8
Summary Schedule of Prior Audit Findings	9



**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 Melvin Carter, 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, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 30, 2025. Our report includes a reference to other auditors who audited the financial statements of the Port Authority of the City of Saint Paul component unit, as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or on compliance and other matters that are reported on separately by those auditors. Our report also includes a reference to other auditors who audited the financial statements of the Saint Paul RiverCentre Convention and Visitors Authority component unit. The financial statements of the Saint Paul RiverCentre Convention and Visitors Authority were not audited in accordance with *Government Auditing Standards*, and, accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Saint Paul RiverCentre Convention and Visitors Authority. This report also does not include our results of the Saint Paul Regional Water Services component unit's internal control over financial reporting or on compliance and other matters. We issue a separate Management and Compliance Report for the Saint Paul Regional Water Services component unit.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Saint Paul'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 opinion on the financial statements, but not for the purpose of expressing our 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 a combination of deficiencies, in internal control over financial reporting, 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. A *significant deficiency* is a deficiency, or a 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.

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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 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 Saint Paul failed to comply with the provisions of the contracting – bid laws, depositories of public funds and public 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 and 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

January 30, 2025

/s/Chad Struss

Chad Struss, CPA
Deputy State Auditor

**Report on Compliance for Each Major Federal Program and Report on Internal
Control Over Compliance Required by the Uniform Guidance**Independent Auditor's Report

The Honorable Melvin Carter, Mayor
and Members of the City Council
City of Saint Paul, Minnesota

Report on Compliance for the Major Federal Program***Opinion on the Major Federal Program***

We have audited the City of Saint Paul's compliance with the types of compliance requirements identified as subject to audit in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on the City of Saint Paul's major federal program for the year ended December 31, 2023. The City of Saint Paul's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, the City of Saint Paul complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2023.

Basis for Opinion on the Major Federal Program

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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City of Saint Paul and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the major federal program. Our audit does not provide a legal determination of the City of Saint Paul's compliance with the compliance requirements referred to above.

Other Matter – Federal Expenditure Not Included in the Compliance Audit

The City of Saint Paul's basic financial statements include the operations of the Port Authority of the City of Saint Paul and the Saint Paul Regional Water Services component units, which expended \$3,275,948 and \$46,517,485, respectively, in federal awards which are not included in the City of Saint Paul's Schedule of Expenditures of Federal Awards during the year ended December 31, 2023. Our compliance audit, described in the Opinion on the Major Federal Program section, does not include the operations of the Port Authority of the City of Saint Paul and the Saint

Paul Regional Water Services component units because they each had a separate single audit performed in accordance with the Uniform Guidance.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the City of Saint Paul's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City of Saint Paul's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City of Saint Paul's compliance with the requirements of the major federal program as a whole.

In performing an audit in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and the Uniform Guidance, we:

- exercise professional judgment and maintain professional skepticism throughout the audit;
- identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the City of Saint Paul's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances; and
- obtain an understanding of the City of Saint Paul's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances, 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 the City of Saint Paul's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

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 2023-001. Our opinion on the major federal program is not modified with respect to this matter.

Government Auditing Standards requires the auditor to perform limited procedures on the City of Saint Paul's response to the noncompliance finding identified in our audit described in the accompanying Schedule of Findings and Questioned Costs. The City of Saint Paul's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance 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, as discussed below, we did identify a deficiency in internal control over compliance that we consider to be a significant deficiency.

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 a 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 a 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 attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2023-001 to be a significant deficiency.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on the City of Saint Paul's response to the internal control over compliance finding identified in our compliance audit described in the accompanying Schedule of Findings and Questioned Costs. The City of Saint Paul's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

/s/Julie Blaha

Julie Blaha
State Auditor

January 30, 2025

/s/Chad Struss

Chad Struss, CPA
Deputy State Auditor

City of Saint Paul Saint Paul, Minnesota

Schedule of Findings and Questioned Costs For the Year Ended December 31, 2023

Section 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 the major federal program:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **Yes**

Type of auditor’s report issued on compliance for the major federal program: **Unmodified**

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? **Yes**

Identification of the major federal program:

Assistance Listing Number	Name of Federal Program or Cluster
21.027	COVID-19 – Coronavirus State and Local Fiscal Recovery Funds

Dollar threshold used to distinguish between Type A and Type B programs: \$2,080,603.

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

Section II – Financial Statement Findings

No matters were reported.

Section III – Federal Award Findings and Questioned Costs

2023-001 Suspension and Debarment

Prior Year Finding Number: 2022-002

Year of Finding Origination: 2022

Type of Finding: Internal Control Over Compliance and Compliance

Severity of Deficiency: Significant Deficiency and Other Matter

Federal Agency: U.S. Department of the Treasury

City of Saint Paul

Saint Paul, Minnesota

Program: 21.027 COVID-19 – Coronavirus State and Local Fiscal Recovery Funds

Award Number and Year: SLFRP1612; 2021

Pass-Through Agency: N/A – Direct

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.

Federal requirements prohibit non-federal entities from contracting with or making subawards under covered transactions to parties that are suspended or debarred. Title 2 U.S. *Code of Federal Regulations* § 180.300 describes a required verification process. Prior to entering into the transaction, one of the following must be performed: (1) checking SAM.gov exclusions, (2) collecting a certification, or (3) adding a clause or condition to the covered transaction.

Condition: In the sample of eight covered transactions tested, the City did not perform the verification for suspension or debarment for two beneficiaries before entering into the covered transactions.

Questioned Costs: None.

Context: The U.S. Department of the Treasury published *Compliance and Reporting Guidance – State and Local Fiscal Recovery Funds* to assist recipients of these funds in implementing compliance requirements of the program.

The sample size was based on guidance from Chapter 11 of the AICPA Audit Guide, *Government Auditing Standards and Single Audits*.

Effect: Failure to verify beneficiaries are not suspended or debarred may result in the City entering into a transaction to provide goods and services that is not authorized under the grant.

Cause: The City informed us that it interpreted guidance in the *Compliance and Reporting Guidance – State and Local Fiscal Recovery Funds* to mean that beneficiaries were eligible to receive funds if they had a valid SAM.gov registration, and that the requirement to check for suspension/debarment did not apply.

Recommendation: We recommend the City maintain documentation to demonstrate that vendors, including beneficiaries, are not debarred or suspended from participating in covered transactions; this documentation should be completed prior to entering into a covered transaction.

View of Responsible Official: Acknowledge



**Representation of the City of Saint Paul
Saint Paul, Minnesota**

Corrective Action Plan
For the Year Ended December 31, 2023

Finding Number: 2023-001

Finding Title: Suspension and Debarment

Program: 21.027 COVID-19 – Coronavirus State and Local Fiscal Recovery Funds

Name of Contact Person Responsible for Corrective Action:

Maia Wahlberg, Program Administrator

Corrective Action Planned:

The Office of Financial Services worked with all departments who were managing American Rescue Plan funds to ensure that documentation was retained showing that all vendors, including beneficiaries, were not debarred, suspended or otherwise excluded from conducting business with the Federal government at the time of contracting. The Office of Financial Services ensured this check for suspension/debarment was added to the City's procedures for granting funds to beneficiaries; it was already included in procedures for dealing with subrecipients and contractors.

Completion Date:

3/31/2024



**Representation of the City of Saint Paul
Saint Paul, Minnesota**

Summary Schedule of Prior Audit Findings
For the Year Ended December 31, 2023

Finding Number: 2022-001

Year of Finding Origination: 2022

Finding Title: Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Program: 21.023 COVID-19 – Emergency Rental Assistance Program

Summary of Condition: In the sample of 12 disbursements tested, ten consisted of advance payments to the City's subrecipients where itemized documentation was not subsequently obtained, and two consisted of requests for reimbursement of administrative costs that did not have itemized documentation supporting the expenditure.

Summary of Corrective Action Previously Reported: City staff will work with the subrecipients to obtain supporting documentation for all administrative cost draws where the documentation was not provided. City staff is in the process of reconciling financial assistance expenditures under ERA2; that process should be complete by June 30, 2024. Staff will conduct an audit of ERA2 financial assistance spending in the summer of 2024; estimated completion of that process is September 30, 2024.

Status: Fully Corrected. Corrective action was taken.

Finding Number: 2022-002

Year of Finding Origination: 2022

Finding Title: Suspension and Debarment

Program: 21.027 COVID-19 – Coronavirus State and Local Fiscal Recovery Funds

Summary of Condition: In the sample of seven covered transactions tested, the verification for suspension or debarment was not performed for three beneficiaries before entering into the covered transactions.

Summary of Corrective Action Previously Reported: The Office of Financial Services will work with all departments who are managing American Rescue Plan funds to ensure that documentation is retained showing that all vendors, including beneficiaries, are not debarred, suspended or otherwise excluded from conducting business with the Federal government. The Office of Financial Services will ensure that this check for suspension/debarment is added to the City's procedures for granting funds to beneficiaries; it is already included in procedures for dealing with subrecipients and contractors.

Status: Not Corrected. This finding was not corrected by the end of 2023 because the finding was not received until March of 2024. It has subsequently been corrected.