



Federal Awards Reports in Accordance
With the Uniform Guidance
December 31, 2018

City of Moorhead, Minnesota

Independent Auditor’s 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
Independent Auditors Report on <i>Minnesota Legal Compliance</i>	3
Independent Auditor’s Report on Compliance for the Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance.....	4
Schedule of Expenditures of Federal Awards.....	7
Notes to Schedule of Expenditures of Federal Awards	8
Schedule of Findings and Questioned Costs.....	9



Independent Auditor’s 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*

To the City Council
City of Moorhead, 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, business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Moorhead, Minnesota (the City), as of and for the year ended December 31, 2018, 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 19, 2019.

This report does not include the results of our testing of internal control over financial reporting or compliance and other matters that are reported upon separately for Moorhead Public Service (Electric and Water major proprietary funds). Our report includes a reference to other auditors who audited the financial statements of the Moorhead Public Housing Agency, the discretely presented 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 compliance and other matters that are reported on separately by those auditors.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City’s internal control over financial reporting (internal control) 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. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control.

A *deficiency in internal control* 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, 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 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 preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs, as item 2018-001 that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City’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*.

City’s Response to Findings

The City’s response to the finding identified in our audit are described in the accompanying schedule in which the findings are reported in the schedule of findings and questioned costs. The City’s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Fargo, North Dakota
June 19, 2019



Independent Auditors Report on *Minnesota Legal Compliance*

To the City Council
City of Moorhead, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards 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, each major fund, the discretely presented component unit, and the aggregate remaining fund information of the City of Moorhead, Minnesota, as of and for the year ended December 31, 2018, 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 19, 2019.

The *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minn. Stat. §6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories.

In connection with our audit, nothing came to our attention that caused us to believe the City failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Cities*. 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.

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Eide Bailly LLP".

Fargo, North Dakota
June 19, 2019



Independent Auditor’s Report on Compliance for the Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

To the City Council
City of Moorhead, Minnesota

Report on Compliance for the Major Federal Program

We have audited the City of Moorhead’s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the City’s major federal program for the year ended December 31, 2018. The City’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’s basic financial statements include the operations of Moorhead Public Service (Electric and Water major proprietary funds) and the Moorhead Public Housing Agency (discretely presented component unit) which received \$0 and \$242,081, respectively, in federal awards which are not included in the schedule of expenditures of federal awards for the year ended December 31, 2018. Our audit, described below, did not include the operations of Moorhead Public Service and the Moorhead Public Housing Agency because the proprietary funds and component unit have separately issued audits in accordance with 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 the compliance for the City’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 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 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the 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’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 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, 2018.

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the 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 each major federal program and to test and report on internal control over compliance in accordance with 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 of Moorhead'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 compliance requirement 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.

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 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.

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.

Report on Schedule of Expenditures of Federal Awards Required Uniform Guidance

We have audited the financial statements of the City of Moorhead as of and for the year ended December 31, 2018, and have issued our report thereon dated June 19, 2019, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Fargo, North Dakota
June 19, 2019

City of Moorhead, Minnesota
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2018

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Pass Through Entity Identifying Number	Federal CFDA Number	Expenditures	
Department of Housing and Urban Development				
Direct Programs:				
CDBG - Entitlement Grants Cluster	N/A	14.218		\$ 325,717
Department of Justice				
Direct Programs:				
Community Capacity Development				
Office - Police Overtime	N/A	16.595	\$	34,972
BJA Bulletproof Vest Partnership Program	N/A	16.607		5,359
Organized Crime Drug Enforcement Task Force	N/A	16.111		613
Violent Offenders Task Force	N/A	16.568		16,824
Passed through the Minnesota Bureau of Criminal Apprehension:				
Anti-Heroin Task Force Enforcement	460-5000-114	16.710		622
Total Department of Justice				58,390
Department of Transportation				
Direct Programs:				
Federal Transit Cluster				
Federal Transit Administration: Operating	N/A	20.507	415,000	
Federal Transit Administration: Capital	N/A	20.507	81,505	
Total Federal Transit Cluster				496,505
Passed through the State of Minnesota				
Airport Improvement Program -				
T Hangar/Airport Layout	SP-1401-25	20.106	19,539	
Airport Improvement Program -				
Reconstruct Hangar Area Taxiway A	SP-1401-26	20.106	12,118	
Airport Improvement Program -				
Apron pavement Design Ph 2	SP-1401-27	20.106	178,672	
Subtotal CFDA #20.106				210,329
Passed through the State of Minnesota Department of Transportation				
Highway Planning & Construction Cluster	1029977	20.205		1,014,653
Highway Safety Cluster				
Towards Zero Deaths - 2018	A-ENFRC18-2018-MOORHDPD-041	20.600	9,039	
Towards Zero Deaths - 2019	A-ENFRC19-2019-MOORHDPD-026	20.600	713	
Towards Zero Deaths - 2018	A-ENFRC18-2018-MOORHDPD-041	20.616	23,548	
Total Highway Safety Cluster				33,300
Towards Zero Deaths - 2018	A-ENFRC18-2018-MOORHDPD-041	20.608	3,497	
Towards Zero Deaths - 2019	A-ENFRC19-2019-MOORHDPD-026	20.608	3,618	
Subtotal CFDA #20.608				7,115
2017 Hazardous Materials Emergency Preparedness	A-HMEP-2017-MOORHDFD-005	20.703		21,994
Total Department of Transportation				1,783,896
Total Federal Financial Assistance				<u>\$ 2,168,003</u>

Note 1 – Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal award activity of the City under programs of the federal government for the year ended December 31, 2018. The information 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, it is not intended to and does not present the financial position, changes in net position or fund balance, or cash flows of the City.

Note 2 – Significant Accounting Policies

Expenditures reported in the schedule are reported on the modified accrual basis. When applicable, such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. No federal financial assistance has been provided to a subrecipient.

Note 3 – Indirect Cost Rate

The City does not draw for indirect administrative expenses and has not elected to use 10% de minimis cost rate.

Section I – Summary of Auditor’s Results

FINANCIAL STATEMENTS

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	Yes
Significant deficiencies identified not considered to be material weaknesses	None Reported
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major program:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	None Reported
Type of auditor's report issued on compliance for the major program:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance:	No

Identification of major programs:

<u>Name of Federal Program</u>	<u>CFDA Number</u>
Highway Planning & Construction	20.205
Dollar threshold used to distinguish between type A and type B programs:	\$ 750,000
Auditee qualified as low-risk auditee?	Yes

Section II – Financial Statement Findings

**2018-001 Prior Period Adjustment
Material Weakness**

Criteria: A strong system of internal accounting control contemplates an adequate system for recording and processing entries that are material and related to capital asset reporting.

Condition: During the course of the engagement, an adjustment to the beginning of year net position was made to the Wastewater Treatment Fund, Storm Water fund, and to the Government Activities. The adjustment was to recognize the capitalized costs in the correct funds, as the Governmental Activities had previously been capitalizing costs that should have been contributed to the Wastewater Treatment and Storm Water Funds.

Cause: The City does not have an internal control system designed to identify all necessary adjustments.

Effect: This deficiency resulted in a material misstatement to the financial statements that was not prevented or detected.

Recommendation: a thorough review and reconciliation of accounts and calculated entries in each fund should take place prior to the beginning of the audit to ensure capital assets are reported in the proper fund. This review should be done at both the accounting staff and accounting supervisor levels.

Views of Responsible Officials: There is no disagreement with the audit finding.

Section III – Federal Award Findings and Questioned Costs

None reported

Section IV – Minnesota Legal Compliance Findings

None reported