



Federal Awards Reports in Accordance
With the Uniform Guidance
December 31, 2015

City of Moorhead, Minnesota

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**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, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated August 8, 2016. 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 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 that we consider to be material weaknesses. However, material weaknesses may exist that have not yet been identified.

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*.

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 Sully LLP". The signature is written in a cursive, flowing style.

Fargo, North Dakota
August 8, 2016



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, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated August 8, 2016.

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

In connection with our audit, two items 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 Political Subdivisions*. See findings 2015-A and 2015-B in the attached schedule of findings. 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 City's responses to the findings identified in our audit are described in the accompanying schedule of audit findings and questioned costs. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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
August 8, 2016



**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, 2015. 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 \$8,606,106 and \$1,309,247, respectively, in federal awards which are not included in the schedule of expenditures of federal awards for the year ended December 31, 2015. 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 the requirements of laws, regulations, contracts and grants 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, 2015.

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, 2015, and have issued our report thereon dated August 8, 2016, 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". The signature is written in black ink and is positioned above the typed text of the firm's name.

Fargo, North Dakota
August 8, 2016

City of Moorhead, Minnesota
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2015

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Pass Through Entity Identifying Number	Federal CFDA Number	Expenditures	
<u>Department of Housing and Urban Development</u>				
Direct Programs:				
Community Development Block Grant	N/A	14.218		\$ 61,583
<u>Department of Justice</u>				
Direct Programs:				
Community Capacity Development Office - Police Overtime	N/A	16.595	\$ 32,811	
BJA Bulletproof Vest Partnership Program	N/A	16.607	4,912	
Total Department of Justice				37,723
<u>Department of Transportation</u>				
Direct Programs:				
Federal Transit Administration				
Operating	N/A	20.507	\$ 354,001	
Capital	N/A	20.507	61,150	
Planning	N/A	20.507	16,447	
Total CFDA #20.507				431,598
Towards Zero Deaths - 2015	A-ENFRC15-2015- MOORHDPD-00023	20.600	29,615	
Towards Zero Deaths - 2016	A-ENFRC16-2016- MOORHDPD-00015	20.600	898	
Towards Zero Deaths Safe Roads - 2015	A-SAFE15-2015- MOORHDPD-00040	20.600	13,539	
Towards Zero Deaths Safe Roads - 2016	A-SAFE16-2016- MOORHDPD-00026	20.600	3,593	
Towards Zero Deaths - 2016	A-ENFRC16-2016- MOORHDPD-00015	20.616	9,206	
Total CFDA#20.600 & #20.616				56,851
Towards Zero Deaths - 2015	A-ENFRC15-2015- MOORHDPD-00023	20.608	12,127	
Towards Zero Deaths - 2016	A-ENFRC16-2016- MOORHDPD-00015	20.608	6,317	
Total CFDA #20.608				18,444
2014 Hazardous Materials Emergency Preparedness	A-HMEP-2014- MOORHDFD-00024	20.703		6,784
Total Department of Transportation				513,677
<u>Department of Homeland Security</u>				
Passed through the State of Minnesota				
Public Assistance Disaster Grant DR-1830	2000-13265	97.036	352,946	
Public Assistance Disaster Grant DR-1900	2000-14919	97.036	5,631	
Total Department of Homeland Security				358,577
Total Federal Financial Assistance				<u>\$ 971,560</u>

Note A – Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the Uniform Guidance. The City received federal awards both directly from federal agencies and indirectly through pass-through entities.

Note B – Significant Accounting Policies

Governmental fund types account for the City's federal grant activity. Therefore, expenditures in the schedule of expenditures of federal awards are recognized on the modified accrual basis – when they become a demand on current available financial resources. The City's summary of significant accounting policies is presented in Note 1 in the City's basic financial statements.

The City has elected to use the 10% de minimis cost rate.

Note C – Subrecipients of Grant Awards

Of the federal expenditures presented in the accompanying schedule of expenditures of federal awards, the City provided no federal awards to subrecipients.

Section I – Summary of Auditor’s Results

FINANCIAL STATEMENTS

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	No
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 major programs:	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>
Federal Transit Admin	20.507
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

None reported

Section III – Federal Award Findings and Questioned Costs

None reported

Section IV – Minnesota Legal Compliance Findings

2015-A Pledged Collateral

Condition – Minnesota statutes require that all deposits be protected by federal deposit insurance, corporate surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by federal deposit insurance or corporate security bonds. The City’s pledged collateral did not meet this requirement at December 31, 2015 for Wells Fargo and Bremer Bank. The City’s deposits were under collateralized by approximately \$5,813,061 and \$343,643 at Wells Fargo and Bremer Bank, respectively, at December 31, 2015.

Criteria or Specific Requirement – A good system of internal control contemplates an adequate system for monitoring the requirements of pledged collateral.

Effect – The City was not in compliance with Minnesota statutes. Additionally, noncompliance increases the custodial risk of the City.

Cause – The City does not have an internal control system designed to properly monitor the requirements of pledged collateral.

Recommendation – The City needs to periodically review its pledged collateral to ensure compliance.

Management’s Response – The City will ensure pledged collateral exceeds 110% of deposits not covered by insurance or bonds during the year.

Corrective Action Plan (CAP)

1. Actions Planned in Response to the Finding: Management will make an effort to review the pledged collateral periodically.
2. Explanation of Disagreement – There is no disagreement with the audit finding.
3. Official Responsible for Ensuring Corrective Action – Wanda Wagner, Finance Director
4. Planned Completion Date for the Corrective Action: December 31, 2016.
5. Plan to Monitor Completion of Corrective Action: Wanda Wagner, Finance Director

2015-B Contracts

Condition – Minnesota statutes require that all contracts between the City and a prime contractor require the prime contractor to pay subcontractors within ten days of receipt of payment from the government entity or pay interest at the rate of 1½ percent per month or any part of a month.

Criteria or Specific Requirement – A good system of internal control contemplates an adequate system for monitoring the requirements of contracts with contractors.

Effect – The City was not in compliance with Minnesota statutes.

Cause – The City does not have an internal control system designed to properly monitor the requirements of contracts with contractors.

Recommendation – The City needs to periodically review its contracts and to ensure compliance.

Management's Response – The City will ensure Minnesota state statutes are followed in all contracts entered into with contractors who use subcontractors.

Corrective Action Plan (CAP)

1. Actions Planned in Response to the Finding: Management will make an effort to review the contracts periodically.
2. Explanation of Disagreement – There is no disagreement with the audit finding.
3. Official Responsible for Ensuring Corrective Action – Wanda Wagner, Finance Director
4. Planned Completion Date for the Corrective Action: December 31, 2016.
5. Plan to Monitor Completion of Corrective Action: Wanda Wagner, Finance Director

No federal findings reported in the prior year.