

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
DECEMBER 31, 2008



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*
AND THE *MINNESOTA LEGAL COMPLIANCE AUDIT GUIDE***

The Honorable Mayor and City Council
City of Moorhead, Minnesota

We have audited the financial statements of the governmental activities, the 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, 2008, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 10, 2009. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will be not be prevented or detected by the entity's internal control. We considered deficiencies 08-1, 08-2 and 08-3 described in the accompanying schedule of audit findings and questioned costs to be significant deficiencies in internal control over financial reporting.

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A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described in the accompanying schedule of audit findings and questioned costs, we consider item 08-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of 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 that are required to be reported under *Government Auditing Standards*.

Minnesota Legal Compliance

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Government* 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 study included all of the listed categories. The results of our tests disclosed no instances of noncompliance that are required to be reported under the *Minnesota Legal Compliance Audit Guide for Local Government*.

The City's responses to the findings identified in our audit are described in the accompanying schedule of audit findings and questioned costs. We did not audit the City's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the City Council and state agencies and is not intended to be and should not be used by anyone other than these specified parties.

Eide Bailly LLP

Fargo, North Dakota
June 10, 2009



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

The Honorable Mayor and City Council
City of Moorhead, Minnesota

Compliance

We have audited the compliance of the City of Moorhead, Minnesota (the City), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2008. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of audit findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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'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. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2008.

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Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Moorhead, Minnesota as of and for the year ended December 31, 2008, and have issued our report thereon dated June 10, 2009. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of management, the City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Eide Bailly LLP

Fargo, North Dakota
June 10, 2009

CITY OF MOORHEAD
MOORHEAD, MINNESOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2008

Federal Grantor/ Pass-Through Grantor/Program Title	Agency or Pass Through Number	Federal CFDA Number	Expenditures
<i>DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</i>			
Direct Programs:			
Community Development Block Grant	N/A	14.218	\$ <u>27,584</u>
<i>DEPARTMENT OF JUSTICE</i>			
Direct Programs:			
Police Overtime	N/A	16.595	15,650
BJA Armored Vets	N/A	16.607	1,402
Edward Byrne Justice Admin (JAG)	N/A	16.738	<u>1,996</u>
Total Department of Justice			<u>19,048</u>
<i>DEPARTMENT OF TRANSPORTATION</i>			
Direct Programs:			
Federal Transportation Assistance			
Operating	N/A	20.507	394,311
Capital	N/A	20.507	150,173
Planning	N/A	20.507	<u>15,154</u>
Total CFDA #20.507			<u>559,638</u>
Passed through the State of Minnesota:			
MNDOT Formula Grant, Non-Urbanized Area (RTAP)	T79-4100	20.509	<u>1,006</u>
Airport Improvement	N/A	20.106	<u>70,475</u>
Highway Planning & Construction	N/A	20.205	<u>4,122,809</u>
Safe Communities	97-0118	20.600	16,000
Safe and Sober	N/A	20.600	<u>30,978</u>
Total CFDA #20.600			<u>46,978</u>

(continued on next page)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – Page 2

Federal Grantor/ Pass-Through Grantor/Program Title	Agency or Pass Through Number	Federal CFDA Number	Expenditures
Passed through the State of Minnesota:			
New Freedom Program	N/A	20.521	4,666
Job Access and Reverse Commute Program Grant	N/A	20.516	17,765
Passed through the Metropolitan Council of Governments:			
Job Access and Reverse Commute Program Grant	N/A	20.516	<u>3,445</u>
Total CFDA #20.516 and #20.521 Cluster			<u>25,876</u>
Total Department of Transportation			<u>4,826,782</u>
 <i>DEPARTMENT OF ENERGY</i>			
Direct Programs:			
Renewable Energy Production Incentives	N/A	81.502	<u>11,985</u>
 <i>ENVIRONMENTAL PROTECTION AGENCY</i>			
Direct Programs:			
Brownfields Assessment & Cleanup	N/A	66.818	114,953
Passed through the State of Minnesota			
Water Pollution Control Revolving Fund	N/A	66.458	<u>7,418,211</u>
Total Environmental Protection Agency			<u>7,533,164</u>
 <i>DEPARTMENT OF HOMELAND SECURITY</i>			
Direct Programs:			
2007 Staffing for Adequate Fire and Emergency Response (SAFER) Grant	N/A	97.044	12,827
2007 Assistance to Firefighters (AFG) Grant	N/A	97.044	<u>36,000</u>
Total CFDA #97.044			<u>48,827</u>
Passed through the State of Minnesota			
2007 State Homeland Security Grant Program	2007-SHSP-00524	97.067	<u>16,634</u>
Total Department of Homeland Security			<u>65,461</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 12,484,024</u></u>

**CITY OF MOORHEAD
MOORHEAD, MINNESOTA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2008**

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards is presented on the accrual basis of accounting.

NOTE 2 – AGENCY OR PASS-THROUGH NUMBER

The only programs without agency or pass-through numbers are programs where the federal funds are direct therefore agency and pass-through numbers are not required.

**CITY OF MOORHEAD
MOORHEAD, MINNESOTA
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2008**

NONE

CITY OF MOORHEAD
MOORHEAD, MINNESOTA
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2008

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the basic financial statements of the City of Moorhead.
2. Three significant deficiencies were disclosed during the audit of the financial statements as reported in the 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*. We consider finding 08-1 to be a material weakness.
3. No instances of noncompliance material to the financial statements of the City of Moorhead were disclosed during the audit.
4. No significant deficiencies were reported in the Report on Compliance with Requirements Applicable to Each Major Program and Internal Controls over Compliance in Accordance with OMB Circular A-133.
5. The auditor's report on compliance for the major federal award programs for the City of Moorhead expresses an unqualified opinion on all major federal programs.
6. Audit findings relative to the major federal award programs for the City of Moorhead are reported in Part C of this schedule.
7. The programs tested as a major program was Water Pollution Control Revolving Fund, CFDA #66.458.
8. The threshold for distinguishing a Type A program was \$300,000.
9. The City of Moorhead was determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

Material Weakness

08-1 Prior Period Adjustment – Moorhead Public Service

Condition: A prior period adjustment was made to the Electric Fund and Water Fund financial statements to record unbilled revenue.

Criteria or Specific Requirement: A good system of internal accounting control contemplates an adequate system for recognizing revenue when earned. While we acknowledge that the design of Moorhead Public Service's internal control system allowed for management to be aware of the unbilled revenue, management did not record these revenues when earned as required by accounting principles generally accepted in the United States of America. These principles require revenue to be recognized when earned.

Effect: A material misstatement of Moorhead Public Service's financial statements that would not be prevented.

Cause: Moorhead Public Service has consistently recorded revenue only when billed. However the amount of unbilled revenue has become material to the financial statements and must be recorded so that the financial statements are not materially misstated.

Recommendation: In accordance with accounting principles generally accepted in the United States of America, revenue should be recorded in the period that it is earned, regardless of the billing date.

Corrective Action Plan (CAP)

1. *Actions Planned in Response to the Finding:* For many years, Moorhead Public Service has followed an acceptable accounting practice of recognizing services consumed in the last half of December as revenue when it was billed in January. As long as this practice reflected twelve months of revenue each year, it had been an acceptable practice to our auditors. Each year, as part of our audit, the calculation for December unbilled revenues has been reviewed and found to be immaterial compared to our total revenues. However, due to the accumulating impact on the Statement of Net Assets (understatement of Accounts Receivable), the auditors are requiring that we include services consumed in December (and billed in January) as December revenue for financial reporting purposes.
2. *Explanation of Disagreement:* This required change has resulted in an audit deficiency described as a material weakness. The deficiency was unavoidable while we transition from recognizing revenue in the month billed to recognizing revenue in the month services were used.
3. *Official Responsible for Ensuring Corrective Action:* Nancy Lund, Controller.
4. *Planned Completion Date for the Corrective Action:* Immediately.
5. *Plan to Monitor Completion of Corrective Action:* The Public Service Commission will monitor.

Significant Deficiency

08-2 Preparation of the Notes to the Financial Statements – Moorhead Public Housing Agency

Condition: Moorhead Public Housing Agency does not have an internal control system designed to provide for the preparation of the notes to the financial statements for the component unit fund being audited. As auditors, we were requested to draft the notes to the financial statements.

Criteria or Specific Requirement: A good system of internal accounting control contemplates an adequate system for required disclosures in the notes to the financial statements.

Effect: The disclosures in the financial statements could be incomplete.

Cause: Moorhead Public Housing Agency personnel do not attend the necessary training to stay informed of accounting principles generally accepted in the United States of America.

Recommendation: It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Corrective Action Plan (CAP)

1. *Actions Planned in Response to the Finding:* No action is planned on the finding. The Moorhead Public Housing Agency feels that the additional costs to the Moorhead Public Housing Agency would not be significantly beneficial. The Moorhead Public Housing Agency does mitigate this situation through the review of the draft financial statements and accompanying notes to the financial statements by management.
2. *Explanation of Disagreement:* There is no disagreement with the audit finding.
3. *Official Responsible for Ensuring Corrective Action:* None. See #1 above.
4. *Planned Completion Date for the Corrective Action:* None. See #1 above.
5. *Plan to Monitor Completion of Corrective Action:* None. See #1 above.

Significant Deficiency

08-3 Lack of Segregation of Duties in Certain Duties Due to a Limited Staff – Moorhead Public Housing Agency

Condition: Moorhead Public Housing Agency does not have an internal control system designed to provide adequate separation of duties in the accounting function.

Criteria or Specific Requirement: A good system of internal accounting control contemplates an adequate system for recording and processing entries material to the financial statements. The system should have enough controls so that no one person handles a transaction from beginning to the end.

Effect: The control deficiency could result in a misstatement to the financial statements that would not be detected or prevented in the normal course of business. The control deficiency also could result in unauthorized transactions or loss of assets.

Cause: The Moorhead Public Housing Agency could have unauthorized, preventable transactions entered into the accounting system that would not be detected in the normal operations of the entity.

Recommendation: It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Corrective Action Plan (CAP)

6. *Actions Planned in Response to the Finding:* Due to additional costs, Moorhead Public Housing Agency will continue to keep the staff at the current level. The Agency will try to involve the Board of Commissioners more actively in the review and supervision of disbursements and transactions.
7. *Explanation of Disagreement:* There is no disagreement with the audit finding.
8. *Official Responsible for Ensuring Corrective Action:* Byron Brink, Executive Director.
9. *Planned Completion Date for the Corrective Action:* June 30, 2009.
10. *Plan to Monitor Completion of Corrective Action:* The Board of Commissioners will monitor.

C. **FINDINGS - MAJOR FEDERAL AWARD PROGRAMS AUDIT – NONE**