

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
DECEMBER 31, 2007**

**CITY OF MOORHEAD,  
MINNESOTA**

**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**

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To 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, 2007, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 13, 2008. 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 07-1, 07-2, 07-3 and 07-4 described in the accompanying schedule of audit findings 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, we believe that none of the significant deficiencies described above is 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. 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 13, 2008



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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**

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To 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, 2007. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of audit findings. 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, 2007.

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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, 2007, and have issued our report thereon dated June 13, 2008. 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 13, 2008

**CITY OF MOORHEAD**  
**MOORHEAD, MINNESOTA**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED DECEMBER 31, 2007**

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		14.218	\$ 482,110
 <i>DEPARTMENT OF JUSTICE</i>			
Direct Programs:			
Police Overtime		16.595	13,161
Edward Byrne Justice Admin (JAG)		16.738	5,414
Passed through Minnesota Department of Public Safety:			
Drug Task Force		16.738	78,445
Total CFDA #16.738			83,859
Total Department of Justice			97,020
 <i>DEPARTMENT OF TRANSPORTATION</i>			
Direct Programs:			
Federal Transportation Assistance			
Operating		20.507	417,921
Capital		20.507	324,758
Planning		20.507	14,291
Total CFDA #20.507			756,970
Passed through the State of Minnesota:			
MNDOT Formula Grant, Non-Urbanized Area (RTAP)	T79-4100	20.509	378
Airport Improvement		20.106	212,036
Highway Planning & Construction		20.205	3,085,392
Safe Communities	97-0118	20.600	16,550
Heat Project		20.600	3,421
Safe and Sober		20.600	25,222
Total CFDA #20.600			45,193
Total Department of Transportation			4,099,969

(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
<i>ENVIRONMENTAL PROTECTION AGENCY</i>			
Direct Programs:			
Brownfields Assessment & Cleanup		66.818	179,735
Passed through the State of Minnesota Water Pollution Control Revolving Fund		66.458	<u>3,855,984</u>
Total Environmental Protection Agency			<u>4,035,719</u>
 <i>DEPARTMENT OF FEDERAL EMERGENCY MANAGEMENT AGENCY</i>			
Passed through the State of Minnesota Federal Disaster DR 1648	027-43864-00	97.036	<u>6,724</u>
 <i>DEPARTMENT OF HOMELAND SECURITY</i>			
Passed through the State of Minnesota 2005 State Homeland Security Grant Program	2005-SHSP-00524	97.067	<u>44,934</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<b><u>\$ 8,766,476</u></b>



**CITY OF MOORHEAD  
MOORHEAD, MINNESOTA  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED DECEMBER 31, 2007**

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**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 AUDIT FINDINGS  
YEAR ENDED DECEMBER 31, 2007**

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**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. Four 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*. None of the significant deficiencies were considered 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 control 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 major programs were Highway Planning & Construction, CFDA #20.205 and 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**

**Significant Deficiency**

**07-1 Preparation of the Notes to the Financial Statements – Moorhead Public Service**

*Condition:* Moorhead Public Service does not have an internal control system designed to provide for the preparation of the notes to the financial statements for the electric, water, and broadband funds being audited. The auditors were requested to, and did, 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 Service 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:* Moorhead Public Service personnel plan on attending training during 2008 in the hopes of providing for the internal preparation of the notes to the financial statements to eliminate this finding in the future.
2. *Explanation of Disagreement:* There is no disagreement with the audit finding.
3. *Official Responsible for Ensuring Corrective Action:* Nancy Lund, Controller.
4. *Planned Completion Date for the Corrective Action:* December 31, 2008.
5. *Plan to Monitor Completion of Corrective Action:* The Public Service Commission will monitor.

**Significant Deficiency**

07-2 **Significant Journal Entry – Moorhead Public Service**

*Condition:* During the course of our engagement, we discovered a \$60,000 audit adjustment due to the overstatement of contributed capital. This resulted in a non-cash book-only adjustment.

*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.

*Effect:* This deficiency could have resulted in an overstatement of the contributed capital reported on the financial statements.

*Cause:* Moorhead Public Service personnel did not obtain necessary documentation for the contributed capital journal entry.

*Recommendation:* Necessary documentation should be obtained prior to recording contributed capital.

**Corrective Action Plan (CAP)**

1. *Actions Planned in Response to the Finding:* Moorhead Public Service personnel will obtain the necessary written documentation for the contributed capital journal entry in the future.
2. *Explanation of Disagreement:* There is no disagreement with the audit finding.
3. *Official Responsible for Ensuring Corrective Action:* Nancy Lund, Controller.
4. *Planned Completion Date for the Corrective Action:* December 31, 2008.
5. *Plan to Monitor Completion of Corrective Action:* The Public Service Commission will monitor.

**Significant Deficiency**

**07-3 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**

07-4 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)**

1. *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.
2. *Explanation of Disagreement:* There is no disagreement with the audit finding.
3. *Official Responsible for Ensuring Corrective Action:* Byron Brink, Executive Director.
4. *Planned Completion Date for the Corrective Action:* June 30, 2008.
5. *Plan to Monitor Completion of Corrective Action:* The Board of Commissioners will monitor.

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