

**CITY OF MOORHEAD
MOORHEAD, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND
RELATED REPORTS**

YEAR ENDED DECEMBER 31, 2019

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**INDEPENDENT AUDITORS' 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**

Honorable Mayor and City Council
City of Moorhead
Moorhead, Minnesota

We have audited, in accordance with the 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 discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Moorhead, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City of Moorhead's basic financial statements, and have issued our report thereon dated June 30, 2020. Our report includes a reference to other auditors who audited the financial statements of the Moorhead Public Housing Agency and the Moorhead Public Service Commission. 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 of Moorhead'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 of Moorhead's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Moorhead'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 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as items 2019-001 and 2019-002 that we consider to be material weaknesses.

Honorable Mayor and City Council
City of Moorhead

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Moorhead'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 of Moorhead's Response to Findings

The City of Moorhead's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The City of Moorhead'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.

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.



CliftonLarsonAllen LLP

Minneapolis, Minnesota
June 30, 2020



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM, REPORT ON INTERNAL CONTROL OVER COMPLIANCE,
AND REPORT ON THE SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE**

Honorable Mayor and City Council
City of Moorhead
Moorhead, Minnesota

Report on Compliance for Each 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 each of the City of Moorhead's major federal programs for the year ended December 31, 2019. The City of Moorhead's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

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.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Moorhead's major federal programs 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 and the Uniform Guidance 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 of Moorhead'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 each major federal program. However, our audit does not provide a legal determination of the City of Moorhead's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Moorhead complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2019.

Report on Internal Control Over Compliance

Management of the City of Moorhead is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Moorhead's internal control over compliance with the types of requirements that could have a direct and material effect on each 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 the 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 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.

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 over compliance 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.

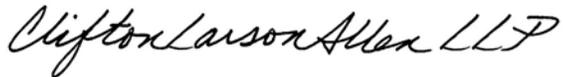
The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Moorhead as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City of Moorhead's basic financial statements. We issued our report thereon dated June 30, 2020, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures

Honorable Mayor and City Council
City of Moorhead

of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic 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 basic 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 basic financial statements or to the basic 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 expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



CliftonLarsonAllen LLP

Minneapolis, Minnesota
June 30, 2020

MOORHEAD, MINNESOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2019

Federal Grantor/ Pass-Through Grantor/Program Title	Agency or Pass Through Number	Federal CFDA Number	Expenditures	
<u>DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>				
Direct Programs:				
Community Development Block Grant	N/A	14.218	\$	204,450
<u>DEPARTMENT OF JUSTICE</u>				
Direct Programs:				
Community Capacity Development Office - Police Overtime	N/A	16.595	\$	27,760
Community Capacity Development Office - Police Overtime	N/A	16.595	<u>8,432</u>	
Total CFDA #16.595			\$	36,192
BJA Bulletproof Vest Partnership Program	N/A	16.607		17,724
Organized Crime Drug Enforcement Task Forces		16.111		1,301
Violent Offenders Task Force		16.568	2,837	
Violent Offenders Task Force		16.568	<u>3,800</u>	
Total CFDA #16.568				<u>6,637</u>
Total Department of Justice				61,854
<u>DEPARTMENT OF TRANSPORTATION</u>				
Direct Programs:				
Federal Transit Administration:				
Operating	N/A	20.507	386,000	
Capital - Non-ARRA	N/A	20.507	<u>183,481</u>	
Total CFDA #20.507				<u>569,481</u>
Total Direct Programs				569,481
Passed Through the State of Minnesota:				
Highway Planning & Construction		20.205		1,427,181
Airport Improvement Program - Apron Pavement Design Ph 2	SP-1401-27	20.106		596,119
Towards Zero Deaths - 2019	A-ENFRC19-2019-MOORHDPD-026	20.600	*	5,478
Towards Zero Deaths - 2020	A-ENFRC19-2020-MOORHDPD-057	20.600	*	<u>464</u>
Total CFDA #20.600				5,942
Towards Zero Deaths - 2019	A-ENFRC19-2019-MOORHDPD-026	20.608	4,072	
Towards Zero Deaths - 2020	A-ENFRC19-2020-MOORHDPD-057	20.608	<u>2,459</u>	
Total CFDA #20.608				6,531
Towards Zero Deaths - 2019	A-ENFRC19-2019-MOORHDPD-026	20.616	*	10,255
Towards Zero Deaths - 2020	A-ENFRC19-2020-MOORHDPD-057	20.616	*	<u>742</u>
Total CFDA #20.616				10,997
2018 Hazardous Materials Emergency Preparedness	A-HMEP-2018-MOORHDFD-004	20.703		<u>11,780</u>
Total Direct Programs				2,058,550
Total Department of Transportation				<u>2,628,031</u>
<u>DEPARTMENT OF HOMELAND SECURITY</u>				
Direct Programs:				
2017 Assistance to Firefighters Grant	EMW-2017-FO-04862	97.044	209,876	
Total CFDA #97.044				<u>209,876</u>
Passed through the State of Minnesota:				
Public Assistance Disaster Grant DR-4442		97.036	<u>251,582</u>	
Total CFDA #97.036				<u>251,582</u>
Total Department of Homeland Security				<u>461,458</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS				<u><u>\$ 3,355,793</u></u>

The notes the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

MOORHEAD, MINNESOTA
NOTES SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2019

NOTE 1 BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Moorhead under programs of the federal government for the year ended December 31, 2019. The information in this schedule 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 of Moorhead, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City of Moorhead.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. 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. The City of Moorhead does not charge indirect costs to its federal programs and therefore does not utilize the de minimus indirect cost rate allowed under the Uniform Guidance.

**MOORHEAD, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2019**

SECTION I – SUMMARY OF AUDITORS’ RESULTS

Financial Statements

Type of auditors’ report issued: *Unmodified*

Internal control over financial reporting:

- Material weakness(es) identified? X yes no
- Significant deficiency(ies) identified? yes X none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes X no
- Significant deficiency(ies) identified? yes X 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 2 CFR 200.516(a)? yes X no

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
20.205	Highway Planning and Construction

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? yes X no

MOORHEAD, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2019

SECTION II – FINANCIAL STATEMENT FINDINGS

2019-001 Material Weakness: Segregation of Duties

Criteria: Generally, a system of internal control contemplates separation of duties such that no individual has responsibility to execute a transaction and have responsibility or authority to record the transaction without review of approval by another individual.

Condition: During our review of the City's internal controls we noted that there is one individual within the payroll department who controls the entire payroll process, from inputting employees and corresponding wage rates to initiating and processing the payroll each pay period, without subsequent reviews by separate personnel.

Cause: In recent years there were some re-assigning of duties and department structures, which resulted in the lack of segregation of duties over this function.

Effect: The City does not have sufficient segregation of duties over the payroll process.

Recommendation: We recommend that the City reviews its payroll process and personnel and reassign or redistribute responsibilities such that there is adequate segregation of duties within this function. Generally, the process of inputting employee information and wage rates lies within the HR department, as way to segregate that from those processing the regular payroll.

Views of Responsible Officials: Management reorganized in 2019 and placed the payroll position into the Finance Department which was in the Human Resources Department. Upon making the move, the new Finance Director recognized the duties of payroll resided with one employee only. Changes are underway to correct this issue.

In addition, the City will be implementing new financial software with a go-live date in early 2021. The new software will provide additional opportunity to assess employee responsibilities and utilize controls within the new finance system.

2019-002 Material Weakness: Prior Period Restatements

Criteria: The City should have proper financial procedures and controls in place to ensure that year-end adjustments and reconciliations are correct and properly reviewed and all activity is appropriate included within the year-end financial statements.

Condition: During the performance of our audit procedures we noted several areas which contained errors in the prior year and for which beginning fund balances and net position were restated to properly correct the errors. The following prior period restatements are reflected in the City's CAFR:

- 1) Beginning net position of the governmental activities was reduced by \$5,760,740 to properly reflect the unamortized balance of issuance premiums from various bond issuances of the City.
- 2) Beginning net position of the governmental activities was increased by \$572,443 to properly reflect the unamortized balance of deferred losses on several previously refunded bonds.

MOORHEAD, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2019

SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

- 3) Deferred outflows related to the GERP plan were overstated in the prior year by \$663,029 and deferred inflows related to the GERP plan were understated in the prior year by \$663,029, resulting in pension expenses being understated by \$1,326,058. This amount was allocated to the participating funds and, as a result, the beginning net position of governmental activities was decreased by \$1,064,559 and beginning net position of the enterprise funds and internal services funds was decreased by \$261,499.
- 4) Some of the deferred inflows and deferred outflows related to the PEPFF plan were not being amortized over the proper period, resulting in deferred outflows being understated by \$3,877,808, deferred inflows being understated by \$2,644,596, and pension expense being overstated by \$1,233,212. As a result, beginning net position in the governmental activities was increased by \$1,233,212.
- 5) At December 31, 2018, the City had a balance of amounts earned through the state's highway maintenance and construction aid program. Per GASB requirements for non-exchange revenue, the City had earned these amounts even though they were still being held at the state. As a result the beginning net position of the governmental activities was increased by \$39,516,007 to properly reflect the previous years' allocations of aid from this program.
- 6) It was noted that in 2018 the City began reworking its procedures to record year-end receivable amounts in its enterprise funds (excluding water and electric). As a result, a portion of the year-end receivable was double booked in 2018. Beginning net position was decreased in the Storm Water Fund (\$144,498), Wastewater Fund (\$451,176), and Sanitation Fund (\$218,885) to reflect the overstatement of revenue in the prior year and correct the current year revenue.

Cause: The restatements above were the result of various causes, including technical errors in formulas computing totals and lack of previous year accounting oversight.

Effect: The City's 2018 financial statements contained material misstatements.

Recommendation: We recommend that the City review its procedures and controls related to year-end adjustments and reporting to ensure there are sufficient reviews in place to prevent misstatements.

Views of Responsible Officials: Management does not disagree with the finding and has already begun adjusting the processes related to recording and review of the financial statement in future years. Once again, new software implementation in 2020 and 2021 will assist in identifying and tracking inventory for reporting purposes.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

MOORHEAD, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2019

SECTION IV – MINNESOTA LEGAL COMPLIANCE

2019-003: Annual Report of Indebtedness

Criteria: Minnesota Statute §471.70 requires the principal accounting officer of the city to report, on or before February 1 of each year, to the auditor of each County in which the city is situated, the total amount of outstanding obligations and the purpose for which issued, as of December 31 of the preceding year.

Condition: During the audit, we noted the report of indebtedness for December 31, 2019 was not submitted to the County until March 13, 2020.

Effect: The City is not in compliance with the reporting of outstanding indebtedness state statute.

Cause: The new finance director anticipated notification from the County Auditor regarding the required indebtedness reporting deadline, which was not received. Once notified by the State Auditor's Office, the Finance Director immediately completed and submitted the form.

Recommendation: We recommend that the City review its procedures for monitoring the due date of this report to ensure it is filed timely next year.

Views of Responsible Officials: Management does not disagree with the finding. Knowing that the Clay County Auditor does not provide documentation requesting the report of indebtedness, the Finance Director has made a notation on the calendar and the report will be submitted timely moving forward.

2019-004: Required Contract Language

Criteria: Minnesota Statute §471.425 requires that each contract 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 1 ½ percent per month or any part of a month.

Condition: During our review of four City contracts we noted that one of them was missing the required language noted above.

Effect: The City is not in compliance with the state statute requiring certain contractor language.

Cause: The City was not aware of the State statute requirement.

Recommendation: We recommend that the City review its template contracts to ensure the proper language is included and also ensure all City officials are aware of the required language in order to ensure it is included.

Views of Responsible Officials: The contract language has been added to the 2020 contracts per State Statute.

**MOORHEAD, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2019**

SECTION IV – MINNESOTA LEGAL COMPLIANCE (CONTINUED)

2019-005: Annual Delegation of Authority to Make Electronic Funds Transfers

Criteria: Minnesota Statute §471.38 requires cities to annually delegate the authority to make electronic funds transfers to a chief financial officer or the officer's designee.

Condition: During our review we noted this delegation was not being done annually.

Effect: The City is not in compliance with the state statute requiring annual delegation of authority to make EFTs.

Cause: The City was not aware of the State statute requirement.

Recommendation: We recommend that the City ensure the authority to make electronic funds transfers is added to its list of annual delegations.

Views of Responsible Officials: The City Council has made the annual delegation of authority for the Finance Director to make electronic funds transfers in 2020. This annual delegation will be made each year.



INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

Honorable Mayor and City Council
City of Moorhead
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, discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Moorhead, Minnesota, as of December 31, 2019, 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 30, 2020. We did not audit the Moorhead Public Housing Agency, which represents the amounts shown as the discretely presented component unit, or the Moorhead Public Service Commission, which constitutes the electric and water funds of the City.

In connection with our audit, nothing came to our attention that caused us to believe that the City failed to comply with the provisions of the contracting and bidding, deposits and 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*, insofar as they relate to accounting matters, except as described in the Schedule of Findings and Questioned Costs as items 2019-003 through 2019-005. 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.

The City's written response to the legal compliance findings identified in our audit are described 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.

The purpose of this report is solely to describe the scope of our testing of compliance relating to the provisions of the *Minnesota Legal Compliance Audit Guide for Cities* and the results of that testing, and not to provide an opinion on compliance. Accordingly, this report is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
June 30, 2020