



Federal Awards Reports in Accordance with the Single
Audit Act and OMB Circular A-133
December 31, 2013

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*

The 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, 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, 2013, 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 6, 2014. 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 Bailly LLP". The signature is written in a cursive, flowing style.

Fargo, North Dakota
June 6, 2014



Report on *Minnesota Legal Compliance*

The 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 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, 2013, 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 6, 2014.

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, nothing came to our attention that caused us to believe the City failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City's noncompliance with the above referenced provisions.

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

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

Fargo, North Dakota
June 6, 2014



Independent Auditor’s Report on Compliance for the Each Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by *OMB Circular A-133*

The 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 Circular A-133 Compliance Supplement* that could have a direct and material effect on the City’s major federal programs for the year ended December 31, 2013. The City’s major federal programs are 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 \$1,022,452 and \$741,466, respectively, in federal awards which are not included in the schedule of expenditures of federal awards for the year ended December 31, 2013. 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 *OMB Circular A-133*.

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 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 *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 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 each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each 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 each of its major Federal programs for the year ended December 31, 2013.

Other Matter

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2013-001. Our opinion on each federal program is not modified with respect to this matter.

The City's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 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 *OMB Circular A-133*, 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 and therefore, material weaknesses and significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2013-001 that we consider to be a significant deficiency.

The City's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 *OMB Circular A-133*. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the City of Moorhead as of and for the year ended December 31, 2013, and have issued our report thereon dated June 6, 2014, 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 *OMB Circular A-133* and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

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

Fargo, North Dakota
June 6, 2014

City of Moorhead, Minnesota
 Schedule of Expenditures of Federal Awards
 Year Ended December 31, 2013

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	\$ 371,805
<u>Department of Justice</u>				
Direct Programs:				
Community Capacity Development Office - Police Overtime	N/A		16.595	32,858
<u>Department of Transportation</u>				
Direct Programs:				
Federal Transit Administration				
Capital - ARRA	N/A	*	20.500	\$ 52,217
Operating	N/A	*	20.507	465,239
Capital - non-ARRA	N/A	*	20.507	105,407
Planning	N/A	*	20.507	14,197
Total CFDA #20.500/20.507 cluster				\$ 637,060
Passed through the State of Minnesota:				
MNDOT Formula Grant, Non-Urbanized Area (RTAP)	T79-4100		20.509	546
New Freedom Program - 2013	N/A		20.521	21,600
Airport Improvement Program	SP-1401-20		20.106	54,822
Mass Transit Commuter Challenge	N/A		20.205	8,057
Highway Planning & Construction	N/A		20.205	529,323
Total CFDA #20.205				537,380
State and Community Highway Safety - 2013 Safe and Sober	ENFORCE13-2013- MOORHDPD-00070		20.600	27,258
State and Community Highway Safety - 2013 Safe and Sober	ENFORCE13-2013- MOORHDPD-00070		20.608	19,014
State and Community Highway Safety - 2013 Safe and Sober	ENFORCE13-2013- MOORHDPD-00070		20.616	6,836
2012 Hazardous Materials Emergency Preparedness	A-HMEP- 2012MOORHDFD-00052		20.703	1,721
Total Department of Transportation				1,306,237
<u>Department of Homeland Security</u>				
Direct Programs:				
2011 Assistance to Firefighters Grant	EMW-2011-FO-04226		97.044	11,606
2012 Assistance to Firefighters Grant	EMW-2011-FO-00841		97.044	19,743
Total CFDA #97.044				31,349
2010 State Homeland Security Grant Program	2010-SHSP-00701		97.067	40,669
Passed through the Northwest Regional Radio Board:				
2011 State Homeland Security Grant Program	2011-SHSP-44199		97.067	7,150
Total CFDA #97.067				47,819
Total Department of Homeland Security				79,168
Total Federal Financial Assistance				\$ 1,790,068

* Denotes a major program

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 *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. The City received federal awards both directly from federal agencies and indirectly through pass-through entities. Federal financial assistance provided to a subrecipient is treated as an expenditure when it is paid to the subrecipient.

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.

Note C – Subrecipients of Grant Awards

Of the federal expenditures presented in the accompanying schedule of expenditures of federal awards, the City provided federal awards to subrecipients as follows:

<u>Program</u>	<u>CFDA Number</u>	<u>Amount</u>
Community Development Block Grant	14.218	\$ 289,220

No findings reported in the prior year

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	Yes
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 OMB Circular A-133 §.510(a):	Yes

Identification of major programs:

<u>Name of Federal Program</u>	<u>CFDA Number</u>
Community Development Block Grant	14.218
Federal Transit Administration	20.500 / 20.507
Dollar threshold used to distinguish between type A and type B programs:	\$ 300,000
Auditee qualified as low-risk auditee?	Yes

Section II – Financial Statement Findings

None reported

Section III – Federal Award Findings and Questioned Costs

Significant Deficiency

2013-001 Reporting

Federal program information:

<u>Federal Agency</u>	<u>CFDA Number</u>	<u>Program Title</u>	<u>Award Year</u>
Department of Housing and Urban Development	14.218	Community Development Block Grant	2013

Condition – We noted the following deficiency:

- The City failed to report the awards to subrecipients on the Federal Subaward Reporting System (FSRS).

Criteria or Specific Requirement – Requirements of the Transparency Act specify that sub awards must be reported when a prime recipient awards a subrecipient greater than \$25,000.

Context – No report was filed on the Federal Subaward Reporting System for 2013.

Effect – Failure to submit required reporting documents within the agreed-up time frame could result in the failure to receive funds.

Questioned Costs – None

Cause – The City was unaware of the reporting requirements under the Transparency Act.

Recommendation – We recommend the City to research the reporting requirements of each federal grant that is received.

Corrective Action Plan (CAP)

1. Actions Planned in Response to the Finding – Management will develop controls to ensure all reports are filed for federal grants.
2. Explanation of Disagreement – There is no disagreement with the finding.
3. Officials Responsible for Ensuring Corrective Action – The Finance Director will be responsible for ensuring corrective action.
4. Planned Completion Date for the Corrective Action – July 6, 2014.
5. Plan to Monitor Completion of Corrective Action – Management will oversee that controls are implemented to ensure all of the correct federal reports are being filed.

Section IV – Minnesota Legal Compliance Findings

None reported