



Federal Awards Reports in Accordance with the Single
Audit Act and OMB Circular A-133
December 31, 2014

City of Fargo, North Dakota

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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
Members of City Commission
City of Fargo, North Dakota
Fargo, North Dakota

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, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Fargo, North Dakota (the City), as of and for the year ended December 31, 2014, 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 29, 2015.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a deficiency in internal control that we consider to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2014-A to be a material weakness.

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.

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 that are required to be reported under *Government Auditing Standards*.

City's Response to Finding

The City's response to the 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 the financial statements and, accordingly, we express no opinion on it.

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.

The image shows a handwritten signature in cursive script that reads "Eide Saelly LLP".

Bismarck, North Dakota
June 29, 2015



Independent Auditor’s 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 OMB Circular A-133

The Honorable Mayor and
Members of City Commission
City of Fargo, North Dakota
Fargo, North Dakota

Report on Compliance for Each Major Federal Program

We have audited the City of Fargo, North Dakota’s (the City) 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 each of the City’s major federal programs for the year ended December 31, 2014. 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.

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 each of 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 of each of its major Federal programs for the year ended December 31, 2014.

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's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of 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 governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the City as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated June 29, 2015, which contained unmodified opinions 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 expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Eide Bailly LLP

Bismarck, North Dakota
June 29, 2015

City of Fargo, North Dakota
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2014

	CFDA Numbers	Agency or Pass Through Number	Expenditures
Department of Agriculture			
<i>Indirect Federal Funding passed through-</i>			
North Dakota Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	G13.338B & G13.1049	<u>\$ 460,525</u>
Total Department of Agriculture			\$ 460,525
Department of Housing and Urban Development			
<i>Direct Federal Funding:</i>			
Community Development Block Grants/Entitlement Grants	14.218	N/A	967,588
HOME Investment Partnerships Program	14.239	N/A	517,301
<i>Indirect Federal Funding passed through-</i>			
North Dakota Division of Community Services Community Development Block Grants/State's Program	14.228	2457-NSP09	376,074
Emergency Solutions Grant Program	14.231	3489-ESG13 & 3691-ESG14	<u>24,004</u>
Total Department of Housing and Urban Development			1,884,967
Department of the Interior			
<i>Indirect Federal Funding passed through-</i>			
North Dakota State Historical Society Historic Preservation Fund Grants In-Aid	15.904	38-13-51941-27 & 38-14-51941-27	<u>4,921</u>
Total Department of the Interior			4,921
Department of Justice			
<i>Direct Federal Funding:</i>			
Bulletproof Vest Partnership Program	16.607	N/A	6,224
Public Safety Partnership and Community Policing Grants	16.710	N/A	13,331
<i>Indirect Federal Funding passed through-</i>			
Cass County Edward Byrne Memorial Justice Assistance Grant Program	16.738	2013-H4290-ND-DJ	35,894
City of West Fargo Edward Byrne Memorial Justice Assistance Grant Program	16.738	2012-H2314-ND-DJ	14,218
Office of Attorney General Edward Byrne Memorial Justice Assistance Grant Program JAG Program Cluster	16.738	12-210 & 13-205	<u>9,708</u>
Total Department of Justice			<u>59,820</u> 79,375
Department of Transportation			
<i>Direct Federal Funding:</i>			
Airport Improvement Program	20.106	N/A	2,792,233
Federal Transit Capital Investment Grants	20.500	N/A	5,669
Federal Transit Formula Grants Federal Transit Cluster	20.507	N/A	<u>2,180,552</u>
Payments for Small Community Air Service Development	20.930	N/A	2,186,221
Highway Planning and Construction	20.205	N/A	139,908
<i>Indirect Federal Funding passed through-</i>			
North Dakota Parks and Recreation Recreational Trails Program Highway Planning and Construction Cluster	20.219	201305	<u>150,000</u> 289,908
Job Access and Reverse Commute Program	20.516	38131466A	61,367
State and Community Highway Safety	20.600	PHSPOP1405-05-08	8,634
Alcohol Impaired Driving Countermeasures Incentive Grants	20.601	PHSPID1410-03-09, PHSPID1410-02-03, PHSPID1410-03-65, & PHSPID1510-02-51	<u>31,342</u>
Highway Safety Cluster			39,976
National Priority Safety Programs	20.616	PHSPDE1408-04-04, PHSPOP1505-05-02, & PHSPID1510-02-02	<u>15,762</u>
Total Department of Transportation			5,681,141

City of Fargo, North Dakota
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2014

	CFDA Numbers	Agency or Pass Through Number	Expenditures	
National Endowment for the Arts				
<i>Direct Federal Funding:</i>				
Promotion of the Arts Grants to Organizations and Individuals	45.024	N/A	<u>6,301</u>	
Total National Endowment for the Arts				6,301
National Endowment for the Humanities				
<i>Indirect Federal Funding passed through-</i>				
American Library Association Promotion of the Humanities Public Programs	45.164	2194	<u>1,041</u>	
Total National Endowment for the Humanities				1,041
Environmental Protection Agency				
<i>Indirect Federal Funding passed through-</i>				
North Dakota Department of Health Capitalization Grants for Clean Water State Revolving Funds	66.458	380715-02 & 380684-06	140,427	
Capitalization Grants for Drinking Water State Revolving Funds	66.468	0900336-03	1,700,132	
Performance Partnership Grants	66.605	13.020, 13.310, & 13.927	<u>3,399</u>	
Total Environmental Protection Agency				1,843,958
Department of Energy				
<i>Indirect Federal Funding passed through-</i>				
North Dakota Division of Community Services State Energy Program	81.041	3459-SEP13-T	<u>32,133</u>	
Total Department of Energy				32,133
Department of Health and Human Services				
<i>Indirect Federal Funding passed through-</i>				
North Dakota Department of Health Public Health Emergency Preparedness	93.069	13.057, 13.076, 13.201, 13.819, 13.842, & 13.863	388,218	
Project Grants and Cooperative Agreements for Tuberculosis Control Progra	93.116	PF13.130	35,181	
Family Planning Services	93.217	G13.112B & G13.882	163,703	
Immunization Cooperative Agreements	93.268	13.475A	67,582	
Epidemiology and Laboratory Capacity for Infectious Diseases	93.323	13.1114	2,958	
PPHF Capacity Building Assistance to Strengthen Public Health Immunizatic and Performance financed in part by Prevention and Public Health Funds	93.539	PF11.255A	7,105	
Preventive Health and Health Services Block Grant funded solely with PPHF	93.758	G13.1039	5,520	
HIV Care Formula Grants	93.917	PF11.395B & PF13.156A	76,465	
Cooperative Agreements for State-Based Comprehensive Breast and Cervic	93.919	PF13.029 & PF13.193	53,476	
HIV Prevention Activities Health Department Based	93.940	PF13.108	15,755	
Preventive Health Services STD Control Grants	93.977	G13.882	2,539	
Maternal and Child Health Services Block Grant to the States	93.994	G13.125, G13.895, & G13.112B	108,545	
Lutheran Social Services Refugee and Entrant Assistance - State Administered Programs	93.566	2014-37 & 2014-37A	31,981	
Refugee and Entrant Assistance Discretionary Grants	93.576	2013-32A & 2015-HP1	<u>21,637</u>	
Total Department of Health and Human Services				980,665
Department of Homeland Security				
<i>Direct Federal Funding:</i>				
Assistance to Firefighters Grant	97.044	N/A	1,019	
<i>Indirect Federal Funding passed through-</i>				
State of North Dakota Department of Emergency Services Hazard Mitigation Grant	97.039	FEMA-1981-DR-30-R, FEMA-1981-DR-23-R, FEMA-1981-DR-44-R, FEMA-1986-DR-5-R, FEMA-1986-DR-6-R, & FEMA-1981-DR-9-R	3,708,079	
Homeland Security Grant Program	97.067	44, 53, 62, 53, 130, 141, & 182	<u>128,559</u>	
Total Office of Homeland Security				3,837,657
Total Expenditures of Federal Awards				<u>\$ 14,812,684</u>

Note A – Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of *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

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>Subrecipients provided federal awards</u>	<u>CFDA #</u>	<u>Dollar Amount</u>
Skills and Technology Training Center	14.218	\$ 17,252
Village Financial Service Center	14.218	14,565
Immigrant Development Center	14.218	1,440
High Plains Fair Housing Center	14.218	1,375
Total for CFDA #14.218		<u>34,632</u>
Rape & Abuse Crisis Center	16.738	<u>9,708</u>
Fargo Park District	20.219	<u>150,000</u>
Total passed to subrecipients		<u><u>\$ 194,340</u></u>

Note D – General

As of December 31, 2014, the City’s liability relating to the Storm Sewer, Water, and Waste Water Expansion – State Revolving Fund (SRF) Loans is \$68,402,403.

Section I – Summary of Auditor’s Results

FINANCIAL STATEMENTS

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	Yes
Significant deficiencies identified not considered to be material weaknesses	None reported
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major program:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	None reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133 §.510(a):	No

Identification of major programs:

<u>Name of Federal Program</u>	<u>CFDA Number</u>
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557
Community Development Block Grants/Entitlement Grants	14.218
HOME Investment Partnerships Program	14.239
Airport Improvement Program	20.106
Capitalization Grants for Drinking Water State Revolving Funds	66.468

Dollar threshold used to distinguish between type A and type B programs:	\$ 444,381
Auditee qualified as low-risk auditee?	Yes

Section II – Financial Statement Findings

2014-A Recording of Transactions

Criteria – An effective system of internal control allows management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the City’s financial statements on a timely basis.

Condition – During the course of our engagement, we proposed audit adjustments to the City’s accounting records for intergovernmental receivables and long-term liabilities, which also resulted in restatements to fund balance and net position as previously reported at January 1, 2014.

Cause – The City determined the accounting treatment for highway tax payments and net pension obligations at the onset of the transactions, and had not recently re-evaluated the treatment for those transactions to assess that they were being accounted for in accordance with generally accepted accounting principles.

Effect - The need for these adjustments affects the balance sheet only. The effect to the income statement is insignificant and the recording of these transactions does not affect management decisions made during the course of the year.

Recommendation – We recommend the City periodically evaluate the accounting treatment of significant accounting transactions.

Management Response – New accounting transactions are evaluated by the City in great detail. Long-standing transactions that have not been challenged in previous audits are not reviewed or evaluated at the same level as new transactions. We recognize the need to periodically review and re-evaluate the accounting of significant long-standing transactions to ensure they are being accounted for in accordance with generally accepted accounting principles.

Section III – Federal Award Findings and Questioned Costs

No findings reported

No findings reported in the prior year