



Federal Awards
December 31, 2009

City of Bismarck

CITY OF BISMARCK

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CPAs & BUSINESS ADVISORS

**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 Board
of City Commissioners
City of Bismarck
Bismarck, North Dakota

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **City of Bismarck**, North Dakota, as of and for the year ended December 31, 2009, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 30, 2010. 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 of Bismarck**, North Dakota'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.

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.

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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as items 09-1 and 09-2 that we consider to be significant deficiencies in internal control over financial reporting. 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 of Bismarck**, North Dakota'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 or other matters that are required to be reported under *Government Auditing Standards*.

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

This report is intended solely for the information and use of the audit committee, management 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.

Erde Bailey LLP

Bismarck, North Dakota
June 30, 2010



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

The Honorable Mayor and Board
of City Commissioners
City of Bismarck
Bismarck, North Dakota

Compliance

We have audited the compliance of the **City of Bismarck**, North Dakota, with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2009. The **City of Bismarck**, North Dakota's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the **City of Bismarck**, North Dakota's management. Our responsibility is to express an opinion on the **City of Bismarck**, North Dakota'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 of Bismarck**, North Dakota'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 of Bismarck**, North Dakota's compliance with those requirements.

In our opinion, the **City of Bismarck**, North Dakota 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, 2009.

Internal Control Over Compliance

Management of the **City of Bismarck**, North Dakota is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the **City of Bismarck**, North Dakota's internal control over compliance with the 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 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 Bismarck'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 type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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 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, each major fund, and the aggregate remaining fund information of the **City of Bismarck**, North Dakota as of and for the year ended December 31, 2009, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 30, 2010. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. The schedule of expenditures of federal awards 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 information is fairly stated in all material respects in relation to the financial statements as a whole.

This report is intended solely for the information and use of the audit committee, management, 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

Bismarck, North Dakota
June 30, 2010

CITY OF BISMARCK
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2009

Grantor	Passed through Program	CFDA #	Expenditures
<i>Department of Commerce</i>			
North Dakota Department of Emergency Services			
	Public Safety Interoperable Communications Grant	11.555	\$ 91,790
Total Department of Commerce			<u>91,790</u>
<i>Housing and Urban Development</i>			
Direct	Community Development Block Grants	14.218	377,395
Direct	Community Development Block Grants - ARRA	14.253	48,377
Cluster Total			<u>425,772</u>
ND Department of Commerce			
	NSP	14.228	97,837
	HOME	14.239	214,122
Total U.S. Department of Housing & Urban Development			<u>737,731</u>
<i>Department of Justice</i>			
Direct	Interoperable Communications Grant	16.710	222,271
Direct	Law Enforcement Technology	16.710	2,524
			<u>224,795</u>
Direct	Edward Byrne - Abused Adult Resource Center	16.579	6,162
Direct	Justice Assistance Grant	16.580	23,449
Direct	Encourage Arrest Policies	16.590	3,806
Direct	Bullet Proof Vest/Armor	16.607	3,903
Direct	Edward Byrne Memorial Justice Assistance Grant	16.738	37,641
Direct	Edward Byrne Memorial Justice Assistance Grant - ARRA	16.804	197,135
ND Highway Patrol			
	Enforcing Underage Drinking Laws	16.727	15,599
Bureau of Criminal Investigation			
	Project Safe Neighborhoods	16.609	11,258

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – page 2

Grantor	Passed through Program	CFDA #	Expenditures
ND Association of Counties			
	JJDP Title V Grant - Youthworks	16.548	16,087
Total Department of Justice			539,835
<i>Department of Transportation</i>			
Direct	Airport Improvement Project #37	20.106	59,610
Direct	Airport Improvement Project #38	20.106	296,766
Direct	Airport Improvement Project #39	20.106	864,039
Direct	Airport Improvement Project #40	20.106	536,253
Direct	Airport Improvement Project #41	20.106	195,511
Direct	Airport Improvement Project #42	20.106	1,169,199
			3,121,378
Direct	Federal Transit - Formula Grants	20.507	1,439,741
Direct	Federal Transit - Formula Grants - ARRA	20.507	327,029
			1,766,770
North Dakota Department of Transportation			
	MPO - Highway Planning & Construction	20.205	864,288
	Highway Planning and Construction	20.205	36,032
			900,320
State Attorney General			
	State Fire Marshall Training	20.703	10,039
State Highway Department			
Highway Safety Cluster			
	Occupant Protection	20.600	3,073
	Traffic Safety	20.600	1,241
	Alcohol Highway Safety	20.601	13,001
Cluster Total			17,315
Total Department of Transportation			5,815,822

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – page 3

Grantor			
Passed through			
Program		CFDA #	Expenditures
<i>Department of Homeland Security</i>			
 North Dakota Department of Emergency Management			
Disaster Grants - Public Assistance		97.036	394,830
Emergency Mgt Performance Grant		97.042	19,937
Homeland Security - Law Enforcement Equipment		97.074	180,134
 Homeland Security Cluster			
Homeland Security - Fire & Inspections		97.067	73,860
Homeland Security - Environmental Health		97.067	10,959
Homeland Security - Police		97.067	140,876
Homeland Security - IT		97.067	10,204
Homeland Security - Public Health		97.067	5,291
Cluster Total			<u>241,190</u>
Law Enforcement Officer Reimbursement Agreement		97.090	75,680
Total Department of Homeland Security			<u>911,771</u>
<i>Department of Health & Human Services</i>			
 North Dakota Department of Health			
Bioterrorism - PIO		93.069	11,199
Bioterrorism - PIO Asst		93.069	223
Bioterrorism - PIO & Asst		93.069	2,394
Bioterrorism Response Coordinator		93.069	37,263
Public Health Emergency Readiness		93.069	36,996
Public Health Emergency Preparedness and Response		93.069	5,321
			<u>93,396</u>
Bioterrorism - PIO		93.283	18,804
Bioterrorism - PIO Asst		93.283	1,507
Bioterrorism - PIO & Asst		93.283	3,788
Bioterrorism Response Coordinator		93.283	65,011
Emergency Preparedness & Resp/Pan Flu Asst		93.283	3,466
Public Health Emergency Preparedness and Response		93.283	14,211
Colorectal Cancer Prevention		93.283	3,092
Tobacco Prevention & Control		93.283	25,788
			<u>135,667</u>

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – page 4

Grantor

Passed through

Program	CFDA #	Expenditures
Tuberculosis	93.116	6,300
Immunization	93.268	36,425
Ryan White CARE	93.917	8,627
Women's Way-Breast & Cervical Cancer Screening	93.919	61,182
HIV Testing	93.943	8,120
Maternal & Child Health/OPOP	93.994	65,211
ND Health Tracks	93.991	112,648
Move More Eat Smarter	93.991	1,600
		<u>114,248</u>
Total Department of Health & Human Services		<u><u>529,176</u></u>

Environmental Protection Agency

Public Finance Authority

Capitalization Grants for Clean Water State Revolving Funds	66.458	703,484
Capitalization Grants for Drinking Water State Revolving Funds	66.468	2,832,719
Total Environmental Protection Agency		<u><u>3,536,203</u></u>

Total

\$ 12,162,328

Subrecipients

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

Federal Grantor/Program Title	CFDA#	Amount Provided to Subrecipients
Department of Transportation:		
Federal Transit - Formula Grants	20.507	1,439,741
Federal Transit - Formula Grants - ARRA	20.507	327,029
Department of Justice:		
JJDP Title V Grant - Youthworks	16.548	16,087
Edward Byrne - Abused Adult Resource Center	16.579	6,162

CITY OF BISMARCK
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
DECEMBER 31, 2009

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 BISMARCK
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED DECEMBER 31, 2009

08-2: Federal Transit - Formula Grants (Urbanized Area Formula Program), CFDA # 20.507 – Equipment and Real Property Management

Condition: The City does not have adequate internal controls over the capital assets purchased with these federal funds.

Criteria: Even though the City passes through the federal funding to a subrecipient the City is required to maintain equipment records, complete a physical inventory at least once every two years and reconcile it to their equipment records, and set up an appropriate control system to safeguard equipment.

Cause: The City does not have controls, such as titles, over the equipment purchased with federal funds through Bis-Man Transit.

Effect: The City does not have adequate safeguard controls over the equipment; this could also affect the accuracy of the equipment records.

Recommendation: We recommend that the City obtain the titles for all equipment purchased with these funds.

Response: All titles for equipment purchased with the City's federal funding will be held at the City of Bismarck.

Status: This was corrected in 2009.

08-3: Federal Transit - Formula Grants (Urbanized Area Formula Program), CFDA # 20.507 – Subrecipient Monitoring

Condition: The City did not have adequate internal controls over subrecipient monitoring for the majority of the year.

Criteria: As the pass-through agency the City is required to issue management decisions on audit findings of the subrecipient in a timely manner and also ensure that the subrecipient takes timely and appropriate corrective action on all audit findings. The City also needs to evaluate what affect these findings have on the federal compliance requirement.

Cause: The City did not follow up on audit findings for Bis-Man Transit until after the FTA review.

Effect: The City did not increase the amount of monitoring of the subrecipient to ensure they were taking the appropriate corrective action on findings until after the FTA review.

Recommendation: After the FTA review the City took immediate action to remedy the findings and increased the level of monitoring to address these areas, we recommend the City continue to do this and to be sure on any future reviews or audits to take immediate action to address any findings.

Response: The City of Bismarck will continue to monitor the financial information on a periodic basis.

Status: This was corrected in 2009.

CITY OF BISMARCK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2009

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of the **City of Bismarck**.
2. Two significant deficiencies were disclosed during the audit of the financial statements. We did not consider any of the significant deficiencies to be material weaknesses.
3. No instances of noncompliance material to the financial statements of the **City of Bismarck** were disclosed during the audit.
4. No significant deficiencies were reported by our audit of internal control over the major federal award programs.
5. The auditor's report on compliance for the major federal award programs for the **City of Bismarck** expresses an unqualified opinion on all major federal programs.
6. Audit findings relative to the major federal award programs for the **City of Bismarck** are reported in Part C of this schedule.
7. The programs tested as major programs were the Community Development Block Grants Cluster which included Community Development Block Grants, CFDA # 14.218 and Community Development Block Grants – ARRA, CFDA # 14.253; Edward Byrne Memorial Justice Assistance Grant – ARRA, CFDA # 16.804; Federal Transit – Formula Grants (Urbanized Area Formula Program), CFDA # 20.507 and Federal Transit – Formula Grants (Urbanized Area Formula Program) – ARRA, CFDA # 20.507; Disaster Grants – Public Assistance, CFDA # 97.036; Capitalization Grants For Clean Water State Revolving Funds, CFDA # 66.458; and Capitalization Grants for Drinking Water State Revolving Funds, CFDA # 66.468.
8. The threshold for distinguishing a Type A program was \$364,870.
9. The **City of Bismarck** was determined to be a high-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

09-1: Civic Center Internal Controls

Condition: A significant amount of cash and inventory is cycled through the Bismarck Civic Center concessions annually. The City does not have adequate internal controls over cash and inventory at the Bismarck Civic Center concessions.

Criteria: There should be adequate internal controls implemented related to all cash and inventory cycled through the City.

Cause: The City does not have adequate internal controls over cash and inventory at the Bismarck Civic Center concessions.

Effect: This could result in the theft of cash and inventory that is cycled through the Bismarck Civic Center concessions.

Recommendation: Management should design and establish an adequate inventory and cash internal control process in order to properly track the inventory and cash that is cycled through the Bismarck Civic Center concessions.

Response: The Audit Committee adopted the immediate corrective actions to establish cash and inventory internal controls in concessions. In addition to the corrective action, a comprehensive review was completed for all cash and inventory transactions to enhance and strengthen the internal control processes and establish procedures. These procedures were implemented by 2010.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

09-2: Hourly Benefit Accrual Internal Controls

Condition: A change in leave accrual did not follow the City ordinances.

Criteria: The City ordinances establish the accruals for annual leave hours per year based on the years of service and sick leave hours for each full month of service.

Cause: Human Resources delayed the accruals for the last payroll which resulted in a decrease in the maximum amount that would have been forfeited for annual leave and a decrease in the amount of sick leave overage.

Effect: The delayed accrual allowed some employees to receive extra annual leave in the following year because it was not included in the last pay period's annual leave. The delayed accrual also reduced the amount of sick leave overage to pay some employees.

Recommendation: All leave accruals should follow the City's ordinances.

Response: The City Commission adopted the following recommendations on April 13, 2010: 1) that the sick leave payment for the last 2009 accrual be made to the employees by the end of June, 2) that the last leave accrual in 2009, December 12, be authorized for and used in 2010, 3) payroll ordinances be revised to reflect the bi-weekly payroll and 4) that a policy be developed to establish a process for payroll changes.

C. FINDINGS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

None