

CITY OF BISMARCK

*FEDERAL AWARDS
DECEMBER 31, 2008*

CITY OF BISMARCK

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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 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, 2008, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 25, 2009. 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial report that we consider to be significant deficiencies

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs, 08-1 to be a significant deficiency in internal control over financial reporting:

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

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Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not consider the significant deficiency described above, 08-1, to be a material weakness.

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.

Eide Bailly LLP

Bismarck, North Dakota
June 25, 2009



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

The Honorable Mayor and City Council
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 *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2008. 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 City of Bismarck, North Dakota's management. Our responsibility is to express an opinion on **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 on 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, 2008.

Internal Control Over Compliance

The management of **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 **City of Bismarck**, North Dakota's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the **City of Bismarck's** internal control over compliance.

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Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and question costs as items 08-2 and 08-3 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider item 08-2 to be a material weakness.

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.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the **City of Bismarck** as of and for the year ended December 31, 2008, and have issued our report thereon dated June 25, 2009. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of 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 25, 2009

CITY OF BISMARCK
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2008

Grantor	Passed through Program	CFDA #	Expenditures
<i>Housing and Urban Development</i>			
Direct	CDBG	14.218	\$ 450,217
	HOME	14.239	568,212
Total U.S. Department of Housing & Urban Development			1,018,429
<i>Department of Justice</i>			
Direct	Interoperable Communications Grant	16.710	40,033
Direct	Law Enforcement Technology	16.710	351,460
Direct	Law Enforcement Technology	16.710	394,657
			786,150
Direct	Justice Assistance Grant	16.738	22,979
Direct	Justice Assistance Grant	16.580	12,458
Direct	Bullet Proof Vest/Armor	16.607	5,332
Direct	Edward Byrne - Abused Adult Resource Center	16.579	10,944
ND Highway Patrol			
	Alcohol Enforcement	16.540	9,118
Bureau of Criminal Investigation			
	Project Safe Neighborhoods	16.609	18,593
	Project Safe Neighborhoods	16.609	10,362
			28,955
ND Association of Counties			
	JJDP Title V Grant - Youthworks	16.548	20,905
Total Department of Justice			896,841
<i>Department of Transportation</i>			
Direct	Airport Improvement Project #36	20.106	29,753
Direct	Airport Improvement Project #37	20.106	382,301
Direct	Airport Improvement Project #38	20.106	1,126,860
Direct	Airport Improvement Project #39	20.106	135,961
Direct	Airport Improvement Project #40	20.106	1,182
			1,676,057

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – page 2

Direct	UMTA - E/H Transit	20.507	1,240,473
Direct	MPO	20.205	544,161
North Dakota Department of Transportation			
	Highway Planning and Construction	20.205	395,317
	Highway Planning and Construction	20.205	22,896
	Highway Planning and Construction	20.205	14,350
	Highway Planning and Construction	20.205	104,000
	Highway Planning and Construction	20.205	14,858
	Highway Planning and Construction	20.205	153,571
	Highway Planning and Construction	20.205	53,186
			<u>1,302,339</u>
State Attorney General			
	State Fire Marshall Training	20.703	6,097
State Highway Department			
Highway Safety Cluster			
	Alcohol Highway Safety	20.601	5,093
	Alcohol Highway Safety	20.601	140
	Alcohol Highway Safety	20.601	1,936
	Occupant Protection	20.600	2,636
	Cluster Total		<u>9,805</u>
	Total Department of Transportation		<u>4,234,771</u>
US Department of Commerce			
Direct	Northern Plains Commerce Center	11.307	102,404
	Total U.S. Department of Commerce		<u>102,404</u>
Department of Homeland Security			
North Dakota Department of Emergency Management			
	Homeland Security-Environmental Health	97.073	6,211
	Homeland Security - Public Health	97.073	26,612
			<u>32,823</u>
	Homeland Security-Law Enforcement Equipment	97.074	29,491
	Homeland Security-Law Enforcement Equipment	97.074	1,693
			<u>31,184</u>

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – page 3

Homeland Security Cluster		
Homeland Security-Fire & Inspections	97.004	54,832
Homeland Security-Environmental Health	97.067	1,073
Homeland Security - Public Health	97.067	14,988
Cluster Total		<u>70,893</u>
Emergency Mgt Performance Grant	97.042	18,081
Total Department of Homeland Security		<u>152,981</u>
 <i>Department of Health & Human Services</i>		
North Dakota Department of Health		
Women's Way-Breast & Cervical Cancer Screening	93.283	52,820
West Nile Virus-Vector Control	93.283	6,831
Bioterrorism - PIO	93.283	39,388
Bioterrorism - PIO Asst	93.283	361
Bioterrorism Response Coordinator	93.283	106,118
Emergency Preparedness & Resp/Pan Flu Asst	93.283	46,791
Public Health Emergency Preparedness and Response	93.283	52,425
Colorectal Cancer Prevention	93.283	908
Cancer Prevention Summit	93.283	4,992
Promote Colorectal Cancer Screening	93.283	4,958
Tobacco Prevention & Control	93.283	37,905
		<u>353,497</u>
Immunization	93.268	40,680
ND Health Tracks	93.991	90,908
Ryan White CARE	93.917	7,739
Maternal & Child Health/OPOP	93.994	57,632
HIV Testing	93.943	8,550
Tuberculosis	93.116	6,300
Total Department of Health & Human Services		<u>565,306</u>
 <i>Environmental Protection Agency</i>		
Public Finance Authority		
Capitalization Grant for State Revolving Funds 20,000,000	66.458	8,679,324
Total Environmental Protection Agency		<u>8,679,324</u>
 Totals		<u><u>\$ 15,650,056</u></u>

NOTES:

See Note 1 of the financial statements for the City of Bismarck's significant accounting policies.

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:		
UMTA - EH Transit	20.507	1,240,473
Department of Justice:		
Edward Byrne	16.579	10,944
JJDDP Title V Grant	16.548	20,905

CITY OF BISMARCK
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
DECEMBER 31, 2008

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, 2008

None

CITY OF BISMARCK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2008

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of the **City of Bismarck**.
2. One significant deficiency was disclosed by our audit of the financial statements. We do not consider significant deficiency 08-1 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. Two significant deficiencies, 08-2 and 08-3, were reported by our audit for internal control over the major federal award programs of these we consider 08-2 to be a material weakness.
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 are the Airport Improvement Program #20.106, Capitalization Grants For Clean Water State Revolving Funds #66.458, and Federal Transit -- Formula Grants (Urbanized Area Formula Program) #20.507.
8. The threshold for distinguishing a Type A program was \$469,502.
9. The **City of Bismarck** was determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

08-1: Recording of Transactions Finding

Condition: We identified misstatements in the City's financial statements causing us to propose significant audit adjustments to accounts receivable and revenue recorded for utility billings.

Criteria: A good system of internal accounting control contemplates proper reconcilements of all general ledger accounts and adjustments of those accounts to the reconciled balances.

Cause: The utility billings that were billed in January 2009 were all accrued as accounts receivable as of 12/31/08 and the corresponding revenue was also recorded in 2008. There was a miscommunication between the utility department and the fiscal services office that all of the January 2009 billings were for December 2008 usage but the January 2009 billings for garbage, landfill, container, lighting and storm sewer utilities were for January 2009 usage and should not have been accrued as a receivable at 12/31/08.

Effect: Accounts receivable and revenue were overstated at 12/31/08 due to including the January 2009 usage in the 2008 financial statements. This resulted in us proposing significant audit adjustments to accounts receivable and revenue.

Recommendation: We recommend that all departments involved in the financial reporting process maintain constant communication and communicate all necessary information for proper reconciliation and reporting of all general ledger accounts.

Response: The accrual of the utility billing will include only the charges for the usage as of December 31.

C. FINDINGS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

08-2: Federal Transit -- Formula Grants (Urbanized Area Formula Program) #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.

08-3: Federal Transit -- Formula Grants (Urbanized Area Formula Program) #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.