



Federal Awards Reports in Accordance
with the Uniform Guidance
December 31, 2016

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 Board of
City Commissioners
City of Bismarck
Bismarck, 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 City of Bismarck, North Dakota, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise City of Bismarck’s basic financial statements, and have issued our report thereon dated June 30, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Bismarck’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 City of Bismarck’s internal control. Accordingly, we do not express an opinion on the effectiveness of City of Bismarck’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 certain 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 to be a material weakness: 2016-A.

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 City of Bismarck, North Dakota'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 Bismarck's Response to the Finding

City of Bismarck's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. City of Bismarck'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 black ink that reads "Eide Sully LLP". The signature is written in a cursive, flowing style.

Bismarck, North Dakota
June 30, 2017



Independent Auditor’s Report on Compliance for the Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

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

Report on Compliance for the Major Federal Program

We have audited City of Bismarck, North Dakota’s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the City of Bismarck, North Dakota’s major federal program for the year ended December 31, 2016. The City of Bismarck, North Dakota’s major federal program is 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor’s Responsibility

Our responsibility is to express an opinion on the compliance for the City of Bismarck’s major federal program 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 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 City of Bismarck’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 the major federal program. However, our audit does not provide a legal determination of the City of Bismarck’s compliance.

Opinion on the Major Federal Program

In our opinion, City of Bismarck, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2016.

Report on Internal Control over Compliance

Management of City of Bismarck, North Dakota, 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 City of Bismarck, North Dakota's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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 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 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 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, business-type activities, each major fund, and the aggregate remaining fund information of City of Bismarck as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City of Bismarck, North Dakota's basic financial statements. We issued our report thereon dated June 30, 2017, 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 the Uniform Guidance 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 30, 2017

City of Bismarck
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2016

Federal Granter/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Expenditures	Amounts Passed- Through to Subrecipients
<u>Department of Agriculture</u>				
Passed Through North Dakota Department of Agriculture Specialty Crop Block Grant Program-Farm Bill	10.170	DA023017-02	\$ 3,219	\$ -
Total Department of Agriculture			<u>3,219</u>	<u>-</u>
<u>Department of Housing and Urban Development</u>				
Community Development Block Grants	14.218	B-13(14)(15)(16)- MC-38-0003	261,275	216,866
Passed Through North Dakota Department of Commerce Home Investment Partnerships Program	14.239	2806-M10111213-0/ 3896-M15-10	<u>61,857</u>	<u>60,722</u>
Total Department of Housing & Urban Development			<u>323,132</u>	<u>277,588</u>
<u>Department of Justice</u>				
Bullet Proof Vest/Armor	16.607	2014-2016 Programs	5,670	-
Public Safety Partnership & Community Policing	16.710	2013UMWX0149	97,468	-
Edward Byrne Memorial Justice Assistance Grant Program Passed Through Office of Attorney General	16.738	2015-DJ-BX-0061	26,749	9,574
Edward Byrne Memorial Justice Assistance Grant Program Total Edward Byrne Memorial Justice Assistance Grant Program	16.738	G15203/G15220	<u>19,227</u>	<u>19,227</u>
Total Edward Byrne Memorial Justice Assistance Grant Program			45,976	28,801
Passed Through North Dakota Department of Health Violence Against Women Formula Grants	16.588	G15.313/G13.900/4551H LH4124(26)-01	17,199	17,199
Total Department of Justice			<u>166,313</u>	<u>46,000</u>
<u>Department of Transportation</u>				
Airport Improvement Projects	20.106	3-38-0003-051-2013/ (53-2014)(54 2015)(55-2015)(56- 2015)(57-2016)	3,408,992	-
Federal Transit Cluster Federal Transit Capital Investment Grants	20.500	ND-04-0018-00 ND-90-X099-	35,614	35,614
Federal Transit Formula Grants	20.507	00/ND201600300/11552 017P1	1,873,276	1,873,276
Total Federal Transit Cluster			<u>1,908,890</u>	<u>1,908,890</u>
Passed Through North Dakota Department of Transportation Metropolitan Transportation Planning	20.505	CPG000015(16)	127,085	-
Passed Through Federal Highway Administration Highway Planning and Construction	20.205	CPG0020015(16)/ NDDOT38161445	663,001	-
Passed Through National Highway Traffic Safety Administration Highway Safety Cluster National Priority Safety Programs	20.616	NDDOT12151984/12161 850	<u>20,556</u>	<u>-</u>
Total Highway Safety Cluster			20,556	-
Total Department of Transportation			<u>6,128,524</u>	<u>1,908,890</u>

City of Bismarck
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2016

Federal Granter/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Expenditures	Amounts Passed- Through to Subrecipients
<u>Department of Health and Human Services</u>				
Passed Through North Dakota Department of Health				
Public Health Emergency Preparedness	93.069	661HLH3276(7)- 11(22)/G15.066(86)	122,380	-
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	2201-HLH339-01 PF15.132	5,000	-
Immunization Cooperative Agreements PPHF Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure Performance	93.268	HLH3316-06 G15.421	12,498	-
Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations financed in part by Prevention and Public Health Funds	93.539	HLH4606-01 G15.421	32,942	-
HIV Care Formula Grants	93.752	4521HLH3206(17)/ G15.022(204)	57,490	-
Cooperative Agreements for State-Based Comprehensive HIV Prevention Activities Health Department Based	93.917	2201-HLH3437-03/09 PF15.149	101,575	-
Maternal & Child Health Services Block Grants to the States	93.940	2210-H337 PF13.109	5,364	-
Passed Through Lutheran Social Services of North Dakota Refugee and Entrant Assistance Discretionary Grants	93.994	4541HLH313503 G13.540	43,901	-
Passed Through North Dakota Cancer Coalition State and Local Public Health Actions to Prevent Obesity, Diabetes, Heart Disease, and Stroke	93.576	#2016(17)-HP 2(5)	4,209	-
Preventive Health and Health Service Block Grant funded solely with Prevention and Public Health Funds	93.757	4561 HLH3145(6)-06 G15.379(936)	3,216	-
	93.758	4561 HLH3145(6)-06 G15.379(936)	16,686	-
Total Department of Health and Human Services			405,261	-
<u>Department of Homeland Security</u>				
Passed Through North Dakota Department of Emergency Services				
Emergency Management Performance Grants	97.042	A0058001-2015/ 2016-EMPG	50,032	-
Homeland Security Grants-Fire	97.067	A0120-001(2)(3)- 2014(2015)RT/RE/RQ	125,090	-
Homeland Security Grants-Law Enforcement	97.067	A0077-001(2)- 2014RT(Q)/ A1196-001(2)- 2015RT(Q)	81,008	-
Total Homeland Security Grants			206,098	-
Total Department of Homeland Security			256,130	-
Total Federal Financial Assistance			\$ 7,282,579	\$ 2,232,478

Note A – Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Bismarck, and is presented in accordance with the basis of accounting by fund type which the grant resides as further described in Note B – Significant Accounting Policies. 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). City of Bismarck 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 for the majority of the City’s federal grant activity, with the exception of the Airport Improvement Project grants which are recorded in the airport enterprise fund. Therefore, expenditures reported in the schedule of expenditures of federal awards are recognized on the accrual basis of accounting for the airport improvement projects, and the remaining expenditures reported 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.

The City has not elected to use the 10% de minimis cost rate.

Note C – Agency or Pass-Through Number

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, or else there are certain pass-through entities that did not provide identifying numbers.

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 programs:	
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 the Uniform Guidance 2 CFR 200.516:	No

Identification of major programs:

<u>Name of Federal Program</u>	<u>CFDA Number</u>
Federal Transit - Formula Grant/Operating	20.507
Federal Transit - Capital Investment Grants/Preventative Maintenance	20.500
Dollar threshold used to distinguish between type A and type B programs:	\$750,000
Auditee qualified as low-risk auditee?	Yes

Section II – Financial Statement Findings

**2016-A Recording of Transactions
Material Weakness**

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.

Condition: There were misstatements related to revenue recognition from water revenue and sales tax revenue in the City's financial statements causing us to propose restatements to prior periods.

Cause: The City's internal controls relied on an outdated interpretation related to the recording of certain transactions.

Effect: The need for these adjustments indicates the City's interim financial information is not correct; however, there is minimal effect on appropriations and management's decisions.

Recommendation: We recommend the City implement a corrective action plan and make adjustments for any differences noted.

Views of Responsible Officials: Management agrees with the finding and is implementing corrective action to address it.

Section III – Federal Award Findings and Questioned Costs

There are no findings or questioned costs relating to the major federal award program which are required to be reported in accordance with Section 2 CFR 200.516 of the Uniform Guidance.