



Federal Awards Reports in Accordance
with the Uniform Guidance
December 31, 2015

City of Dickinson

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*..... 1

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 the Uniform Guidance 3

Schedule of Expenditures of Federal Awards..... 6

Notes to Schedule of Expenditures of Federal Awards 7

Schedule of Findings and Questioned Costs..... 8



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*

City Commissioners
City of Dickinson
Dickinson, 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 Dickinson as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise City of Dickinson's basic financial statements, and have issued our report thereon dated December 21, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Dickinson'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 Dickinson's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Dickinson'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 have not been identified. However, as described in the accompanying schedule of findings and questioned costs we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 deficiencies described in the accompanying schedule of findings and questioned costs listed as 2015-A and 2015-B to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs listed as 2015-C and 2015-D to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Dickinson'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 Dickinson's Responses to Findings

City of Dickinson's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. City of Dickinson's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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

Bismarck, North Dakota
December 21, 2017



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 the Uniform Guidance

City Commissioners
City of Dickinson
Dickinson, North Dakota

Report on Compliance for the Major Federal Program

We have audited City of Dickinson’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 Dickinson’s major federal program for the year ended December 31, 2015. The City of Dickinson’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 of City of Dickinson’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 Dickinson’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 City of Dickinson’s compliance.

Opinion on the Major Federal Program

In our opinion, City of Dickinson 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, 2015.

Report on Internal Control over Compliance

Management of City of Dickinson 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 Dickinson'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 the City of Dickinson'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 Dickinson as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City of Dickinson's basic financial statements. We issued our report thereon dated December 21, 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
December 21, 2017

City of Dickinson
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2015

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Pass Through Grant Number</u>	<u>CFDA #</u>	<u>Expenditures</u>
<u>Department of Agriculture</u>			
Solid Waste Management Grants		10.762	\$ 20,600
Total Department of Agriculture			<u>20,600</u>
<u>Department of Homeland Security</u>			
Passed through North Dakota Attorney General			
Homland Security Grant Program	AO436, A10000, AO434	97.067	<u>109,863</u>
Total Department of Homeland Security			<u>109,863</u>
<u>Department of Justice</u>			
Passed through North Dakota Attorney General			
Edward Byrne Memorial Justice	14201, 13502	16.738	<u>6,802</u>
Total Department of Justice			<u>6,802</u>
<u>Department of Transportation</u>			
Passed through North Dakota Department of Transportation			
Highway Safety Cluster			
State and Community Highway Safety	PHSPOP 1405-05-07	20.600	1,085
Alcohol Impaired Driving Countermeasures Incentive Grants	PHSPID1410-03-08	20.601	6,543
Seatbelt Enforcement Grant		20.609	1,073
Highway Safety Cluster Total			<u>8,701</u>
Total Department of Transportation			<u>8,701</u>
<u>Environmental Protection Agency</u>			
Passed through North Dakota Department of Health			
Capitalization Grants for Clean Water State Revolving Funds	380933-02, 380933-03	66.458	<u>9,481,354</u>
Total Environmental Protection Agency			<u>9,481,354</u>
Total			<u>\$ 9,627,320</u>

Note A – Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Dickinson, and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the Uniform Guidance. City of Dickinson received federal awards both directly from federal agencies and indirectly through pass-through entities. The City of Dickinson has not provided any federal financial assistance to subrecipients.

Note B - Significant Accounting Policies

Governmental fund types account for the City of Dickinson'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 of Dickinson's summary of significant accounting policies is presented in Note 1 in the City of Dickinson's basic financial statements.

The City does not draw for indirect administrative expenses.

Section I – Summary of Auditor’s Results

FINANCIAL STATEMENTS

Type of auditors' report issued	Unmodified
Internal control over financial reporting:	
Material weakness identified	Yes
Significant deficiency	Yes
Noncompliance material to financial statements noted	No

FEDERAL AWARDS

Internal control over federal programs:	
Material weakness identified	No
Significant deficiency	None Reported
Type of auditors' 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>
Capitalization Grants for Clean Water State Revolving Funds	66.458
Dollar threshold used to distinguish between Type A and Type B programs	\$ 750,000
Auditee qualified as low-risk auditee	No

Section II – Financial Statement Findings

2015-A Recording of Transactions
Material Weakness

Criteria - A good system of internal accounting control contemplates proper adjustments of all general ledger accounts.

Condition – We identified misstatements in the City’s financial statements causing us to propose material audit adjustments, including a restatement to prior periods.

Cause – Certain adjustments were overlooked in the closing process such as equipment acquisitions, construction in progress expenditures, retainage payable amounts, expenditures that should be booked as accounts payable and receivables.

Effect - Inadequate internal controls over recording of transactions affects the City’s ability to detect misstatements in amounts that would be material in relation to the financial statements.

Recommendation – We recommend that all general ledger accounts be reconciled in a timely manner.

Management Response – The City has hired a 5th person in the accounting department specifically to handle payroll and allow other staff to more fully focus on their responsibilities. The Staff person responsible for budgets, financial reporting and grants will review all year-end balance sheet account amounts and tie to supporting schedules. These schedules will be prepared by the staff person responsible for various accounts such as cash, receivables, payables and capital assets. All significant balance sheet accounts will be supported by schedules and/or reconciliations, sufficient to mitigate the need for an auditor to propose a material adjustment.

2015-B Preparation of Financial Statements
Material Weakness

Criteria – A good system of internal accounting control contemplates an adequate system for the preparation of the financial statements and accompanying notes to the financial statements.

Condition – The City does not have an internal control system designed to provide for the complete preparation of the financial statements and accompanying notes to the financial statements. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements.

Cause – The City does not focus on providing training to employees to stay current with all accounting standards and applications in order to prepare complete financial statements and accompanying notes to the financial statements.

Effect – Inadequate control over financial reporting could result in a reasonable possibility that a material misstatement of the City’s financial statements and accompanying notes to the financial statements will not be prevented, or detected and corrected on a timely basis.

Recommendation – The circumstance is not unusual in an organization of your size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Management Response – The staff size and cost did not change from 2014 to 2015 so this will be a continuance of the auditors to assist in preparing our draft financial statements and notes in the near future, plans are to address this in the long-term.

**2015-C Segregation of Duties
Significant Deficiency**

Criteria - A good system of internal accounting control contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion and that there is proper approval of transactions.

Condition – The City has a lack of segregation of duties in certain areas due to a limited staff. Examples of specific transactions that are handled without adequate segregation of duties include the following:

- One individual receives cash receipts, enters the transactions in the accounting system, generates the deposit ticket and occasionally takes the deposit to the bank. The individual also has access to post and make changes to the transactions posted in the accounting software.
- One individual enters invoices in the accounting system, prints checks, can add new vendors to the accounting system and completes the bank reconciliations.
- The City does not have a consistent process related to the approval of invoices by the appropriate individuals in each department. Some individuals sign invoices indicating approval and some write or stamp the general ledger coding on the invoice to indicate approval but there is not always a clear indication of which employee is approving the invoice.
- Manual time cards are still being used to track employee hours. The accounting department has the responsibility of entering new hire information, termination information, employee compensation changes, processing payroll, and sending payroll information to the bank.

Cause – The City has not implemented internal control procedures to ensure there is adequate segregation of duties related to all transactions handled in the accounting office and there are a limited number of employees to segregate all of the duties.

Effect - Inadequate segregation of duties could adversely affect the City’s ability to detect potential material misstatements to the financial statements or fraudulent activity in a timely manner.

Recommendation – While we recognize that your office staff may not be large enough to permit complete segregation of duties in all respects for an effective system of internal control, all accounting functions should be reviewed to determine if additional segregation is feasible.

Management Response – The City has hired a 5th person in the accounting department specifically to handle payroll and allow other staff to more fully focus on their responsibilities. The City also is in the process of cross-training account department personnel so an individual can perform another’s duties if they are absent. All accounting department personnel are required to take at least one week off each year necessitating another staff person to perform their duties during that time. Also, certain routine internal control processes such as bank reconciliations and journal entries are now reviewed and initialed by a second person.

**2015-D Department Controls over Cash
Significant Deficiency**

Criteria – A good system of internal accounting controls contemplates an adequate audit paper trail and proper segregation of duties to mitigate abuse or fraud.

Condition – The City has a lack of effective internal controls related to the receipting process in various departments of the City.

Cause – The departments have limited staff available to properly segregate the duties related to the cash receipt process. The procedures followed for receipting cash also involve several manual steps which result in an inadequate audit trail.

Effect – Inadequate controls over cash receipts could affect the City’s ability to detect errors or fraud.

Recommendation – We recommend the City eliminate as many manual procedures related to receipting cash as possible. We also recommend the City review the cash receipt procedures in all departments to determine if there are controls that can be implemented to adequately segregate the duties or to mitigate the risks due to limited staff in the departments.

Management Response – The City is in the process of documenting the flow of receipt transactions through our accounting system to better detect and correct errors and to mitigate the risk of fraud. For example, there is documentation of a secure document, such as a utility payment, tracing into a bank deposit and also being posted to a customer’s utility account and then posted to the general ledger. The flow of our various receipt cycles is documented to show that more than one person is involved in the cycle and that any discrepancies can easily be traced back to its origin.

Section III – Federal Award Findings and Questioned Costs

None