

**SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS
DECEMBER 31, 2008**

**CITY OF FARGO
FARGO, NORTH DAKOTA**



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
Members of City Commission
City of Fargo
Fargo, 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 Fargo, North Dakota, as of and for the year ended December 31, 2008, which collectively comprise the City of Fargo, North Dakota's basic financial statements and have issued our report thereon dated July 20, 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 City of Fargo, North Dakota's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Fargo, North Dakota's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Fargo, North Dakota'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 deficiencies in internal control over financial reporting 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 combination of control deficiencies, that adversely affects the City of Fargo, North Dakota'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 of Fargo, North Dakota's financial statements that is more than inconsequential will be not be prevented or detected by the entity's internal control. We considered deficiencies 08-1 and 08-2 described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting.

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

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 believe the significant deficiencies described above are not material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Fargo, North Dakota's general purpose 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 Fargo, North Dakota's responses to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the City of Fargo, North Dakota's response and, accordingly, we express no opinion on it.

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

Fargo, North Dakota
July 20, 2009



CPAs & BUSINESS ADVISORS

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

Compliance

We have audited the compliance of City of Fargo, 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. City of Fargo, 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 Fargo, North Dakota's management. Our responsibility is to express an opinion on City of Fargo, 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 City of Fargo, 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 City of Fargo, North Dakota's compliance with those requirements.

In our opinion, City of Fargo, 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 Fargo, 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 Fargo, 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 Fargo, North Dakota's internal control over compliance.

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.

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.

Our consideration of internal control over compliance 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 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 Fargo, North Dakota, as of and for the year ended December 31, 2008, which collectively comprise the City of Fargo, North Dakota's basic financial statements and have issued our report thereon dated July 20, 2009. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the City of Fargo, North Dakota's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purpose 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 respect, 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

Fargo, North Dakota
July 20, 2009

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

Federal Grantor/ Pass-Through Grantor/Program Title	CFDA Numbers	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	\$	336,492
Total Department of Agriculture		\$	336,492
Department of Commerce			
<i>Indirect Federal Funding passed through-</i>			
North Dakota Department of Emergency Services Public Safety Interoperable Communications Grant Program	11.555		40,631
Total Department of Commerce			40,631
Department of Housing and Urban Development			
<i>Direct Federal Funding:</i>			
Community Development Block Grants	14.218		1,012,455
HOME Investment Partnership Program	14.239	\$	688,766
<i>Indirect Federal Funding passed through-</i>			
North Dakota Division of Community Services HOME Investment Partnership Program	14.239	13,735	
CFDA subtotal			702,501
Emergency Shelter Grants Program	14.231		6,768
Total Department of Housing and Urban Development			1,721,724

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – Page 2

Federal Grantor/ Pass-Through Grantor/Program Title	CFDA Numbers	Expenditures	
Department of Justice			
<i>Direct Federal Funding:</i>			
Public Safety Partnership and Community Policing	16.710		1,758,983
<i>Indirect Federal Funding passed through-</i>			
State of North Dakota Highway Patrol			
Enforcing Underage Drinking Laws Program	16.727		3,351
Cass County			
Edward Byrne Memorial			
Justice Assistance Grant Program	16.738	24,350	
Office of Attorney General			
Edward Byrne Memorial			
Justice Assistance Grant Program	16.738	8,999	
CFDA subtotal			33,349
Total Department of Justice			1,795,683
Department of Transportation			
<i>Direct Federal Funding:</i>			
Airport Improvement Program	20.106		4,074,729
Federal Transit Capital Investment Grants	20.500	385,465	
Federal Transit Formula Grants	20.507	1,888,187	
Federal Transit Cluster			2,273,652
New Freedom Program	20.521	41,584	
Job Access Reverse Commute	20.516	16,037	
Transit Services Programs Cluster			57,621
<i>Indirect Federal Funding passed through-</i>			
North Dakota Department of Transportation			
Bridge Relocation of Historic Steel Truss			
Bridge #5523	20.205	27,579	
Shared Use Path Oak Grove and Drain 27, #5303 and #5421-02	20.205	233,404	
Metropolitan Council of Governments			
Corridor Study - 64th Ave S #5499	20.205	86,566	
Corridor Study - 25th St S - #5681	20.205	46,372	
Growth Plan #COG05	20.205	5,932	
2008 FM GOG Digital Imagery - #5768	20.205	186,201	
Permanent Wireless Counter Trail	20.205	11,478	
CFDA subtotal			597,532

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – Page 3

Federal Grantor/ Pass-Through Grantor/Program Title	CFDA Numbers	Expenditures	
Department of Transportation (continued)			
<i>Indirect Federal Funding passed through (continued)-</i>			
North Dakota State Highway Department			
Safe Communities Program	20.600	73,713	
High School Seat Belt Program	20.600	1,500	
Alcohol Countermeasures	20.600	7,360	
May Mobilization Occupant Protection	20.600	<u>6,000</u>	
CFDA subtotal		88,573	
Alcohol Traffic Safety and Drunk			
Driving Prevention	20.601	9,851	
Highway Safety Cluster			<u>98,424</u>
Total Department of Transportation			7,101,958
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		2,755,324
Capitalization Grants for			
Drinking Water State Revolving Funds (1)	66.468		4,358,580
Water Supply	66.605	2,496	
Water Pollution	66.605	1,244	
Radon Awareness	66.605	<u>1,080</u>	
CFDA subtotal			4,820
Total Environmental Protection Agency			7,118,724
Department of Health and Human Services			
<i>Indirect Federal Funding passed through-</i>			
North Dakota Department of Health			
Tuberculosis Control Programs	93.116		14,800
Family Planning Services	93.217		153,036
Immunization Grants	93.268		140,206
Tobacco CDC	93.283	29,754	
West Nile	93.283	4,600	
Bioterrorism	93.283	248,291	
Small Communities Vector Control	93.283	4,600	
City Readiness Initiative	93.283	215,464	
Pandemic Influenza	93.283	<u>51,947</u>	
CFDA subtotal			554,656

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – Page 4

Federal Grantor/ Pass-Through Grantor/Program Title	CFDA Numbers	Expenditures
Department of Health and Human Services (continued)		
North Dakota Department of Health (continued)		
HIV Care Formula Grants	93.917	21,946
Cancer Early Detection Programs	93.919	81,322
HIV Prevention Activities	93.940	21,675
Preventive Health and Health Services	93.991	1,600
Maternal and Child Health Services	93.994	51,970
North Dakota Department of Human Services		
Refugee and Entrant		
Assistance Discretionary Grants	93.576	<u>61,781</u>
Total Department of Health and Human Services		1,102,992
Department of Homeland Security		
<i>Indirect Federal Funding passed through-</i>		
State of North Dakota DEM		
Hazard Mitigation Grant	97.039	1,238,031
Homeland Security Grant Program	97.067	72,066
Law Enforcement Terrorism Prevention Program	97.074	<u>129,551</u>
Total Department of Homeland Security		<u>1,439,648</u>
Total Expenditures of Federal Awards		<u><u>\$ 20,657,852</u></u>

CITY OF FARGO
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2008

NOTE 1 As of December 31, 2008, the City's liability relating to the Storm Sewer, Water, and Waste Water Expansion – State Revolving Fund (SRF) Loans is \$22,373,099.

NOTE 2 Federal revenues are recognized when the related expenditures or expenses are recognized. In governmental and expendable trust funds, expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. Proprietary funds use the accrual basis of accounting; expenses are recognized when they are incurred.

CITY OF FARGO
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED DECEMBER 31, 2007

There were no prior year federal audit findings.

CITY OF FARGO
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 of the general purpose financial statements of the City of Fargo.
2. Two significant deficiencies were disclosed during the audit of the financial statements that is reported in the Report on Compliance and Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. We do not consider these significant deficiencies to be material weaknesses.
3. No instances of noncompliance material to the financial statements of the City of Fargo were disclosed during the audit.
4. No significant deficiencies were reported in the Report on Compliance with Requirements Applicable to Each Major Program and Internal Controls over Compliance in Accordance with OMB Circular A-133.
5. The auditor's report on compliance for the major federal award programs for the City of Fargo expresses an unqualified report.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in Part C. of the schedule.
7. The programs tested as a major programs were: Public Safety Partnership and Community Policing grants CFDA #16.710 and Capitalization Grants for Drinking Water State Revolving Funds CFDA #66.468.
8. The threshold for distinguishing a Type A program was \$619,736.
9. The City of Fargo was determined to be a low-risk auditee.

B. FINDINGS – FINANCIAL STATEMENT AUDIT

Significant Deficiencies

08-1 Segregation of Duties within a Department

Criteria: A good system of internal control requires segregation of duties so that no one individual has incompatible responsibilities. No one person should have the more than one duty relating to the authorization, custody of assets, record keeping and reconciliation functions.

Condition: During the course of our engagement, we noted a department of the City had a lack of segregation of duties regarding the close out of the cash register, counts of inventory, preparation of deposit tickets, and bring the deposit to the bank.

Cause: There are a limited number of employees involved in the internal control process.

Effect: Inadequate segregation of duties could adversely affect the City's ability to detect misstatements in the financial statements in a timely period by employees in the normal course of performing their assigned functions.

Recommendation: The internal control function should be reviewed to determine additional segregation of duties to improve the efficiency and effectiveness of financial management and financial statement accuracy for the City.

Response: The City agrees with the finding and will implement the appropriate internal controls.

08-2 Recording of Transactions

Criteria: A good system of internal accounting control contemplates an adequate system for recognizing revenue when earned. While we acknowledge that the design of the City's internal control system allowed for management to be aware of the unbilled revenue, management did not record these revenues when earned as required by accounting principles generally accepted in the United State of America. These principles require revenue to be recognized when earned.

Condition: The City did not record unbilled revenue for the utility funds as required by accounting principles generally accepted in the United States of America.

Cause: The City has consistently recorded revenue only when billed. However, accounting principles generally accepted in the United States of America require the recording of unbilled revenue.

Effect: By not recording the unbilled revenue, accounting principles generally accepted in the United States of America are not being followed.

Recommendation: In accordance with accounting principles generally accepted in the United States of America, revenue should be recorded in the period that it is earned, regardless of the billing date.

Response: The City agrees with the finding and will modify year-end procedures to record unbilled revenue.

C. FINDINGS – MAJOR FEDERAL AWARD PROGRAMS AUDIT - NONE