

CITY OF BUFFALO, MINNESOTA

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR
ENDED DECEMBER 31, 2013 AND INDEPENDENT AUDITORS'
REPORTS AS REQUIRED BY GOVERNMENT AUDITING
STANDARDS AND OMB CIRCULAR A-133**



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**INDEPENDENT AUDITORS' 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**

Honorable Mayor and
Members of the City Council
City of Buffalo
Buffalo, Minnesota

We have audited, in accordance with the 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 the City of Buffalo (the City), as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise City of Buffalo's basic financial statements, and have issued our report thereon dated June 4, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Buffalo'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 the City of Buffalo's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Buffalo's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control 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 responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 City'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 responses as items 2013-001 to 2013-002 to be material weaknesses.

Honorable Mayor and
Members of the City Council
City of Buffalo

Compliance and Other Matters

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

The City of Buffalo's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The City of Buffalo'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 result 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 City of Buffalo's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

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Buffalo, Minnesota
June 4, 2014



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD
HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR FEDERAL PROGRAM, ON
INTERNAL CONTROL OVER COMPLIANCE, AND ON THE SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS IN ACCORDANCE WITH OMB CIRCULAR A-133**

Honorable Mayor and
Members of the City Council
City of Buffalo
Buffalo, Minnesota

Report on Compliance for Each Major Federal Program

We have audited City of Buffalo's (the City) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of City of Buffalo's major federal programs for the year ended December 31, 2013. City of Buffalo's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the City of Buffalo'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 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 Buffalo'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 Buffalo's compliance.

Opinion on Each Major Federal Program

In our opinion, City of Buffalo complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2013.

Honorable Mayor and
Members of the City Council
City of Buffalo

Report on Internal Control Over Compliance

Management of City of Buffalo is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Buffalo's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 City of Buffalo'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. 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 over compliance 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 result of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Honorable Mayor and
Members of the City Council
City of Buffalo

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Buffalo as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise City of Buffalo's basic financial statements. We issued our report thereon dated June 4, 2014, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic 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 basic financial statements or to the basic 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 basic financial statements as a whole.

CliftonLarsonAllen LLP

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Buffalo, Minnesota
June 4, 2014

CITY OF BUFFALO, MINNESOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2013

Federal Agency/Pass-Through Grantor/Program Title	Federal CFDA Number	Federal Expenditures
U.S. DEPARTMENT OF JUSTICE		
Federal Direct		
Bulletproof Vest Partnership Program	16.607	\$ 2,812
U.S. DEPARTMENT OF TRANSPORTATION		
Passed Through Minnesota Department of Transportation		
Airport Improvement Program	20.106	480,748
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		
Passed Through Department of Commerce		
Low-Income Home Energy Assistance	93.568	<u>101,650</u>
Total Federal Awards		<u>\$ 585,210</u>

Notes to Schedule of Expenditures of Federal Awards:

Note 1: The Schedule of Expenditures of Federal Awards presents the activity of federal awards expended by the City of Buffalo. The information presented in this schedule is presented in accordance with requirements of the U.S. Office of Management and Budget Circular A-133, Audits of State, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the City's financial statements.

Note 2: The expenditures on this schedule are on the basis of accounting used by the individual funds of the City, which is described in Note 1 to the basic financial statements of the City. Governmental funds use the modified accrual basis of accounting and the Proprietary funds use the accrual basis of accounting.

Note 3: No federal grant dollars have been passed-through to subrecipients.

Note 4: Pass-through grant numbers were not assigned by the pass-through agencies.

CITY OF BUFFALO, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2013

SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unmodified opinion on the basic financial statements of the City of Buffalo (the City), Minnesota.
2. Deficiencies in internal control were disclosed by the audit of the basic financial statements of the City of Buffalo and they are reported in the "Independent Auditors' 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*". Findings 2013-001 and 2013-002 are considered material weaknesses.
3. No instances of noncompliance material to the basic financial statements of the City were disclosed during the audit.
4. No material weaknesses were identified during the audit of the major federal award programs for the City of Buffalo that were required to be reported in the "Independent Auditors' Report on Compliance with Requirements That Could have a Direct and Material Effect on Each Major Federal Program, on Internal Control Over Compliance, and on the Schedule of Federal Awards in Accordance with OMB Circular A-133".
5. The auditors' report on compliance for the major federal award programs for the City of Buffalo expresses an unmodified opinion.
6. The audit disclosed findings which are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The program tested as a major program includes:
 - Airport Improvement Program CFDA No. 20.106
8. The threshold for distinguishing type A and B programs was \$300,000.
9. The City of Buffalo did not qualify, under federal guidelines, as a low-risk auditee.

CITY OF BUFFALO, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2013

MATERIAL WEAKNESSES (FINANCIAL REPORTING)

2013-001 Oversight of the Financial Reporting Process

Statement of Condition: The City does not have a system of internal controls that would enable management to conclude the financial statements and related disclosures are complete and presented in accordance with GAAP. As such, management requested us to prepare a draft of the financial statements, including the related footnote disclosures.

Criteria: Management is responsible for establishing and maintaining internal controls and for the fair presentation of the financial position, results of operations, cash flows, and disclosures in the financial statements, in conformity with U.S. generally accepted accounting principles (GAAP).

Effect: The City may not be able to prevent or detect material misstatements in the financial reporting process.

Cause of Condition: The City has limited resources.

Recommendation: In order to provide oversight of the financial statement preparation services at an appropriate level, we suggest management establish effective review policies and procedures including the performance of the following functions:

- Review and approve schedules and calculations supporting amounts included in the notes to financial statements.
- Apply analytic procedures to the draft financial statements.
- Perform other procedures as considered necessary by management.

Management Response: Due to the small size of the City's staff and the additional costs necessary to ensure proper controls are in place, the City has decided that the costs of implementing the necessary controls for preparing the City's financial statements outweigh the benefits that would be derived. Nevertheless, the City is continually reviewing the situation and establishes controls that the City believes will aid in the fair presentation of the financial statements without significant increases in the costs of implementing those controls.

CITY OF BUFFALO, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2013

MATERIAL WEAKNESSES (FINANCIAL REPORTING)

2013-002 Material Audit Adjustments

Statement of Condition: As part of the audit, we proposed material audit adjustments, including recording additional contracts payable, adjusting notes receivable balances, and recording capitalized interest.

Criteria: The City should have controls in place to prevent and detect a material misstatement in the financial statements in a timely manner. Management is responsible for the accuracy and completeness of all financial records and related information. Their responsibilities include adjusting the financial statements to correct material misstatements.

Effect: The design of the internal controls over recording adjusting entries could affect the City's ability to detect or prevent material misstatements.

Cause of Condition: The City has limited resources.

Recommendation: We recommend City management be consistently aware of all procedures and processes involved in recording transactions and accruals and develop internal control policies to ensure proper recording of these items.

Management Response: The City has evaluated the processes in place regarding the processing of year-end adjustments. As a result the City has adjusted a few of the procedures that are currently in place to ensure that the necessary adjustments are made prior to the audit.

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None.