

**CITY OF BUFFALO, MINNESOTA**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED DECEMBER 31, 2011**



**CliftonLarsonAllen**

CliftonLarsonAllen LLP  
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**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 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, Minnesota (the City), as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated May 17, 2012. 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'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 first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting 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 11-01 and 11-02 described in the accompanying schedule of findings and questioned costs 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 the City'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*.

We also noted certain other matters that we reported to management of the City in a separate letter dated May 17, 2012.

The City'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 City Council, management, federal awarding agencies, state funding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*CliftonLarsonAllen LLP*  
CliftonLarsonAllen LLP

Buffalo, Minnesota  
May 17, 2012



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### INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

#### **COMPLIANCE**

We have audited the compliance of the City of Buffalo, Minnesota (the City) 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 the City's major federal programs for the year ended December 31, 2011. The City'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 its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City'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'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 of the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011.

#### **INTERNAL CONTROL OVER COMPLIANCE**

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City'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, 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 the City's internal control over compliance.

Honorable Mayor and  
Members of the City Council  
City of Buffalo

### **INTERNAL CONTROL OVER COMPLIANCE (CONTINUED)**

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.

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 deficiencies, 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 as of and for the year ended December 31, 2011, and have issued our report thereon dated May 17, 2012, which contained unqualified opinions on those financial statements as a whole. The schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 basic 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 statement themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information 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 City Council, management, federal awarding agencies, state funding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



**CliftonLarsonAllen LLP**

Buffalo, Minnesota  
May 17, 2012

**CITY OF BUFFALO, MINNESOTA**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED DECEMBER 31, 2011**

<u>Federal Agency/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<b>U.S. DEPARTMENT OF COMMERCE</b>		
Passed Through the City of St. Cloud Public Safety Interoperable Communications Grant	11.555	\$ 15,519
<b>U.S. DEPARTMENT OF INTERIOR</b>		
Federal Direct National Fire Plan - Rural Fire Assistance	15.242	10,575
<b>U.S. DEPARTMENT OF TRANSPORTATION</b>		
Passed Through Minnesota Department of Transportation Airport Improvement Program	20.106	589,488
Passed Through Department of Public Safety Repeat Intoxicated Driver Total Department of Transportation	20.608	<u>3,604</u> <u>593,092</u>
<b>U.S. DEPARTMENT OF ENERGY</b>		
Passed Through Department of Energy ARRA Energy Efficiency and Conservation Block Grant	81.128	22,538
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>		
Passed Through Department of Commerce Low-Income Home Energy Assistance	93.568	<u>136,446</u>
Total Federal Awards		<u>\$ 778,170</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, 2011**

## A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the basic financial statements of the City of Buffalo, 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 "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 11-01 and 11-02 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 significant deficiencies or 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 Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133".
5. The auditors' report on compliance for the major federal award program for the City of Buffalo expresses an unqualified opinion.
6. No audit findings relative to the major federal award program for the City of Buffalo were disclosed during the audit.
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, 2011**

**B. FINDINGS – FINANCIAL STATEMENTS AUDIT**

**CURRENT YEAR**

**11-01 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: Limited resources at the City.

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:

- Reconcile general ledger amounts to the draft financial statements utilizing grouping schedules provided by us.
- Review the adequacy of financial statement disclosures by completing a disclosure checklist available from various sources or which may be obtained from us.
- Review and approve schedules and calculations supporting amounts included in the notes to financial statements.
- Review and approve the cash flow worksheet used in preparing the statement of cash flows.
- 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, 2011**

**B. FINDINGS – FINANCIAL STATEMENTS AUDIT (CONTINUED)**

**CURRENT YEAR (CONTINUED)**

**11-02 Material Audit Adjustments**

Statement of Condition: As part of the audit, we proposed material audit adjustments to adjust transfers and capital contributions between governmental and business-type funds as well as record additional receivables and payables.

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: Limited resources at the City.

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**

**CURRENT YEAR**

None.

**PRIOR YEAR**

None.