

CITY OF BUFFALO, MINNESOTA

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND
INDEPENDENT AUDITORS' REPORTS AS REQUIRED BY GOVERNMENT
AUDITING STANDARDS AND UNIFORM GRANT GUIDANCE**

YEAR ENDED DECEMBER 31, 2015



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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), Minnesota as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 8, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City'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's internal control. Accordingly, we do not express an opinion on the effectiveness of the City'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 questioned costs, we identified 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 questioned costs as items 2015-001 and 2015-002 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 the City'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 Response to Findings

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

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 City'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.

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Buffalo, Minnesota
June 8, 2016

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

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 (the City), Minnesota's compliance with the types of compliance requirements described in the *OMB 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, 2015. The City'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 on the City'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 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 the 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 on compliance for the major federal program. However, our audit does not provide a legal determination of the City's compliance.

Honorable Mayor and
Members of the City Council
City of Buffalo

Opinion on Each Major Federal Program

In our opinion, the City 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, 2015.

Report on Internal Control Over Compliance

Management of the City 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'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 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'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 the Uniform Guidance. 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 the Uniform Guidance

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, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated June 8, 2016, 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 the Uniform Guidance 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

Buffalo, Minnesota
June 8, 2016

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CITY OF BUFFALO, MINNESOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2015

Federal Agency/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grant Numbers	Federal Expenditures
U.S. DEPARTMENT OF JUSTICE			
Federal Direct Bulletproof Vest Partnership Program	16.607	N/A	\$ 2,158
U.S. DEPARTMENT OF TRANSPORTATION			
Passed-Through Minnesota Department of Transportation Airport Improvement Program	20.106	A8601-29	52,826
Highway Planning and Construction	20.205	HPPH-STPM H120(007)	1,332,337
Passed-Through Minnesota Department of Public Safety and Wright County Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	A-ENFRC15-2015- WRIGHTSD-00041	895
National Priority Safety Programs	20.616	A-ENFRC15-2015- WRIGHTSD-00041	<u>570</u>
Total Department of Transportation			1,386,628
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed-Through Department of Commerce Low-Income Home Energy Assistance	93.568	15B1MNLIEA	<u>101,005</u>
Total Federal Awards			<u>\$ 1,489,791</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 under programs of the federal government for the year ended December 31, 2015. The information presented in this schedule is presented in accordance with 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). 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. The City has not elected to use the 10% de minimis indirect cost rate as allowed under Uniform Guidance.

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

CITY OF BUFFALO, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2015

SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditor's report issued: *Unmodified*

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified? yes no

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified? yes no

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? yes no

Identification of major programs:

CFDA Number(s)

20.205

Name of Federal Program or Cluster

Highway Planning and Construction

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? yes no

CITY OF BUFFALO, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2015

MATERIAL WEAKNESSES (FINANCIAL REPORTING)

2015-001 Material Audit Adjustments

Condition and Context: As part of the audit, we proposed material audit adjustments, including recording the net pension liability and allocating it amongst opinion units, adjusting inventory balances, correcting contracts payable, removing capital assets for items under capitalization threshold, removing bond issuance costs from cost of capital assets, recording lease receivable for the Trailblazer facility.

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: 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.

CITY OF BUFFALO, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2015

MATERIAL WEAKNESSES (FINANCIAL REPORTING - CONTINUED)

2015-002 Liquor Store Inventory Procedures

Condition and Context: During audit procedures performed, it was discovered that the City's software at the liquor stores was not accurately tracking inventory on hand. During the auditor's observation of inventory levels, on a test count basis, there was an error of \$2,879 out of a sample of \$10,704 in inventory observed. Fourteen products of 28 counted had discrepancies between the amount counted at the store and the amount recorded in the software.

Criteria: The City should have controls in place to ensure proper inventory levels are on hand and are accurately reflected in reports provided to City management. Having reliable software is a key to having reliable reports that can be used to monitor performance of the liquor store and the levels of inventory on hand.

Effect: When the software is not accurately tracking inventory levels, the City is at an increased risk of errors in inventory due to error or theft.

Cause: Unknown.

Recommendation: We recommend City management ensure accuracy of inventory levels throughout the year by performing physical inventory counts and comparing the counts to the amounts listed in the reports for accuracy.

Management Response: The City will work with their software vendor to find a solution and will review their procedures over tracking inventory to address this issue.

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None

PRIOR YEAR FINDINGS

2014-001 Material Audit Adjustments

See current year finding 2015-001.

Reason for Finding's Recurrence: The City had unique transactions not in the normal course of business in 2015 that needed to be adjusted.