

CITY OF RAMSEY
ANOKA COUNTY, MINNESOTA

Special Purpose Audit Reports on

Single Audit,
Internal Controls, and Compliance
With Laws and Regulations

Year Ended
December 31, 2017

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CITY OF RAMSEY
ANOKA COUNTY, MINNESOTA

Special Purpose Audit Reports
Year Ended December 31, 2017

Table of Contents

	Page
Schedule of Expenditures of Federal Awards	1
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 <i>Government Auditing Standards</i>	2-3
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	4-6
Independent Auditor's Report on Minnesota Legal Compliance	7
Schedule of Findings and Questioned Costs	8-11

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CITY OF RAMSEY

Schedule of Expenditures of Federal Awards
Year Ended December 31, 2017

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA No.	Federal Expenditures
U.S. Department of Transportation		
Passed through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 282,905
Passed through Anoka County Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	16,821
U.S. Department of Justice		
Direct Program Bulletproof Vest Partnership Program	16.607	1,400
U.S. Department of the Interior		
Direct Program Mississippi National River and Recreation Area State and Local Assistance	15.941	<u>488,865</u>
Total federal awards		<u><u>\$ 789,991</u></u>

Note 1: The Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting. The information in this schedule is presented in accordance with the OMB's *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Therefore, some amounts presented in this schedule may differ from the amounts presented in, or used in the preparation of, the City's basic financial statements.

Note 2: All pass-through entities listed above use the same CFDA numbers as the federal grantors to identify these grants, and have not assigned any additional identifying numbers.

Note 3: The City did not elect to use the 10 percent de minimis indirect cost rate.

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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

To the City Council and Management
City of Ramsey, Minnesota

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 the City of Ramsey, Minnesota (the City) as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 21, 2018.

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.

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. 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.

Our consideration of internal control 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 and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify one deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item 2017-001, that we consider to be a material weakness.

(continued)

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'S RESPONSE TO FINDING

The City's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 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's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Malloy, Montague, Karnowski, Radosevich & Co., P.A.

Minneapolis, Minnesota
May 21, 2018



PRINCIPALS

Thomas A. Karnowski, CPA
Paul A. Radosevich, CPA
William J. Lauer, CPA
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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

To the City Council and Management
City of Ramsey, Minnesota

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the City of Ramsey, Minnesota’s (the City) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget *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, 2017. The City’s major federal programs are identified in the Summary of Audit 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 compliance for each of the City’s major federal programs 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 each major federal program. However, our audit does not provide a legal determination of the City’s compliance.

(continued)

OPINION ON EACH MAJOR FEDERAL PROGRAM

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to on the previous page that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2017.

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 on the previous page. 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, we identified a deficiency in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as item 2017-002, that we consider to be a significant deficiency.

CITY'S RESPONSE TO FINDING

The City's response to the internal control over compliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

PURPOSE OF THIS REPORT

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.

(continued)

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, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated May 21, 2018, 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.

Malloy, Montague, Karnowski, Radosevich & Co., P.A.

Minneapolis, Minnesota
May 21, 2018

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INDEPENDENT AUDITOR'S REPORT
ON MINNESOTA LEGAL COMPLIANCE

To the City Council and Management
City of Ramsey, Minnesota

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 the City of Ramsey, Minnesota (the City) as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 21, 2018.

MINNESOTA LEGAL COMPLIANCE

The *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minnesota Statutes § 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories.

In connection with our audit, nothing came to our attention that caused us to believe that the City failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Cities*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City's noncompliance with the above referenced provisions.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this report is not suitable for any other purpose.

Malloy, Montague, Karnowski, Radosevich & Co., P.A.

Minneapolis, Minnesota
May 21, 2018

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CITY OF RAMSEY

Schedule of Findings and Questioned Costs
Year Ended December 31, 2017

A. SUMMARY OF AUDIT RESULTS

This summary is formatted to provide federal granting agencies and pass-through agencies answers to specific questions regarding the audit of federal awards.

Financial Statements

What type of auditor's report is issued? Unmodified
 Qualified
 Adverse
 Disclaimer

Internal control over financial reporting:

Material weakness(es) identified? Yes No
 Significant deficiencies identified? Yes None reported
 Noncompliance material to the financial statements noted? Yes No

Federal Awards

Internal controls over major federal award programs:

Material weakness(es) identified? Yes No
 Significant deficiencies identified? Yes None reported

Type of auditor's report issued on compliance for major programs? Unmodified
 Qualified
 Adverse
 Disclaimer

Any audit findings disclosed that are required to be reported in accordance with 2CFR200.516(a)? Yes No

Programs tested as major programs:

Program or Cluster	CFDA No.
U.S. Department of the Interior Mississippi National River and Recreation Area State and Local Assistance	15.941

Threshold for distinguishing between type A and B programs: \$ 750,000

Does the auditee qualify as a low-risk auditee? Yes No

CITY OF RAMSEY

Schedule of Findings and Questioned Costs (continued)
Year Ended December 31, 2017

B. FINANCIAL STATEMENT FINDINGS

2017-001 Prior Period Adjustment

Criteria – Management is responsible for establishing and maintaining effective internal controls over the financial reporting process. These controls include the responsibility for the preparation of the City of Ramsey, Minnesota’s (the City) annual financial statements in accordance with accounting principles generally accepted in the United States of America.

Condition – During our audit, we noted a material prior period adjustment, as detailed in the notes to basic financial statements, that was necessary to reflect an interfund loan that should have been reported in the prior year. Auditing standards consider the necessity of recording a material prior period adjustment to be indicative of a material weakness in the related internal controls.

Questioned Costs – None. Our testing did not indicate any instances of noncompliance.

Context – An internal loan of \$500,000 between major governmental funds was not reported. The loan was established to repay the Public Improvement Revolving Fund for tax increment expenditures that were incurred prior to tax increments being received. This has no effect on net position in the government-wide financial statements.

Repeat Finding – This is a current year and prior year finding.

Cause – This was an oversight by city staff.

Effect – The City’s basic financial statements, as of and for the year ended December 31, 2016, contained a material misstatement.

Recommendation – We recommend that the City review its accounting procedures and internal controls for recording of internal loans to assure transactions such as these are properly reported in the future.

View of Responsible Official and Planned Corrective Actions – There is no disagreement with the audit finding. The error was discovered by city staff during their preparation for the current year audit. The nature and details of the misstatement have been reviewed with the individuals responsible, and appropriate guidance has been given to assure such transactions are reported correctly in the future. The City has separately issued a Corrective Action Plan related to this finding.

CITY OF RAMSEY

Schedule of Findings and Questioned Costs (continued)
Year Ended December 31, 2017

C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

SIGNIFICANT DEFICIENCY IN INTERNAL CONTROL OVER COMPLIANCE – DIRECT AWARD FROM THE U.S. DEPARTMENT OF THE INTERIOR, MISSISSIPPI NATIONAL RIVER AND RECREATION AREA STATE AND LOCAL ASSISTANCE, CFDA NO. 15.941

2017-002 Internal Controls Over Compliance With Cash Management, Allowable Costs, and Standards for Financial Management

Criteria – Title 2 U.S. Code of Federal Regulations (CFR) § 200.302(b)(5), (6), and (7) require the City to have written cash management procedures, which includes procedures for determining the allowability of costs in accordance with 2 CFR 200 Subpart E – Cost Principles, as well as a required written budget to actual comparison of expenditures for each federal award.

Condition – During our audit, we noted that the City did not have documented written controls to ensure compliance with the U.S. Office of Management and Budget’s (OMB) *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) cash management, allowable costs, and financial management standards.

Questioned Costs – None. Our testing did not indicate any instances of noncompliance.

Context – The lack of written controls pertains to all federal grants. This was not a statistically valid sample.

Repeat Finding – This is a current year finding.

Cause – The implementation of the Uniform Guidance requirements for federal awards is relatively new to the City, and some internal control policies, including cash management, allowable costs, and financial management were not updated to reflect the necessary changes.

Effect – This could be viewed as a violation of the award agreement.

Recommendation – We recommend that the City review its internal control procedures relating to cash management, allowable costs, and financial management for all federal programs. The City should review the new Uniform Guidance to obtain a better understanding of the new requirements and identify any needed policy and procedure changes, in addition to those already referenced above. We also recommend the City adopt written policies pertaining to cash management, allowable costs, and financial management for all federal programs. The City should also document and perform regular budget to actual comparisons of expenditures for each federal award.

View of Responsible Official and Planned Corrective Actions – The City agrees with the finding. The City has reviewed and updated its written policies and procedures relating to cash management, allowable costs, and financial management standards for its federal programs to ensure compliance with Uniform Guidance in the future. The District has separately issued a Corrective Action Plan related to this finding.

CITY OF RAMSEY

Schedule of Findings and Questioned Costs (continued)
Year Ended December 31, 2017

D. MINNESOTA LEGAL COMPLIANCE FINDINGS

None.