

CITY OF SAINT PETER  
NICOLLET 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 SAINT PETER  
NICOLLET COUNTY, MINNESOTA

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CITY OF SAINT PETER

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

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA No.</u>	<u>Federal Expenditures</u>	<u>Passed Through to Subrecipients</u>
<b>U.S. Department of Transportation</b>			
Passed through the Minnesota Department of Transportation			
Highway Planning and Construction	20.205	\$ 826,067	
Bus and Bus Facilities Formula Program	20.526	59,167	\$ 59,167
Passed through Blue Earth County			
State and Community Highway Safety	20.600	<u>24,341</u>	
Total federal awards		<u>\$ 909,575</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 U.S. Office of Management and Budget'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 Saint Peter, 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, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Saint Peter, 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 June 25, 2018. We issued our report, which contained a qualified opinion on the governmental activities and unmodified opinions on the respective financial statements of the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information. Our report includes a reference to other auditors who audited the financial statements of the River's Edge Hospital and Clinic (the Hospital) as of and for the year ended December 31, 2017, and the Housing and Redevelopment Authority as of and for the year ended March 31, 2017, as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of internal controls over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statement of the Hospital was not audited in accordance with *Government Auditing Standards*.

**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.

(continued)

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 were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. 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 significant deficiency.

#### **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 THE 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  
June 25, 2018



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 of  
City of Saint Peter, Minnesota

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM**

We have audited the City of Saint Peter, 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 one 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, the discretely presented component units, 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 June 25, 2018, which contained a qualified opinion on the governmental activities and unmodified opinions on the respective financial statements of the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information. 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  
June 25, 2018

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INDEPENDENT AUDITOR'S REPORT  
ON MINNESOTA LEGAL COMPLIANCE

To the City Council and Management  
City of Saint Peter, 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, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Saint Peter, 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 June 25, 2018. We issued our report, which contained a qualified opinion on the governmental activities and unmodified opinions on the respective financial statements of the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information. Our report includes a reference to other auditors who audited the financial statements of the River's Edge Hospital and Clinic as of and for the year ended December 31, 2017, and the Housing and Redevelopment Authority as of and for the year ended March 31, 2017, as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of Minnesota Legal Compliance that are reported on separately by those auditors.

**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  
June 25, 2018

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CITY OF SAINT PETER

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  
  X   Qualified  
         Adverse  
         Disclaimer

Internal control over financial reporting:

Material weakness(es) identified?          Yes   X   No

Significant deficiency(ies) identified?   X   Yes          None reported

Noncompliance material to the financial statements noted?          Yes   X   No

**Federal Awards**

Internal controls over major federal award programs:

Material weakness(es) identified?          Yes   X   No

Significant deficiencies identified?   X   Yes          None reported

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

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

Programs tested as major programs:

Program or Cluster	CFDA No.
U.S. Department of Transportation Highway Planning and Construction	20.205

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

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

CITY OF SAINT PETER

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

**B. FINANCIAL STATEMENT FINDINGS**

**SIGNIFICANT DEFICIENCY IN INTERNAL CONTROL OVER FINANCIAL REPORTING**

**2017-001 Segregation of Duties**

**Criteria** – Internal control over financial reporting.

**Condition** – The City of Saint Peter, Minnesota (the City) has limited segregation of duties in several areas, including the processing of payroll transactions, utility billing, cash receipts, and general ledger maintenance separately of subsidiary ledgers.

**Questioned Costs** – Not applicable.

**Context** – This is a current year and prior year finding.

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

**Cause** – The limited segregation of duties is primarily caused by the limited size of the City's finance department staff.

**Effect** – One important element of internal accounting controls is an adequate segregation of duties such that no one individual has responsibility to execute a transaction, have physical access to the related assets, and have responsibility or authority to record the transaction. A lack of segregation of duties subjects the City to a higher risk that errors or fraud could occur and not be detected in a timely manner in the normal course of business.

**Recommendation** – This condition is common to organizations of your size. We recommend that the City segregate duties as best it can within the limits of the staff available. Any modifications in internal control in this area should be viewed from a cost/benefit perspective.

**View of Responsible Official and Planned Corrective Action** – The City agrees with the finding. The City has separately issued a Corrective Action Plan related to this finding.



CITY OF SAINT PETER

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 – ALL FEDERAL PROGRAMS  
AWARDED UNDER UNIFORM GUIDANCE**

**2017-002 Internal Controls Over Compliance With Cash Management, Allowable Costs and  
Procurement**

**Criteria** – Title 2 U.S. Code of Federal Regulations (CFR) § 200.302(b)(6), and (7) require the City to have written cash management procedures, which include procedures for determining the allowability of costs in accordance with 2 CFR 200 Subpart E – Cost Principles, and § 200.318(a) requires the City to have written procurement procedures in conformance with applicable federal laws.

**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 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) cash management, allowable costs, and procurement 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 only.

**Cause** – The implementation of the new Uniform Guidance requirements for federal awards is relatively new to the City, and some internal control policies, including cash management, allowable costs, and procurement, 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 procurement for all federal programs. The City should review the 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 procurement for all federal programs.

**View of Responsible Official and Planned Corrective Actions** – The City agrees with the finding. The City has separately issued a Corrective Action Plan related to this finding.

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