



Federal Awards Reports in Accordance
with the Uniform Guidance
December 31, 2023

City of Bismarck

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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 Honorable Mayor
and Board of City Commissioners
City of Bismarck
Bismarck, North Dakota

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 (*Government Auditing Standards*), the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Bismarck (the City), as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated July 1, 2024.

Report on 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) as a basis for designing 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified a certain deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item 2023-001 that we consider to be a material weakness.

Report on 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 financial statements. 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

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the findings identified in our audit and described in the accompanying Schedule of Findings and Questioned Costs. The City's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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

A handwritten signature in black ink that reads "Eric Bailly LLP". The signature is written in a cursive, flowing style.

Bismarck, North Dakota
July 1, 2024



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 Honorable Mayor
and Board of City Commissioners
City of Bismarck
Bismarck, North Dakota

Report on Compliance for the Major Federal Program

Opinion on the Major Federal Program

We have audited City of Bismarck North Dakota's (the City) compliance with the types of compliance requirements identified as subject to audit 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, 2023. The City's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

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 the major federal program for the year ended December 31, 2023.

Basis for Opinion on the Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the City's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the City's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the City's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the City's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the City's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 a 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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.

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 aggregate 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, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated July 1, 2024, 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 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 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.

The image shows a handwritten signature in cursive script that reads "Eric Bailly LLP". The signature is written in dark ink and is positioned above the printed text of the firm's name and location.

Bismarck, North Dakota
July 1, 2024

City of Bismarck
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2023

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing	Pass-Through Entity Identifying Number	Expenditures	Amounts Passed- Through to Subrecipients
<u>Department of Agriculture</u>				
Passed Through North Dakota State University - ND Forest Service Cooperative Forestry Assistance	10.664	2022-ATB-PD007	\$ 3,895	\$ -
Total Department of Agriculture			3,895	-
<u>Department of Housing and Urban Development</u>				
CDBG - Entitlement Grants Cluster				
Community Development Block Grants/Entitlement Grants	14.218	N/A	387,638	304,037
COVID-19 Community Development Block Grants/Entitlement Grants	14.218	N/A	172,763	168,947
Total Department of Housing and Urban Development			560,401	472,984
<u>Department of the Interior</u>				
Passed Through State Historical Society of North Dakota Historic Preservation Fund Grants-In-Aid	15.904	ND 22-10026	11,152	-
Total Department of Interior			11,152	-
<u>Department of Justice</u>				
Bulletproof Vest Partnership Program	16.607	N/A	35,794	-
Edward Byrne Memorial Justice Assistance Grant Program	16.738	N/A	4,332	-
Comprehensive Opioid, Stimulant, and Sstane Abuse Program	16.838	N/A	33,379	33,379
Total Department of Justice			73,505	33,379
<u>Department of Transportation</u>				
Airport Improvement Program	20.106	N/A	7,095,458	-
COVID-19 Airport Improvement Program	20.106	N/A	11,571,774	-
Total Airport Improvement Projects			18,667,232	-
Federal Transit Cluster				
Federal Transit Formula Grants	20.507	N/A	1,789,576	1,789,576
COVID-19 Federal Transit Formula Grants	20.507	N/A	2	2
Passed Through North Dakota Department of Transportation Bus and Bus Facilities Formula Program	20.526	ND-2023-007-02	544,931	544,931
Federal Transit Cluster Total			2,334,509	2,334,509
Passed Through North Dakota Department of Transportation Highway Planning and Construction Cluster				
Highway Planning and Construction	20.205	HEU-1-981(130)	871,093	-
Transit Services Program Cluster				
Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	ND-2022-003	114,689	114,689
Highway Safety Cluster				
State and Community Highway Safety	20.600	PHSP-2307-04-03	7,274	-
National Priority Safety Programs	20.616	SHSPID2310-02-03	3,468	-
Total Highway Safety Cluster			10,742	-

City of Bismarck
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2023

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing	Pass-Through Entity Identifying Number	Expenditures	Amounts Passed- Through to Subrecipients
Metropolitan Transportation Planning	20.505	CPG-2021008	382,509	-
Passed Through North Dakota Department of Transportation Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	693JK32240028HMEP	21,535	-
Total Department of Transportation			22,402,309	2,449,198
<u>Environmental Protection Agency</u>				
Passed Through North Dakota Public Finance Authority				
Drinking Water State Revolving Fund Cluster Capitalization Grants for Drinking Water State Revolving Funds	66.458	0800080-02(03)	315,436	-
Total Environmental Protection Agency			315,436	-
<u>Department of Health and Human Services</u>				
Drug-Free Communities Support Program Grants	93.276	N/A	105,358	-
Passed Through North Dakota Department of Health Public Health Emergency Preparedness	93.069	6611HLH5272(3)-11 2201 HLH 5393-01/ 2201 HL1243-04/	193,724 52,884	- -
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	2201 HLH 3391(5391)-01 2201 HLH 5314008 01/	39,151	-
Immunization Cooperative Agreements	93.268	2201 HLH 5314 06(08)	14,195	-
Public Health Emergency Response	93.354	6611HLH0025-70	410,025	-
Activities to Support State, Tribal, Local and Territorial (STLT) Health		4501 HLH 5213 01/4511 HLH 4903 01, 2201HLH001802, HE:2201 HLH 4903 21	129,523	-
Department Response to Public Health or Healthcare Crises	93.391	4521 HLH 5215 01, 4521 HLH 5215 02 4521	169,764	-
Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations	93.898	HLH 4903 20 2201 HLH 5433-03(09)/	4,052	-
HIV Care Formula Grants	93.917	2201 HLH35432-03	6,069	-
HIV Prevention Activities Health Department Based	93.940	HIV 2201 HLH 5373 02	12,925	-
Centers for Disease Control and Prevention Collaboration with Academia to Strengthen Public Health	93.967	4531 HLH 5141(2) 31	25,142	-
Preventive Health and Health Services Block Grant	93.991	4531 HLH 5141(2) 31		-
Maternal and Child Health Services Block Grant to the Stated	93.994	4551 HLH 5131(2) 05		-
Total Department of Health and Human Services			1,162,812	-
<u>Department of Homeland Security</u>				
Passed Through North Dakota Department of Game and Fish Boating Safety Financial Assistance	97.012	3319FAS190138	3,735	-
Passed Through North Dakota Department of Emergency Services				
Hazard Mitigation Grant	97.039	FEMA-DR-4475-ND	433,779	-
Emergency Management Performance Grants	97.042	EMD-2021(2)-EP-00005-S01 EMW-2019-SS-000033-S01/	67,604 218,249	- -
Homeland Security Grant Program	97.067	EMW-2020(1)-SS-00773(63)	605	-
State and Local Cybersecurity Grant Program Tribal Cybersecurity Grant Program	97.137	HHE6BW32JLP3		-
Total Department of Homeland Security			723,972	-
Total Federal Financial Assistance			\$ 25,253,482	\$ 2,955,561

Note A – Basis of Presentation

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal award activity of the City of Bismarck under programs of the federal government for the year ended December 31, 2023. The information is presented in accordance with the 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). Because the schedule presents only a selected portion of the operations of the City of Bismarck, it is not intended to and does not present the financial position, changes in net position or fund balance, or cash flows of the City of Bismarck.

Note B – Summary of Significant Accounting Policies

Governmental fund types account for the majority of the City's federal grant activity, with the exception of the Airport Improvement Project grants which are recorded in the airport enterprise fund. Therefore, expenditures reported in the schedule of expenditures of federal awards are recognized on the accrual basis of accounting for the airport improvement projects, and the remaining expenditures, except for subrecipient expenditures, reported in the schedule of expenditures of federal awards are recognized on the modified accrual basis – when they become a demand on current available financial resources. Subrecipient expenditures are recorded on the cash basis. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note C – Indirect Cost Rate

The City has not elected to use the 10% de minimis cost rate.

Note D – Loan Programs

As of December 31, 2023, the City's liability relating to the Drinking Water State Revolving Fund (SRF) Loan (AL #66.468) is \$5,278,200. As of December 31, 2023, the City's liability relating to the Clean Water State Revolving Fund (SRF) Loan (AL #66.458) is \$4,410,000.

Section I – Summary of Auditor’s Results

FINANCIAL STATEMENTS

Type of auditor's report issued	Unmodified
Internal control over financial reporting	
Material weaknesses identified	Yes
Significant deficiencies identified not considered to be material weaknesses	None Reported
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major programs	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	None Reported
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 2 CFR 200.516	No

Identification of major programs:

<u>Name of Federal Program</u>	<u>Federal Financial Assistance Listing</u>
Airport Improvement Program	20.106
Dollar threshold used to distinguish between type A and type B programs	\$757,949
Auditee qualified as low-risk auditee?	No

Section II – Financial Statement Findings

**2023-001 Inadequate Internal Control Design – Bismarck Event Center
Material Weakness**

Criteria – A good system of internal control requires an adequate internal control design to limit risks of fraud and error within the financial statements.

Condition – The Bismarck Event Center has an inadequate internal control design relating to beer and alcohol sales and related revenue recognition.

Cause – The Bismarck Event Center’s management had a lack of understanding of an adequate internal control design relating to beer and alcohol sales and related revenue recognition.

Effect – Inadequate internal control design relating to beer and alcohol sales and related revenue recognition could adversely affect the City's ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions. There is potential that Bismarck Event Center was not awarded all revenue it was entitled due to inadequate internal control design.

Recommendation – We recommend, in addition to control processes already included in the internal control design, that the following processes are included in the internal control design relating to beer and alcohol sales and related revenue recognition at a minimum:

- Counting beer and alcohol cups at the beginning and ending of an event, including flats, by at least two individuals from Bismarck Event Center.
- Checking in and checking out beer and alcohol used by the vendor before, during, and after the event by at least two individuals from Bismarck Event Center.
- Cash registers should be used and reconciled to the counting of cups and checking and checking out beer and alcohol used by the vendor, as mentioned above.
- A process should be developed to track and account for spillage/shrink during events.
- Implementation and use of a point-of-sale system.

Utilization of a ticketing system for the sale of beer and alcohol would be a significant internal control design improvement and could alleviate a number of the issues at hand in the current internal control design.

Views of Responsible Officials – There is no disagreement with the audit finding.

Section III – Federal Award Findings and Questioned Costs

There are no findings or questioned costs related to the major federal award programs which are required to be reported in accordance with Section 2 CFR 200.516 of the Uniform Guidance.



Management's Response to Auditor's Findings:
Summary Schedule of Prior Audit Findings and
Corrective Action Plan
December 31, 2023

Prepared by Management of
City of Bismarck





Summary Schedule of Prior Audit Findings

**Finding 2022-001 Material Journal Entry including Restatement
Material Weakness**

Finding Summary: The City of Bismarck identified and corrected an error relating to the timing of revenue recognition for special assessments. In addition, during the course of our engagement, a material audit adjustment was proposed to remove accounts receivable related to a debt issuance recorded in the Solid Waste Disposal Fund.

Status: Corrected

Corrective Action Plans

**Finding 2023-001 Inadequate Internal Control Design – Bismarck Event Center
Material Weakness**

Finding Summary: The Bismarck Event Center has an inadequate internal control design relating to beer and alcohol sales and related revenue recognition.

Responsible Individuals: *Jason Tomanek, City Administrator*

Corrective Action Plan: The City, at the direction of the City Commission, will be performing a deep dive into the functions and internal controls over the financial and/or other operations of the Event Center, including alcohol sales, the handling of cash, and the implementation of protocols to ensure the proceeds from cash sales can be accounted for and documented. This will include conversations with the alcohol vendor about improvement in tracking alcohol sales. In addition, the City will evaluate internal controls at various financial and operational functions at the Event Center.

Anticipated Completion Date: *12/31/2024*