

CITY OF WORTHINGTON, MINNESOTA
FEDERAL FINANCIAL ASSISTANCE SCHEDULES
FOR THE YEAR ENDED DECEMBER 31, 2021
REPORTS OF INDEPENDENT CERTIFIED
PUBLIC ACCOUNTANTS

CITY OF WORTHINGTON, MINNESOTA

TABLE OF CONTENTS

	<u>Page</u>
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>	1-2
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE	3-5
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	6
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	7
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	8-9
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS	10
CORRECTIVE ACTION PLAN	11-12

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
Members of the City Council
City of Worthington, 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 Worthington, Minnesota, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the City of Worthington, Minnesota's basic financial statements, and have issued our report thereon dated June 24, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Worthington, Minnesota's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Worthington, Minnesota's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Worthington, Minnesota'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 entity'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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Worthington, Minnesota'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*.

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

Dorelan Kvithaug Hojfer & Co., P.A.

Worthington, Minnesota
September 27, 2022

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Honorable Mayor and
Members of the City Council
City of Worthington, Minnesota

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited City of Worthington, Minnesota's 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 of Worthington, Minnesota's major federal program for the year ended December 31, 2021. City of Worthington, Minnesota'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, City of Worthington, Minnesota complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2021.

Basis for Opinion on Each Major Federal Program

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). 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 of Worthington, Minnesota, 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 City of Worthington, Minnesota'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 City of Worthington, Minnesota'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 City of Worthington, Minnesota'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 generally accepted auditing standards, *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 City of Worthington, Minnesota's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *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 City of Worthington, Minnesota'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 City of Worthington, Minnesota'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 City of Worthington, Minnesota's internal control over compliance.

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 have identified during the audit.

Report on Internal Control Over Compliance

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify a deficiency in internal control over compliance that we consider to be a material weakness.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2021-01 to be a material weakness.

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 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.

Government Auditing Standards requires the auditor to perform limited procedures on City of Worthington, Minnesota's response to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. City of Worthington, Minnesota's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

Dwelan Krulhaug Hofer & Co., P.A.

Worthington, Minnesota
September 27, 2022

CITY OF WORTHINGTON, MINNESOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2021

U.S. Department of Transportation:

Pass-Through Minnesota					
Airport Improvement Program	20.106	3-27-0116-016-20	\$ 525,691	\$ 2,526	
Airport Improvement Program	20.106	3-27-0116-017-2020	30,000	<u>30,000</u>	
				\$	<u>32,526</u>
State and Community- Highway Safety Cluster					
		F-ENFRC21-2021- WORTHIPD-5020			
Highway Safety	20.600	Safe and Sober	-	9,525	
Highway Safety	20.608	Repeat Offenders	-	21,885	
National Priority Safety	20.616	Safety	-	<u>16,181</u>	
				\$	<u>47,591</u>
Total U.S. Department of Transportation				\$	<u>80,117</u>

U.S. Department of Treasury:

Pass-Through-Minnesota Revenue State Fiscal Recovery Fund	21.027	CORONAVIRUS STATE AND LOCAL FISCAL RECOVERY FUNDS	715,744	\$ 31,431	
Total U.S. Department of Treasury				\$	<u>31,431</u>

U.S. Environmental Protection Agency:

Pass-Through Minnesota Public Facilities Authority CWSRF Cluster					
*Clean Water State Revolving Loan Fund	66.458	CWRF-L-008-FY22	30,322,821	\$ 3,619,824	
Total U.S. Environmental Protection Agency				\$	<u>3,619,824</u>

Total federal awards				\$	<u><u>3,731,372</u></u>
----------------------	--	--	--	----	-------------------------

* Denotes major program

CITY OF WORTHINGTON, MINNESOTA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2021

1. BASIS OF PRESENTATION:

The accompanying Schedule of Expenditures of Federal Awards includes the federal award activity of the City of Worthington, Minnesota under programs of the federal government for the year ended December 31, 2021. The information in this Schedule 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 Worthington, Minnesota, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the City of Worthington, Minnesota.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Expenditures reported on the Schedule are reported on the accrual basis of accounting. 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. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. City of Worthington, Minnesota has elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

3. MINNESOTA PUBLIC FACILITIES AUTHORITY LOAN

This authority is a pass-thru of federal awards to recipients under Assistance Listing Number 66.458 (Clean Water State Revolving Fund). These funds are used by states to create revolving funds to provide financing for construction of wastewater treatment facilities and implementation of other water quality management activities. Loans are administered from these funds by the state Pollution Control Agency. The state's loan program utilized by the City of Worthington was the Clean Water Partnership (CWP). The United States Environmental Protection Agency has determined that Part 200 procurement requirements and indirect cost provision do not apply.

The City of Worthington entered into an agreement with the Minnesota Public Facilities Authority to issue a General Obligation Revenue Note, Series 2021A in an amount up to \$30,322,821. This note has been issued pursuant to and in full conformity with the Constitution and laws of the State of Minnesota for the purpose of providing money to finance the City's costs of replacing the trickling filter treatment train with activated sludge, rehab biosolids treatment and storage components and payable out of the debt service account of the municipal wastewater fund of the City, to which account have been pledged net revenues of the City's municipal wastewater utility system. A summary of the loan activity for the City of Worthington for fiscal year 2021 is shown below.

	CWP
Loans payable, January 1, 2021	\$ -
New Loans Issued	3,477,249
Loans payable, December 31, 2021	\$ 3,477,249

4. OTHER UNIFORM GUIDANCE INFORMATION:

For the year ended December 31, 2021, the City of Worthington, Minnesota had no expenditures in the form of noncash assistance, no sub-recipients, no federally provided insurance in effect, and no loans or loan guarantees outstanding.

CITY OF WORTHINGTON, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2021

A. SUMMARY OF AUDITOR'S RESULTS:

1. The auditor's report expresses an unmodified opinion on the financial statements of City of Worthington, Minnesota.
2. No significant deficiencies or material weaknesses relating to the audit of the financial statements are reported in the Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Audit Standards*.
3. No instances of noncompliance material to the financial statements of City of Worthington, Minnesota were disclosed during the audit.
4. A material weakness in internal control relating to the audit of the major federal awards programs as reported in the Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting was found due to untimely preparation of the Schedule of Expenditures of Federal Awards (SEFA). This resulted in the late submission of the Single Audit reporting package to the Federal Audit Clearinghouse. The City's finance department, which is responsible for preparing the SEFA, did not prepare and provide a preliminary SEFA for fiscal year 2021 until August 4, 2021; this was after the Single Audit submission deadline, within 30 days of the Financial Statement Report issuance date. As a result, the City did not submit a Single Audit reporting package to the Federal Audit Clearinghouse by the federally required deadline. Non-compliance with the reporting requirements is a violation of federal grants terms and conditions.
5. There were no significant deficiencies.
6. The auditor's report on compliance for the major federal award programs for City of Worthington, Minnesota expresses an unmodified opinion.
7. There were no audit findings relative to compliance in the major federal award programs for City of Worthington, Minnesota.
8. The programs tested as major programs (list):

MN Public Facilities Authority	ALN #66.458
--------------------------------	-------------
9. The threshold for distinguishing Types A and B programs was \$750,000.
10. City of Worthington, Minnesota was determined not to be a low-risk auditee.

B. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REPORTED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS:

None

CITY OF WORTHINGTON, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2021

C. FINDINGS AND QUESTIONED COSTS – Relating to Federal Awards:

2021-001 Untimely preparation of Schedule of Expenditures of Federal Awards resulted in late filing of the Single Audit Reporting Package to the Federal Audit Clearinghouse

Condition: Because the City expended more than \$750,000 of federal awards, Office of Management and Budget's (OMB) Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) requires a single audit of grant and loan activities to be performed. The City's current accounting process does not track federal funds. A manual process is used. The amount of federal expenditures was not known in time to submit the Single Audit reporting package to the Federal Audit Clearinghouse by the federally required deadline.

Criteria: OMB's Uniform Guidance, Title 2, Part 200, Subpart F Audit Requirements, paragraph .512 requires the single audit to be completed and the data collection form and reporting package to be submitted within the earlier of 30 calendar days after receipt of the auditor's report, or nine months after the end of the audit period.

Effect: Due to deficiencies in internal control over federal awards, untimely preparation of the SEFA caused delays in planning the single audit and subsequent testing of the SEFA and major programs. As a result, the City did not submit the Single Audit reporting package to the Federal Audit Clearinghouse by the federally required deadline. Non-compliance with the reporting requirements is a violation of federal grants terms and conditions and could affect future funding.

Cause: City departments that receive federal awards did not communicate the federal expenditures to the finance director. Untimely discovery of federal program expenditures led late preparation of the SEFA and submission of the Single Audit reporting package.

Recommendations: We recommend policies are in place and enforced requiring the departments that receive federal funding keep track of federal expenditures and communicate with the finance director throughout the year to ensure accurate and timely preparation of the SEFA and submission to the Federal Audit Clearinghouse.

CITY OF WORTHINGTON, MINNESOTA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2020

- Prior significant deficiencies: None
- Prior material noncompliance with provisions of laws, regulations, contracts, or grant agreements related to a major program: None
- Known questioned costs greater than \$25,000: None
- There were no findings in the prior year.



Corrective Action Plan for the findings and questioned costs for the audit of the period ended December 31, 2021

A Deficiency in internal controls for major federal program awards audit was noted on page 9.

2021-001 Untimely preparation of Schedule of Expenditures of Federal Awards resulted in late filing of the Single Audit Reporting Package to the Federal Audit Clearinghouse

Condition: Because the City expended more than \$750,000 of federal awards, Office of Management and Budget's (OMB) Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) requires a single audit of grant and loan activities to be performed. The City's current accounting process does not track federal funds. A manual process is used. The amount of federal expenditures was not known in time to submit the Single Audit reporting package to the Federal Audit Clearinghouse by the federally required deadline.

Criteria: OMB's Uniform Guidance, Title 2, Part 200, Subpart F Audit Requirements, paragraph .512 requires the single audit to be completed and the data collection form and reporting package to be submitted within the earlier of 30 calendar days after receipt of the auditor's report, or nine months after the end of the audit period.

Effect: Due to deficiencies in internal control over federal awards, untimely preparation of the SEFA caused delays in planning the single audit and subsequent testing of the SEFA and major programs. As a result, the City did not submit the Single Audit reporting package to the Federal Audit Clearinghouse by the federally required deadline. Non-compliance with the reporting requirements is a violation of federal grants terms and conditions and could affect future funding.

Cause: City departments that receive federal awards did not communicate the federal expenditures to the finance director. Untimely discovery of federal program expenditures led late preparation of the SEFA and submission of the Single Audit reporting package.

Recommendations: We recommend policies are in place and enforced requiring the departments that receive federal funding keep track of federal expenditures and communicate with the finance director throughout the year to ensure accurate and timely preparation of the SEFA and submission to the Federal Audit Clearinghouse.

Corrective Action Plan (CAP):

The City has no disagreement with this finding.

The department heads will be reminded that they are responsible for tracking federal expenditures and communicating with the finance director throughout and especially at year-end. The City will make sure policies and procedures regarding federal programs are in place and being followed.

Deb Olsen, Finance Director, is the official ensuring this corrective action plan is implemented with a completion date of December 31, 2022.

The completion of this plan will be monitored by the members of the City Council.