

City of Osseo

Report on Federal Awards

December 31, 2024

City of Osseo

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**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***

Independent Auditors' Report

To the City Council of
City of Osseo

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 (*Government Auditing Standards*), the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Osseo (the City), as of and for the year ended December 31, 2024, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 12, 2025.

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 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 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. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2024-001 and 2024-002, that we consider to be material weaknesses.

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*.

The City's Response to Findings

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 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.

Baker Tilly US, LLP

Eau Claire, Wisconsin
March 12, 2025

**Report on Compliance
for the Major Federal Program;
Report on Internal Control Over Compliance; and
Report on the Schedule of Expenditures of
Federal Awards Required by the Uniform Guidance**

Independent Auditors' Report

To the City Council of
City of Osseo

Report on Compliance for the Major Federal Program

Opinion on the Major Federal Program

We have audited the City of Osseo'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 the City's major federal program for the year ended December 31, 2024. The City's major federal program is identified in the summary of auditors' 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 its major federal program for the year ended December 31, 2024.

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 Auditors' 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 the 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.

Baker Tilly Advisory Group, LP and Baker Tilly US, LLP, trading as Baker Tilly, are members of the global network of Baker Tilly International Ltd., the members of which are separate and independent legal entities. Baker Tilly US, LLP is a licensed CPA firm that provides assurance services to its clients. Baker Tilly Advisory Group, LP and its subsidiary entities provide tax and consulting services to their clients and are not licensed CPA firms.

Auditors' 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 the 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.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2024-003. Our opinion on the major federal program is not modified with respect to this matter.

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the noncompliance finding identified in our compliance audit 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 compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify a deficiency in internal control over compliance that we consider to be a significant deficiency.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2024-003, to be a significant deficiency.

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 the City's response to the internal control over compliance finding identified in our compliance audit 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 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.

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, 2024, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated March 12, 2025, 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.



Eau Claire, Wisconsin
March 12, 2025

City of Osseo

Schedule of Expenditures of Federal Awards

Year Ended December 31, 2024

Federal Grantor/ Program Title	Assistance Listing Number	Pass-Through Agency	Pass-Through Agency Grant Number	Federal Expenditures
U.S. Department of Agriculture				
Water and Waste Disposal Systems for Rural Communities	10.760	N/A	N/A	<u>\$ 9,021,560</u>
Total U.S. Department of Agriculture				<u>9,021,560</u>
U.S. Department of Treasury				
COVID-19 - Coronavirus State and Local Fiscal Recovery Funds	21.027	N/A	N/A	<u>46,915</u>
Total U.S Department of Treasury				<u>46,915</u>
Total federal programs				<u><u>\$ 9,068,475</u></u>

See notes to schedule of expenditures of federal awards

City of Osseo

Notes to Schedule of Expenditures of Federal Awards
Year Ended December 31, 2024

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the City of Osseo (the City) under programs of the federal government for the year ended December 31, 2024. 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, it is not intended to and does not present the financial position, changes in net position or cash flows of the City.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual or modified 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.

The underlying accounting records for some grant programs are maintained on the modified accrual basis of accounting. Under the modified accrual basis, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the liability is incurred. The accounting records for other grant programs are maintained on the accrual basis, i.e., when the revenue has been earned, and the liability is incurred.

3. Indirect Cost Rate

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

City of Osseo

Schedule of Findings and Questioned Costs
Year Ended December 31, 2024

Section I - Summary of Auditors' Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

 X yes

 no

Significant deficiency(ies) identified?

 yes

 X none reported

Noncompliance material to financial statements noted?

 yes

 X no

Federal Awards

Internal control over major programs:

Material weakness(es) identified?

 yes

 X no

Significant deficiencies identified that are not considered to be material weakness(es)?

 X yes

 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 section 2 CFR 200.516(a) of the Uniform Guidance?

 X yes

 no

Auditee qualified as low-risk auditee?

 yes

 X no

Dollar threshold used to distinguish between type A and type B programs:

 \$750,000

Identification of major federal programs:

Assistance Listing Number

Name of Federal Program

10.760

Water and Waste Disposal Systems for Rural Communities

**Section II - Financial Statement Findings Required to Be Reported in Accordance With
Government Auditing Standards**

Finding 2024-001: Internal Control Over Financial Reporting

Repeat of Prior Year Finding 2023-001

Criteria: A system of internal control should be in place that provides reasonable assurance that year-end financial statements, including the schedule of expenditures of federal awards, are complete and accurate.

Condition: There is a lack of controls over the year-end financial reporting process. Material journal entries were discovered during the course of the audit and we, as your auditors, prepared the City's financial statements, including the schedule of expenditures of federal awards.

Cause: The City has chosen to have the auditors prepare its annual financial statements, including the schedule of expenditures of federal awards and certain year-end adjustments.

Effect: The City's financial statements may be materially misstated before the annual audit is completed. In addition, the annual financial statements and the schedule of expenditures of federal awards are not available to the City until they are completed by the auditors.

Recommendation: Most small governments operate with only enough staff to process monthly transactions and reports and will continue to rely on outside consultants to handle year-end financial reporting. The City Council should continue to make a reasonable effort to be knowledgeable about the City's financial condition and financial reporting requirements.

Views of Responsible Officials: Because of its size, the City does not feel it is cost effective to hire an additional employee(s) with the experience, technical training and time to prepare its financial statements. Draft copies of reports are reviewed and approved prior to their issuance by management. As such, management will continue to rely on the auditors to assist in preparing the City's financial statements and schedule of expenditures of federal awards and assist with certain year-end adjustments.

Finding 2024-002: Internal Control Environment

Repeat of Prior Year Finding 2023-002

Criteria: A system of internal control should be in place to achieve a higher level of reliability that errors or irregularities in your processes would be discovered by your staff. A critical component of a solid internal control system is ensuring that individuals have access to only one phase of an accounting process.

Condition: Some key controls over the payroll, utility billing and monthly and year-end accounting transaction cycles are not in place. There is a general lack of segregation of duties over these areas.

Cause: The City has not assigned duties to have appropriate controls in place.

Effect: Because of the lack of internal controls, it is less likely that errors or irregularities would be discovered internally. Because of the lack of segregation of duties, the accounting records may be misstated.

Recommendation: The City's governing body and management should consider whether additional compensating controls are feasible. In the absence of hiring additional staff, the City Council should rely more heavily on their direct knowledge of the City's operations and regular contact with management to control and safeguard assets.

Views of Responsible Officials: The City is aware of the lack of segregation of duties caused by the limited size of its staff. Segregation is enhanced whenever possible, and the council assumes an active role through monthly review of receipt and disbursement transactions and monthly financial statements.

Section III - Federal Awards Findings and Questioned Costs

Finding 2024-003: Significant Deficiency - Internal Control Over Procurement, Suspension and Debarment

Program	Water and Waste Disposal Systems for Rural Communities
Federal Agency	U.S. Department of Agriculture
Assistance Listing Number	10.760

Repeat of Prior Year Finding 2023-003

Criteria: For federal awards after January 1, 2018, guidance provided in 2 CFR part 200.318 requires nonfederal entities to establish and follow their own documented procurement procedures that conform to applicable federal law and standards. 2 CFR part 200.320 includes different allowable methods of procurement. There are also requirements to verify the vendors are not suspended or debarred.

Condition/Context: During our testing for this program in the prior year, we noted that the City did not have a written procurement policy to conform with Uniform Guidance requirements. The City contracted with a third-party administrator who provided the services related to procurement for this grant program. No additional contracts were procured with federal funds in 2024.

Cause: The City was made aware of the requirement of requiring a procurement policy but has not implemented a policy at this time.

Effect: Without an adequate policy in place, procurement procedures may not adhere to requirements of federal awards.

Questioned Costs: None noted.

Recommendation: Program personnel should become familiar with the procurement, suspension and debarment rules for Federal programs and implement a formal written policy to conform with Uniform Guidance requirements.

Views of Responsible Officials: Management agrees with the finding and will make efforts to implement a formal procurement policy.