

City of Cottonwood

Cottonwood, Arizona

Single Audit and Independent Auditors' Reports

For the Year Ended June 30, 2020



City of Cottonwood

Table of Contents

	<u>Page</u>
Independent Auditors' Reports:	
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
Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance; and Report on Schedule of Expenditures of Federal Awards.....	3
Schedule of Expenditures of Federal Awards	5
Notes to the Schedule of Expenditures of Federal Awards	6
Schedule of Findings and Questioned Costs	7
Summary Schedule of Prior Audit Findings	11

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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 Honorable Mayor and Members of City Council
of the City of Cottonwood
Cottonwood, Arizona

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 Cottonwood, Arizona (the "City"), as of and for the year ended June 30, 2020, and the related notes to the basic financial statements which collectively comprise the City's basic financial statements and have issued our report thereon dated December 31, 2020.

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. 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 the City's basic 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*.

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To the Honorable Mayor and Members of City Council
of the City of Cottonwood
Cottonwood, Arizona
Page 2

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

The Row Group, LLP

Phoenix, Arizona
December 31, 2020

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE;
AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Independent Auditors' Report

To the Honorable Mayor and Members of City Council
of the City of Cottonwood
Cottonwood, Arizona

Report on Compliance for Each Major Federal Program

We have audited the City of Cottonwood, Arizona's (the "City") compliance with the types of compliance requirements described 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 June 30, 2020. The City's major federal programs are identified in the summary of the auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and terms and conditions of federal awards applicable to its federal programs.

Auditors' 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.

Opinion on Each Major Federal Program

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 each of its major federal programs for the year ended June 30, 2020.

To the Honorable Mayor and Members of City Council
of the City of Cottonwood
Cottonwood, Arizona
Page 2

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 above. 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 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 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, material weaknesses may exist that have not been identified.

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

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 June 30, 2020, and have issued our report thereon dated December 31, 2020 which contained unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming our opinion on the City's Basic Financial Statements. The accompanying Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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.



Phoenix, Arizona

January 20, 2021, except for the Schedule of Expenditures of Federal Awards, which is as of December 31, 2020.

City of Cottonwood
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2020

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA Number	Agency or Pass-Through Number	Federal Expenditures
U.S. Department of Housing and Urban Development:			
Passed through State of Arizona Department of Housing:			
Community Development Block Grants	14.228	100-20	\$ 53,532
Total U.S. Department of Housing and Urban Development			53,532
U.S. Department of Interior:			
Passed through Arizona State Parks:			
Historic Preservation Fund Grants-In-Aid	15.904	P18AF00142	8,418
Total U.S. Department of Interior			8,418
U.S. Department of Justice:			
Passed through Arizona Department of Public Safety:			
Crime Victim Assistance	16.575	VOCA - 2019 - CWPD	21,127
Crime Victim Assistance	16.575	VOCA - 2020 - CWPD	48,620
Subtotal - Program 16.575			69,747
Total U.S. Department of Justice			69,747
U.S. Department of Transportation:			
Passed through the Arizona Department of Transportation:			
Airport Improvement Program	20.106	3-04-0012-019-2019	94,729
Highway Planning and Construction Cluster:			
Passed through the Arizona Department of Transportation:			
Highway Planning and Construction	20.205	ADOT GRT 18-0007093	260,140
Total Highway Planning and Construction Cluster			260,140
Formula Grants for Rural Areas Program:			
Passed through the Arizona Department of Transportation:			
Formula Grants for Rural Areas	20.509	ADOT GRT 18-0007093	974,812
COVID-19 - Formula Grants for Rural Areas	20.509	ADOT GRT 18-0007093	796,687
Total Formula Grants for Rural Areas Program			1,771,499
Highway Safety Cluster:			
Passed through the Arizona Governor's Office of Highway Safety:			
State and Community Highway Safety	20.600	2019-II-001	5,992
State and Community Highway Safety	20.600	2019-PTS-014	4,102
State and Community Highway Safety	20.600	2019-PTS-013	4,460
State and Community Highway Safety	20.600	2020-405c-008	29,473
State and Community Highway Safety	20.600	2020-PTS 016	8,965
State and Community Highway Safety	20.600	2020-II-001	6,272
Total Highway Safety Cluster			59,264
Total U.S. Department of Transportation			2,185,632
National Endowment for the Humanities:			
Passed through the Arizona State Library:			
Library Services and Technology Act - Spanish Materials Grant	45.310	2019 LSTA	3,794
Total National Endowment for the Humanities			3,794
U.S. Department of Health and Human Services:			
Passed through Northern Arizona Council of Governments:			
Social Services Block Grant	93.667	ADES15-089117	8,994
Social Services Block Grant	93.667	1601AZSOSR	15,765
Subtotal - Program 93.667			24,759
Total U.S. Department of Health and Human Services			24,759
U.S. Department of Homeland Security:			
Passed through Arizona Department of Homeland Security:			
Homeland Security Grant Program	97.067	190506-01 / EMW-2019-SS-0002-S01	7,246
Total U.S. Department of Homeland Security			7,246
Total Expenditures of Federal Awards			\$ 2,353,128

See accompanying Notes to the Schedule of Expenditures of Federal Awards.

City of Cottonwood
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2020

Note 1 – Reporting Entity

The financial reporting entity, as defined by the Governmental Accounting Standard Board (“GASB”), consists of the primary government, which is the City of Cottonwood, Arizona (the “City”), organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete.

Note 2 – Basis of Accounting

Funds received under the various grant programs have been recorded within the general fund and special revenue funds of the City. The City utilizes the modified accrual method of accounting for the general fund and special revenue funds. The accompanying Schedule of Expenditures of Federal Awards (“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). Therefore, some amounts presented in the schedule may differ from amounts presented in, or used in, the preparation of the City’s basic financial statements.

Note 3 – Schedule of Expenditures of Federal Awards

The accompanying Schedule presents the activity of all federal financial assistance programs of the City. Federal financial assistance received directly from federal agencies as well as federal financial assistance passed through the State of Arizona is included in the Schedule. The Schedule was prepared from only the accounts of various grant programs and, therefore, does not present the financial position, change in net position/fund balance, or results of operations of the City.

Note 4 – Subrecipients

During the fiscal year ended June 30, 2020, there were no amounts provided to subrecipients.

Note 5 – Indirect Cost Rate

The City has not elected to use the 10% de-minimis indirect rate as allowed under the Uniform Guidance.

City of Cottonwood
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2020

Section I – Summary of Auditor’s Results

Financial Statements

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

Internal control over financial reporting:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified? None Reported

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified? None Reported

Type of auditors’ report issued on compliance for major programs Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? No

Identification of major programs:

Major Program	Federal CFDA #	Federal Expenditures
U.S. Department of Transportation:		
Formula Grants for Rural Areas	20.509	\$ 1,771,499
Total major program expenditures		\$ 1,771,499
Total federal award expenditures		\$ 2,353,128
Percent of total federal award expenditures		75.28%

Dollar threshold used to distinguish between type A and type B program \$750,000

Auditee qualified as low-risk auditee in accordance with 2 CFR 200.520? Yes

City of Cottonwood
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2020

Section II – Financial Statement Findings

No financial statement findings were noted for the year ended June 30, 2020.

Section III – Federal Awards Findings and Questioned Costs

No findings or questioned costs were noted on the City's major federal program for the year ended June 30, 2020.

**SUMMARY SCHEDULE OF
PRIOR AUDIT FINDINGS**

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City of Cottonwood
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2020

Section I – Financial Statements Findings

No financial statement findings were noted for the year ended June 30, 2019.

Section II – Federal Awards Findings and Questioned Costs

Finding: 2019-001 Allowable Activities/Allowable Costs

United States Department of Transportation
Passed through Arizona Department of Transportation
Formula Grants for Rural Areas – CFDA 20.509
Grant Number: ADOT GRT 16-0005592
 ADOT GRT 18-0007093

Condition:

During our testing, we noted 3 out of 40 employee pay periods in which the hours charged to the program and paid to the employees did not agree to the number of hours on the employees' timesheets. The hours on the timesheets were underreported in the payroll system (Springbrook) for each of the three selections tested.

Criteria:

Payroll charges are allowable costs to the program and should be charged to the program based on actual hours worked on the program. The basis for the payroll charge is documented through employees' timesheets.

Identification as a Repeat Finding:

Not applicable.

Questioned Costs:

None.

Context:

The City tracks payroll costs and charges the costs to the program based on actual hours worked. The condition noted above was identified during testing of payroll costs charged to the program.

Cause:

The City did not have procedures in place to review the entry of the hours on employees' timesheets to the hours into the payroll system (Springbrook) that charges payroll costs to the program.

Effect:

The risk of the City charging an unsupported amount to the program is increased.

City of Cottonwood
Schedule of Prior Audit Findings (Continued)
For the Year Ended June 30, 2020

Section II – Federal Awards Findings and Questioned Costs (Continued)

Finding: 2019-001 Allowable Activities/Allowable Costs (Continued)

Recommendation:

We recommend that the City enhance procedures to ensure the accuracy of payroll costs charged to the program. This can be accomplished through the completion and review of a reconciliation of hours charged to the program to employee timesheets.

Views of Responsible Officials and Corrective Action Plan:

The staff of the finance department strives to always be as accurate as possible but is not always able to obtain perfection. City staff made sure that the payroll errors that happened in Fiscal Year 2019 were corrected before the end of the fiscal year. Any and all errors that are discovered are corrected as quickly as possible. The payroll processing for the City is a long and manual process and a double check of the timesheets to the data entry is done for every payroll. We will continue to do a double check and review of all timesheets compared to data entry to work on eliminating any future errors and if errors are discovered will work on correcting those errors.

Status:

Implemented.