

City of Cottonwood

Cottonwood, Arizona

Single Audit and Independent Auditors' Reports

For the Year Ended June 30, 2018



City of Cottonwood

Table of Contents

	<u>Page</u>
Independent Auditors' 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
Independent Auditors' Report on Compliance for Each Major Federal Program, on Internal Control Over Compliance Required by the Uniform Guidance, and on Schedule of Expenditures of Federal Awards.....	3
Schedule of Expenditures of Federal Awards	7
Notes to the Schedule of Expenditures of Federal Awards	8
Schedule of Findings and Questioned Costs	9
Summary Schedule of Prior Audit Findings	13

This page intentionally left blank



**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, 2018, 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, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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 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*.

4742 North 24th Street, Suite 300, Phoenix, Arizona 85016

Tel: 602-274-9966 • Fax: 480-522-2021

www.pungroup.com

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 PwC Group, LLP

Phoenix, Arizona
December 31, 2018



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

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, 2018. 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, 2018.

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 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 City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report on Schedule of Expenditures of Federal Awards Required by Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of and for the year ended June 30, 2018, and have issued our report thereon dated December 31, 2018 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.

To the Honorable Mayor and Members of City Council
of the City of Cottonwood
Cottonwood, Arizona
Page 3

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

The PwC Group, LLP

Phoenix, Arizona
December 31, 2018

This page intentionally left blank

City of Cottonwood
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2018

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA Number	Agency or Pass-Through Number	Federal Expenditures
U.S. Department of Agriculture:			
<i>Direct Program:</i>			
Rural Business Cooperative Services Financial Assistance	10.351	RO95043 56028	\$ 61,109
Total U.S. Department of Agriculture			<u>61,109</u>
U.S. Department of Housing and Urban Development:			
<i>Passed through State of Arizona Department of Housing:</i>			
Community Development Block Grant	14.228	124-16	\$ 259,593
Total U.S. Department of Housing and Urban Development			<u>259,593</u>
U.S. Department of Justice:			
<i>Passed through Arizona Department of Public Safety:</i>			
Crime Victim Assistance	16.575	2015-VA-GX-0032	47,553
Total U.S. Department of Justice			<u>47,553</u>
U.S. Department of Transportation:			
<i>Passed through the Arizona Department of Transportation:</i>			
Airport Improvement Program	20.106	03-04-0012-017-2017	1,395,221
Formula Grants for Rural Areas Program:			
<i>Passed through the Arizona Department of Transportation:</i>			
Formula Grants for Rural Areas	20.509	ADOT GRT 16-0005592	1,058,695
Formula Grants for Rural Areas	20.509	ADOT GRT 15-0005554-T	219,159
Total Formula Grants for Rural Areas Program			<u>1,277,854</u>
Highway Safety Cluster:			
<i>Passed through the Arizona Governor's Office of Highway Safety:</i>			
State and Community Highway Safety	20.600	2017-PT-014	4,315
State and Community Highway Safety	20.600	2018-405d-012	18,368
State and Community Highway Safety	20.600	2018-PTS-017	8,187
Subtotal - Program 20.600			<u>30,870</u>
National Priority Safety Programs	20.616	2017-405d-005	3,860
Total Highway Safety Cluster			<u>34,730</u>
Total U.S. Department of Transportation			<u>2,707,805</u>
National Endowment for the Humanities:			
<i>Passed through The Arizona State Library :</i>			
Grants to States	45.310	2016-36001-02	16,700
Total National Endowment for the Humanities			<u>16,700</u>
U.S. Department of Health and Human Services:			
<i>Passed through Northern Arizona Council of Governments:</i>			
Social Services Block Grant	93.667	ADES15-089117	28,693
Total U.S. Department of Health and Human Services			<u>28,693</u>
Total Expenditures of Federal Awards			<u>\$ 3,121,453</u>

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, 2018

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, 2018, 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, 2018

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:		
Airport Improvement Program	20.106	\$ 1,395,221
Total major program expenditures		\$ 1,395,221
Total federal award expenditures		\$ 3,121,453
Percent of total federal award expenditures		44.70%

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, 2018

Section II – Financial Statement Findings

No financial statement findings were noted for the year ended June 30, 2018.

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, 2018.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

This page intentionally left blank.

City of Cottonwood
Prior Year Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2018

Finding 2017-001 Internal Control Over Financial Reporting/Accounting Close and Accuracy in Financial Reporting

Condition:

Due to limited staffing levels, internal controls, including but not limited to the following, are not designed properly and mitigation control is not effective to identify misstatement due from error.

1. Debt Accounting
2. Financial Reporting on Pensions
3. Cash Management and Bank Reconciliations

In addition, the City has no systematic method for ensuring that timely and complete year end closing procedures were in operation before presenting the trial balance to auditors, resulting in significant amount of journal entries being presented to correct or to reclassify balances in financial statements in order to conform to accounting principles generally accepted in the United States.

Recommendation:

We recommend that the City establish effective year-end closing procedures that reduce the risk that there are accounting errors and the need for correcting journal entries after the year end closing. These procedures would include timely review and approval by management of account reconciliations, sub-ledger transactions, cutoff review for account balances at a fund and overall government-wide level, and revenue and expenditures/expense review. Revenue and expenditures/expenses should be compared to the prior year or prior year trends and to the budget.

Status:

Corrected.

Finding 2017-002 Indirect Costs

Condition:

The City did not have adequate internal controls to ensure indirect costs were charged in accordance with the City's approved indirect cost plan. However, the City char employees direct costs of labor were directly charged 100% as part of the public works operations and in addition was charged again as an indirect cost as part of the maintenance hours allocation in the indirect cost allocation.

Recommendation:

We recommend the City provide training and oversight to ensure all departments are knowledgeable on how to apply the indirect cost rate and that costs are applied in accordance with the indirect cost plan. We further recommend the City work with the State to determine the amounts to be repaid, if any

Status:

Corrected.

This page intentionally left blank.