

# **City of Cottonwood**

Cottonwood, Arizona

## **Single Audit and Independent Auditors' Reports**

*For the Year Ended June 30, 2019*





# City of Cottonwood

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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, 2019, 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, 2019.

**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*.

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To the Honorable Mayor and Members of City Council  
of the City of Cottonwood  
Cottonwood, Arizona  
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### **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, 2019



**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, 2019. 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, 2019.

## **Other Matters**

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2019-001. Our opinion on each major federal program is not modified with respect to these matters.

The City's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

## **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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as items 2019-001, that we consider to be significant deficiencies.

The City's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

To the Honorable Mayor and Members of City Council  
of the City of Cottonwood  
Cottonwood, Arizona  
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**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, 2019, and have issued our report thereon dated December 31, 2019 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.

**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.

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

Phoenix, Arizona  
December 31, 2019

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**City of Cottonwood**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2019**

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA Number	Agency or Pass-Through Number	Federal Expenditures
<b>U.S. Department of Agriculture:</b>			
<i>Direct Program:</i>			
Rural Business Cooperative Services Financial Assistance	10.351	RO95043 56028	\$ 64,500
<b>Total U.S. Department of Agriculture</b>			<u>64,500</u>
<b>National Park Service:</b>			
<i>Passed through Arizona State Parks:</i>			
Historic Preservation Fund Grants-In-Aid	15.904	P13AF00142	11,004
Historic Preservation Fund Grants-In-Aid	15.904	P18AF00142	6,945
<b>Subtotal - Program 15.904</b>			<u>17,949</u>
<b>Total National Park Service</b>			<u>17,949</u>
<b>U.S. Department of Justice:</b>			
<i>Passed through Arizona Department of Public Safety:</i>			
Crime Victim Assistance	16.575	VOCA-2018-CWPD-00174	17,375
Crime Victim Assistance	16.575	VOCA-2018-CWPD-00175	54,573
<b>Subtotal - Program 16.575</b>			<u>71,948</u>
<b>Total U.S. Department of Justice</b>			<u>71,948</u>
<b>U.S. Department of Transportation:</b>			
<i>Passed through the Arizona Department of Transportation:</i>			
Airport Improvement Program	20.106	03-04-0012-017-2017	13,983
<i>Passed through the Arizona Department of Transportation:</i>			
Metropolitan/State Transportation Planning/Research - Sedona	20.505	ADOT GRT 16-0005592	103,647
<b>Formula Grants for Rural Areas Program:</b>			
<i>Passed through the Arizona Department of Transportation:</i>			
Formula Grants for Rural Areas	20.509	ADOT GRT 16-0005592	145,459
Formula Grants for Rural Areas	20.509	ADOT GRT 18-0007093	892,268
<b>Total Formula Grants for Rural Areas Program</b>			<u>1,037,727</u>
<b>Highway Safety Cluster:</b>			
<i>Passed through the Arizona Governor's Office of Highway Safety:</i>			
State and Community Highway Safety	20.600	2018-405d-012	1,546
State and Community Highway Safety	20.600	2018-PTS-017	1,899
State and Community Highway Safety	20.600	2019-II-001	2,251
State and Community Highway Safety	20.600	2019-PTS-014	2,604
State and Community Highway Safety	20.600	2019-PTS-013	2,956
<b>Subtotal - Program 20.600</b>			<u>11,256</u>
<b>Total Highway Safety Cluster</b>			<u>11,256</u>
<b>Total U.S. Department of Transportation</b>			<u>1,166,613</u>
<b>U.S. Department of Health and Human Services:</b>			
<i>Passed through Northern Arizona Council of Governments:</i>			
Social Services Block Grant	93.667	ADES15-089117	6,769
Social Services Block Grant	93.667	1601AZSOSR	21,856
<b>Subtotal - Program 93.667</b>			<u>28,625</u>
<b>Total U.S. Department of Health and Human Services</b>			<u>28,625</u>
<b>Total Expenditures of Federal Awards</b>			<u>\$ 1,349,635</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, 2019**

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**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, 2019, 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, 2019**

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**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? 2019-001

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)? Yes

Identification of major programs:

Major Program	Federal CFDA #	Federal Expenditures
U.S. Department of Transportation: Formula Grants for Rural Areas	20.509	\$ 1,037,727
<b>Total major program expenditures</b>		<b>\$ 1,037,727</b>
<b>Total federal award expenditures</b>		<b>\$ 1,349,635</b>
<b>Percent of total federal award expenditures</b>		<b>76.89%</b>

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, 2019**

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**Section II – Financial Statement Findings**

**A. Current Year Findings – Financial Statement Audit**

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

**B. Prior Year Findings – Financial Statement Audit**

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

**City of Cottonwood**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2019**

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**Section III – Federal Awards Findings and Questioned Costs**

**A. Current Year Findings and Questioned Costs – Major Federal Award Program Audit**

**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.

**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.

**City of Cottonwood**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2019**

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**Section III – Federal Awards Findings and Questioned Costs (Continued)**

**Views of Responsible Officials and Corrective Action Plan:**

**A. Current Year Findings and Questioned Costs – Major Federal Award Program Audit (Continued)**

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.

**B. Prior Year Findings and Questioned Costs – Major Federal Award Program Audit**

No findings or questioned costs were noted on the City's major federal program for the year ended June 30, 2018.