

**CITY OF COTTONWOOD, ARIZONA**  
**SINGLE AUDIT ACT REPORTS**  
**YEAR ENDED JUNE 30, 2010**

**CITY OF COTTONWOOD, ARIZONA  
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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

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

We have audited the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Cottonwood, Arizona (City) as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated January 28, 2011. We conducted our audit in accordance with 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.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City of Cottonwood, Arizona's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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 City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described as items 2010-1 to 2010-4 in the accompanying schedule of findings and questioned costs to be material weaknesses.

Honorable Mayor and City Council  
City of Cottonwood, Arizona

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. We consider the deficiencies described as items 2010-5 and 2010-6 in the accompany schedule of findings and questioned costs to be significant deficiencies.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free of 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*.

We also noted certain other matters that we reported to management of the City in a separate letter dated January 28, 2011.

The City of Cottonwood, Arizona's responses to the findings identified in our audit are described in the accompanying scheduling of findings and questioned costs. We did not audit the City's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the City Council, Management of the City, federal awarding agencies, state funding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



**LarsonAllen LLP**

Mesa, Arizona  
January 28, 2011

## REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

### **Compliance**

We have audited the City of Cottonwood, Arizona's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Cottonwood, Arizona's major federal programs for the year ended June 30, 2010. The City of Cottonwood, Arizona's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Cottonwood, Arizona's management. Our responsibility is to express an opinion on the City of Cottonwood, Arizona's compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 of Cottonwood, Arizona'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. Our audit does not provide a legal determination of the City of Cottonwood, Arizona's compliance with those requirements.

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, 2010. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2010-7 through 2010-9.

**Internal Control over Compliance**

Management of the City of Cottonwood, Arizona is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Cottonwood, Arizona's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 of Cottonwood, Arizona'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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items 2010-7 through 2010-10. *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.

The City of Cottonwood, Arizona's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City of Cottonwood, Arizona's responses and, accordingly, we express no opinion on the responses.

**Schedule of Expenditures of Federal Awards**

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Cottonwood, Arizona as of and for the year ended June 30, 2010, and have issued our report thereon dated January 28, 2011. Our audit was performed for the purpose of forming opinions on the financial statements, which collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Honorable Mayor and City Council  
City of Cottonwood, Arizona

This report is intended solely for the information and use of the City Council, Management of the City, federal awarding agencies, state funding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*LarsonAllen LLP*

**LarsonAllen LLP**

Mesa, Arizona  
January 28, 2011

**CITY OF COTTONWOOD, ARIZONA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2010**

**SECTION I – SUMMARY OF AUDITORS’ RESULTS**

***Financial Statements***

Type of auditors’ report issued: *Unqualified*  
 Internal control over financial reporting:

- Material weakness(es) identified?          X     yes                 no
- Significant deficiency(ies) identified not considered to be material weakness?          X     yes                 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 deficiency(ies) identified not considered to be material weakness?          X     yes                 none reported

Type of auditors’ report issued on compliance for major programs: *Unqualified*

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?          X     yes                 no

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
20.106	Airport Improvement Program
14.228	Community Development Block Grant
97.044	Staffing for Adequate Fire and Emergency Response

Dollar threshold used to distinguish between Type A and Type B programs:      \$ 300,000

Auditee qualified as low-risk auditee?                 yes          X     no

**CITY OF COTTONWOOD, ARIZONA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
YEAR ENDED JUNE 30, 2010**

**SECTION II – FINANCIAL STATEMENT FINDINGS**

**2010-1: Oversight of the Financial Reporting Process**

**Condition:** The City does not have a system of internal controls that would enable management to conclude the financial statements and related disclosures are complete and presented in accordance with GAAP. As such, management requested us to prepare a draft of the financial statements, including the related footnote disclosures.

The audit firm proposed and the City posted to its general ledger accounts, journal entries to correct misstatements in cash, accounts receivable, accounts payable, unearned revenues, long-term debt, fund balance, expenditures and the GASB 34 conversion entries. These entries relate to internal controls over the year-end close-out process. The absence of a complete control procedure or process in this area is considered a material weakness because the potential exists that a material misstatement of the financial statements could occur and not be prevented or detected by the City's internal control processes.

**Criteria:** The City should have controls in place to prevent and detect a material misstatement in the financial statements in a timely manner. Management is responsible for the accuracy and completeness of all financial records and related information. Their responsibilities include adjusting the financial statements to correct material misstatements.

**Effect:** Significant audit adjustments were proposed and subsequently approved and recorded by the City to correct account balances for expenditures/expenses, capital assets, fund balance, inventory, long-term debt and receivables.

**Cause:** The City has not established controls to ensure accounts are adjusted to their appropriate year-end balances in accordance with GAAP. The City relies on the audit firm to prepare the annual financial statements, related footnote disclosures, and to verify balances are correct at year-end. However, they have reviewed and approved the annual financial statements and related footnote disclosures.

**Recommendation:** We recommend the City continue to evaluate its internal control processes to determine if additional internal control procedures should be implemented to ensure that accounts are adjusted to their appropriate year-end balances in accordance with GAAP. Additionally, we recommend that the City review these adjustments and modify year-end reconciling procedures in an effort to avoid similar adjustments next year.

Lastly, should the City elect to establish the "full oversight" of the financial statement preparation, we suggest management establish effective review policies and procedures, including, but not limited to, the following functions: reconciling general ledger amounts to the draft financial statements; review of all supporting documentation and explanations for journal entries proposed by us and approve the entries; review the adequacy of financial statement disclosures by completing a disclosure checklist; review and approve schedules and calculations supporting the amounts included in the notes to the financial statements; apply analytic procedures to the draft financial statements; and perform other procedures considered necessary by management.

**Response:** The City concurs with this recommendation and will reconcile all year-end account balances in the future. The City will also consider the recommendation in order to take "full oversight" of the financial statement preparation and will consult with its auditors to remedy this finding.

**Contact Person:** Rudy Rodriguez, Finance Director

**CITY OF COTTONWOOD, ARIZONA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
YEAR ENDED JUNE 30, 2010**

**SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**2010-2: Prior Period Adjustment**

**Condition:** A prior period adjustment was proposed by the auditors and subsequently posted by the City in the Water Fund and Business-type Activities in the amount of \$852,731 to correct an error in the previously issued financial statement. The City does not have a system of internal controls that requires management to reconcile all material account balances at the end of the fiscal year.

The absence of a complete control procedure or process in this area is considered a material weakness because a material adjustment was necessary to correct the error.

**Criteria:** The City should have controls in place to prevent and detect a material misstatement in the financial statements in a timely manner. Management is responsible for the accuracy and completeness of all financial records and related information. Their responsibilities include reconciling year-end account balances and adjusting the financial statements to correct material misstatements.

**Effect:** A significant audit adjustment was proposed and subsequently approved and recorded by the City to correct the error.

**Cause:** The City has a long-term receivable due from the Town of Clarkdale to fund the Town of Clarkdale's portion of the Water Revenue Bonds issued in prior years. The City of Cottonwood collects principal and interest on the note. In the prior fiscal year, the City recorded the interest payments from the Town of Clarkdale as a reduction of the receivable in error.

**Recommendation:** We recommend the City continue to evaluate its internal control processes to determine if additional internal control procedures should be implemented to ensure that accounts are properly reconciled and adjusted to their appropriate year-end balances in accordance with GAAP.

**Response:** The City concurs with this recommendation and will reconcile all year-end account balances in the future. Any variances will be investigated and resolved.

**Contact Person:** Rudy Rodriguez, Finance Director

**CITY OF COTTONWOOD, ARIZONA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
YEAR ENDED JUNE 30, 2010**

**SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**2010-3: Accounts Payable**

**Condition:** The City did not maintain an accounts payable subsidiary ledger.

**Criteria:** The City should have controls in place to maintain an accounts payable subsidiary ledger and should reconcile general ledger activity to the subsidiary ledgers to prevent and detect a material misstatement in the financial statements in a timely manner. Management is responsible for the accuracy and completeness of all financial records and related information. Their responsibilities include adjusting the financial statements to correct material misstatements, including reconciling accounts payable to the subsidiary ledger and investigating any variances from the general ledger.

**Effect:** The City was unable to provide a list of accounts payable other than a general ledger detail of the account balance, creating a weakness in internal controls that could result in a material misstatement as accounts payable were not being reconciled to ensure completeness and to make the determination that all accounts payable included in the general ledger were in fact unpaid at year-end.

**Cause:** The City has not established controls to maintain an accounts payable subsidiary ledger.

**Recommendation:** We recommend the City continue to evaluate its internal control processes to determine if additional internal control procedures should be implemented to ensure accounts payable are reconciled to the general ledger. The City should utilize the accounts payable function to create and reconcile an unpaid invoice report or accounts payable subsidiary ledger to the general ledger.

**Response:** The City concurs with this recommendation and understands that this was a prior year recommendation and will review its current controls to determine the procedures necessary to reconcile accounts payable monthly.

**Contact Person:** Rudy Rodriguez, Finance Director

**CITY OF COTTONWOOD, ARIZONA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
YEAR ENDED JUNE 30, 2010**

**SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**2010-4: Revenues**

**Condition:** The water billing subsidiary ledger and aged receivables report were not reconciled to the general ledger.

**Criteria:** The City should have controls in place to reconcile general ledger activity to the subsidiary ledger to prevent and detect a material misstatement in the financial statements in a timely manner. Management is responsible for the accuracy and completeness of all financial records and related information. Their responsibilities include adjusting the financial statements to correct material misstatements, including reconciling water revenues to the subsidiary ledger and investigating any variances from the general ledger.

**Effect:** Although not material, a variance existed between the water billing subsidiary ledger and the general ledger that was not investigated and resolved by the City. Such a variance, if not investigated and resolved, could result in a material misstatement in the financial statements.

**Cause:** The City has not established controls to reconcile the water billing subsidiary ledger or aged receivables report to the general ledger.

**Recommendation:** We recommend the City reconcile both the aged receivable and water billing subsidiary ledger to the general ledger monthly, and investigate and resolve any variances.

**Response:** The City concurs with this recommendation and understands that this was a prior year recommendation and will ensure a reconciliation of the aged receivables and water billing subsidiary ledger to the general ledger are completed.

**Contact Person:** Rudy Rodriguez, Finance Director.

**CITY OF COTTONWOOD, ARIZONA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
YEAR ENDED JUNE 30, 2010**

**SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**2010-5: Controls Over Credit Card Processing**

**Condition:** During our audit, we noted that two of forty credit card transactions were not supported by a credit card receipt.

**Criteria:** Internal control procedures would dictate that credit card receipts should be maintained to support the purchase of goods and/or services to ensure the purchase was made in the course of doing business at the City and to prevent the possibility of a misstatement in the financial statements.

**Effect:** Internal control weakness.

**Cause:** The City does not, in all instances, require employees to submit credit card receipts.

**Recommendation:** We recommend the City require all employees submit credit card receipts and a brief narrative describing the reason for the purchase; if the credit card receipt was used for meals or entertainment, the narrative should describe the purpose of the meal or entertainment, who participated in the meeting, the date of the meeting and the location. This will allow the City to evaluate the purchase and ensure it was made in the normal course of doing business at the City and to prevent the possibility of a material misstatement in the financial statements.

**Response:** The City concurs with this recommendation and will review its current procedures and ensure credit card receipts are submitted to finance to support the purchase of goods and/or services.

**Contact Person:** Rudy Rodriguez, Finance Director

**CITY OF COTTONWOOD, ARIZONA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
YEAR ENDED JUNE 30, 2010**

**SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**2010-6: Indirect Cost Allocations**

**Condition:** The City did not maintain proper documentation to support indirect cost allocations.

**Criteria:** The City allocates indirect costs from the General Fund to Special Revenue and Enterprise funds for IT costs based upon the number of computers per department, personnel department costs based upon FTE's, and custodial department costs based upon square footage. The City should have controls in place to ensure that documentation is maintained to support these allocations.

**Effect:** The City was unable to provide documentation supporting the allocation of indirect costs, creating a weakness in internal controls that could result in a material misstatement as indirect costs were not properly supported to ensure accuracy of the costs.

**Cause:** The City changed its methodology for calculating indirect costs and failed to maintain documentation for new allocation bases.

**Recommendation:** We recommend the City maintain documentation to support the allocation of indirect costs. The allocation of indirect costs should be reviewed by management to ensure proper documentation is maintained and allocations are performed correctly.

**Response:** The City concurs with this recommendation and will immediately ensure proper documentation is maintained to support the allocation of indirect costs.

**Contact Person:** Rudy Rodriguez, Finance Director.

**CITY OF COTTONWOOD, ARIZONA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
YEAR ENDED JUNE 30, 2010**

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

**2010-7**

U.S. Department of Transportation  
Airport Improvement Program  
CFDA Number: 20.106  
Direct Grant  
Award Period: September 4, 2009 through project completion

**Condition/Context:** During our testing, we noted that one of four (all) expenditures tested for the Airport Improvement Program were not posted to the proper fiscal year.

**Criteria:** The City should have controls in place to ensure expenditures are recorded in the proper fiscal year.

**Questioned Costs:** None.

**Effect:** Audit adjustments were proposed, but not recorded by the City, due to immateriality, to record capital expenditures totaling \$24,002 that were not accrued in the prior fiscal year and capitalized as capital assets until the current fiscal year. Audit adjustments were also proposed, but not recorded by the City, due to immateriality, to accrue the related revenues and receivables.

**Cause:** The City has established controls to ensure that expenditures and related revenues are recorded in the proper fiscal year. However, several invoices were received by the program director and not submitted to the City for payment until after the City's internal cutoff dates and were therefore not properly accrued.

**Recommendation:** We recommend the City review expenditure cutoff procedures to ensure that expenditures are recorded in the proper fiscal year. In addition, the source of funds should be evaluated to determine whether related revenues should be accrued.

**Corrective Action Plan:** The City concurs with this recommendation and will review its cutoff procedures and immediately implement new procedures to remedy the error.

**Contact Person:** Rudy Rodriguez, Finance Director

**CITY OF COTTONWOOD, ARIZONA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
YEAR ENDED JUNE 30, 2010**

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**2010-8**

U.S. Department of Housing and Urban Development  
Community Development Block Grant  
CFDA Number: 14.228  
Passed through: Department of Commerce  
Award Period: February 22, 2008 through July 2, 2010

**Condition/Context:** During our testing, we noted that one of five (all) expenditures tested for CDBG was incurred after requesting reimbursement.

**Criteria:** The City should have controls in place to ensure expenditures are incurred and paid prior to requesting reimbursement.

**Questioned Costs:** None.

**Effect:** Expenses were recorded after the reimbursement request date resulting in the potential for interest earnings on reimbursement-based grant monies.

**Cause:** The City has controls over requesting reimbursement for expenditures; however, the controls were not sufficient to detect that the reimbursement occurred prior to the payment of expenses.

**Recommendation:** We recommend the City review its current procedures to determine whether controls are adequate over the reimbursement request process during the fiscal year.

**Corrective Action Plan:** The City concurs with this recommendation and will review its current procedures and immediately determine and implement the controls necessary to prevent similar instances in future years.

**Contact Person:** Rudy Rodriguez, Finance Director

**CITY OF COTTONWOOD, ARIZONA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
YEAR ENDED JUNE 30, 2010**

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**2010-9**

U.S. Department of Homeland Security  
Staffing for Adequate Fire and Emergency Response  
CFDA Number: 97.044  
Direct Grant  
Award Period: May 20, 2009 through May 19, 2014

**Condition/Context:** During our testing, we noted that six of twenty-five expenditures tested for SAFER grant included uniforms in the amount requested for reimbursement. However, uniforms were excluded from the allowable costs on the grant agreement.

**Criteria:** The City should have controls in place to ensure expenditures are allowable for reimbursement.

**Questioned Costs:** None.

**Effect:** Expenditures for uniforms were requested for reimbursement that were not allowable under the grant agreement, resulting in revenues received that had to be returned to the grantor.

**Cause:** This is a new grant for the City and the City did not review the grant agreement closely enough to note that uniforms were an unallowable cost. The City also has not established controls to ensure that expenditures are allowable.

**Recommendation:** We recommend the City review the grant agreement more closely for allowable and unallowable costs. The City should establish controls to ensure that expenditures are allowable.

**Corrective Action Plan:** The City concurs with this recommendation and will review its current procedures and immediately determine and implement the controls necessary to prevent similar instances in future years. The City returned the funds to the grantor during FY 2010.

**Contact Person:** Rudy Rodriguez, Finance Director

**CITY OF COTTONWOOD, ARIZONA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
YEAR ENDED JUNE 30, 2010**

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**2010-10**

U.S. Department of Homeland Security  
Staffing for Adequate Fire and Emergency Response  
CFDA Number: 97.044  
Direct Grant  
Award Period: May 20, 2009 through May 19, 2014

**Condition/Context:** The City has not established controls to review reimbursement requests to ensure expenditures are allowable and that the matching requirement has been met.

**Criteria:** The City should have controls in place to ensure expenditures are allowable for reimbursement and that the matching requirement has been met.

**Questioned Costs:** None.

**Effect:** The City was in compliance with OMB Circular A-133; however, the lack of controls provides an opportunity for a noncompliance to occur and go undetected.

**Cause:** This is a new grant for the City and the City did not establish controls to review reimbursement requests to ensure that expenditures are allowable and that the matching requirement has been met.

**Recommendation:** We recommend the City establish controls to review reimbursement requests to ensure that expenditures are allowable and that the matching requirement has been met.

**Corrective Action Plan:** The City concurs with this recommendation and will immediately review its current procedures and determine and implement the controls necessary to prevent similar instances in future years.

**Contact Person:** Rudy Rodriguez, Finance Director

**CITY OF COTTONWOOD, ARIZONA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
YEAR ENDED JUNE 30, 2010**

**SECTION IV – SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

**2009-8**

U.S. Department of Transportation  
Airport Improvement Program  
CFDA Number: 20.106  
Direct Grant  
Award Period: July 13, 2005 through project completion

**Condition:** During our testing, we noted that three of twenty-one (all) expenditures tested for the Airport Improvement Program were not posted to the proper fiscal year.

**Status:** Similar item noted as finding 2010-7

**2009-9**

U.S. Department of Transportation  
Airport Improvement Program  
CFDA Number: 20.106  
Direct Grant  
Award Period: July 13, 2005 through project completion

**Condition:** During our testing, we noted that three of twenty-one (all) expenditures tested for the Airport Improvement Program that were not coded to the proper account code.

**Criteria:** No similar findings noted in the current year.

**CITY OF COTTONWOOD, ARIZONA  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2010**

Grantor Agency	Federal CFDA Number	Pass-through Grantor's Number	Expenditures
U.S. Department of Justice			
Direct			
Recovery Act Justice Assistance Grant Program	16.803	2009-SB-B9-0170	\$ 25,324
Passed through City of Sedona:			
Recovery Act Justice Assistance Grant Program	16.803	N/A	<u>10,640</u>
Total U.S. Department of Justice			<u>35,964</u>
U.S. Department of Transportation			
Direct			
Airport Improvement Program	20.106	AIP 3-04-0012-013-2009	494,570
Passed through Arizona Department of Transportation:			
Federal Transit Capital and Operating Assistance	20.507	KR06-0480TRN	713,352
Passed through Governor's Office of Highway Safety:			
DUI Task Force Enforcement Overtime	20.600	DUI-10-031	5,965
Governor's Office of Highway Safety	20.601	2008-410-024	<u>29,861</u>
Total U.S. Department of Transportation			1,243,748
U.S. Department of Housing and Urban Development			
Passed through the Arizona Department of Commerce:			
Community Development Block Grant	14.228	146-08	351,215
U.S. Department of Homeland Security			
Direct			
Staffing for Adequate Fire and Emergency Response	97.044	EMW-2008-FF-00662	517,299
Passed through Arizona Department of Homeland Security:			
Homeland Security	97.067	44504-01, 02, 333513-01, 02, 03, 04, 555505-02	<u>87,154</u>
Total U.S. Department of Homeland Security			604,453
U.S. Department of Health and Human Services			
Passed through Northern Arizona Council of Governments:			
Community Services Block Grant	93.569	YAV2-09-2010	8,000
Social Services Block Grant	93.667	YAV2-09-2010	<u>17,001</u>
Total U.S. Department of Health and Human Services			<u>25,001</u>
<b>TOTAL FEDERAL AWARDS</b>			<u><u>\$ 2,260,381</u></u>

(1) This schedule was prepared using the modified accrual basis of accounting.