

**CITY OF COTTONWOOD, ARIZONA**  
**SINGLE AUDIT ACT REPORTS**  
**YEAR ENDED JUNE 30, 2011**

**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 financial statements of the governmental activities, the business-type activities, each major fund, and the remaining fund information of the City of Cottonwood, Arizona (City) as of and for the year ended June 30, 2011, which collectively comprise the City of Cottonwood, Arizona's basic financial statements and have issued our report thereon dated March 20, 2012. 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**

The City's management is responsible for establishing and maintain effective 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 an opinion on the effectiveness of the City of Cottonwood, Arizona's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Cottonwood, Arizona'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 2011-1 to 2011-3 and 2011-5 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 deficiency described as item 2011-4 in the accompany schedule of findings and questioned costs to be a significant deficiency.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Cottonwood, Arizona '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*.

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's responses and, accordingly, we express no opinion on them.

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



**CliftonLarsonAllen LLP**

Mesa, Arizona  
March 20, 2012



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CliftonLarsonAllen LLP  
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**INDEPENDENT AUDITORS' 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 (City)'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's major federal programs for the year ended June 30, 2011. 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 City of Cottonwood, Arizona's management. Our responsibility is to express an opinion on the City'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 of Cottonwood, Arizona 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, 2011.

### **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'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.

### **Schedule of Expenditures of Federal Awards**

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the remaining fund information of the City of Cottonwood, Arizona as of and for the year ended June 30, 2011, and have issued our report thereon dated March 20, 2012. 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.

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



**CliftonLarsonAllen LLP**

Mesa, Arizona  
March 20, 2012

**CITY OF COTTONWOOD, ARIZONA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2011**

**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     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)?                 yes          X     no

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
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, 2011**

**SECTION II – FINANCIAL STATEMENT FINDINGS**

**2011-1: 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, long-term debt, fund balance, revenues, 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, long-term debt, revenues 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, 2011**

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

**2011-2: Accounts Receivable**

**Condition:** The City does not have a policy to record an allowance for uncollectible accounts. The City recorded an allowance; however, the allowance was not updated during the current fiscal year.

**Criteria:** The City should have a policy and controls in place to maintain an adequate allowance for uncollectible accounts. The allowance should be addressed annually to determine whether the allowance is adequate for the receivables balance.

**Effect:** The allowance was not adjusted in the current fiscal. The City had a significant increase in aged accounts receivable in excess of 120 days. This increase should be an indication that an increased number of accounts may not be collectible.

**Cause:** The City has not established a policy or controls for allowances for uncollectible accounts.

**Recommendation:** We recommend the City develop a policy to address the allowance for uncollectibles and continue to evaluate its internal control processes to determine if additional internal control procedures should be implemented to ensure the allowance is adequate. The City's analysis of the allowance should include a rolling twelve to twenty four month average right off, as well as economic factors and conditions when determining the adequacy of the allowance.

**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 policies and procedures necessary to determine the adequacy of the allowance each year.

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

**CITY OF COTTONWOOD, ARIZONA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
YEAR ENDED JUNE 30, 2011**

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

**2011-3: 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, which resulted in material prior period adjustments due to accounts payable 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, 2011**

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

**2011-4: Controls Over Accounts Payable Disbursements**

**Condition:** During our audit, we noted that three of forty accounts payable disbursements was not approved to ensure the purchase was allowable and to review account coding.

**Criteria:** The City should have controls in place to properly approve disbursements to ensure the purchase was allowable and the transaction was coded to the correct account code.

**Effect:** Internal control weakness.

**Cause:** Management Oversight.

**Recommendation:** We recommend the City evaluate its internal control processes to determine if additional internal control procedures should be implemented to ensure purchases are properly authorized.

**Response:** The City concurs with this recommendation and will review its current controls to determine whether additional procedures need to be implemented over accounts payable disbursements.

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

**CITY OF COTTONWOOD, ARIZONA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
YEAR ENDED JUNE 30, 2011**

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

**2011-5: 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.

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

None Noted.

**CITY OF COTTONWOOD, ARIZONA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
YEAR ENDED JUNE 30, 2011**

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

**2010-7, 2009-8**

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

**Condition:** Expenditures tested for the Airport Improvement Program were not posted to the proper fiscal year.

**Status:** The City did not have this grant for FY 2010-11.

**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:** Expenditures tested for CDBG were incurred after requesting reimbursement.

**Status:** The City did not have this grant for FY 2010-11.

**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:** Expenditures tested for the Staffing for Adequate Fire and Emergency Response grant included uniforms in the amount requested for reimbursement. However, uniforms were excluded from the allowable costs on the grant agreement.

**Status :** Corrected. Nothing came to our attention in the current year testing.

**CITY OF COTTONWOOD, ARIZONA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
YEAR ENDED JUNE 30, 2011**

**SECTION IV—SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (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:** The City has not established controls to review reimbursement requests to ensure expenditures are allowable and that the matching requirement has been met.

**Status:** Corrected. Nothing came to our attention in the current year testing.

**CITY OF COTTONWOOD, ARIZONA  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2011**

Grantor Agency	Federal CFDA Number	Pass-through Grantor's Number	Expenditures
U.S. Department of Justice			
Passed through Governor's Office of Highway Safety:			
Underage Alcohol Enforcement	16.727	2011-DOJ-015	\$ 3,796
Passed through Town of Prescott:			
ARRA - Recovery Act Justice Assistance Grant Program	16.803	N/A	<u>9,666</u>
Total U.S. Department of Justice			<u>13,462</u>
U.S. Department of Transportation			
Passed through Arizona Department of Transportation:			
Federal Transit Capital and Operating Assistance	20.507	KR06-0480TRN	84,644
Federal Transit Capital and Operating Assistance	20.507	KR06-0487TRN	41,084
ARRA - Federal Transit Capital and Operating Assistance	20.507	P0012009001852	96,338
Passed through Governor's Office of Highway Safety:			
DUI Task Force Enforcement Overtime	20.600	2011-AL-027	9,430
Traffic Enforcement Program	20.600	2011-PT-021	<u>4,929</u>
Total U.S. Department of Transportation			236,425
U.S. Department of Housing and Urban Development			
Passed through Governor's Office of Highway Safety:			
Public Safety Stabilization Program	84.397	OER-11-IGA-GS-139	40,400
U.S. Department of Homeland Security			
Direct			
Staffing for Adequate Fire and Emergency Response	97.044	N/A	399,486
Passed through Arizona Department of Homeland Security:			
Homeland Security	97.067	555505-03	<u>51,093</u>
Total U.S. Department of Homeland Security			<u>450,579</u>
U.S. Department of Health and Human Services			
Passed through Northern Arizona Council of Governments:			
Community Services Block Grant	93.569	YAV2-09-2010	4,600
Social Services Block Grant	93.667	YAV2-09-2010	<u>9,103</u>
Total U.S. Department of Health and Human Services			<u>13,703</u>
TOTAL FEDERAL AWARDS			<u>\$ 754,569</u>

See accompanying notes to schedule of expenditures of federal awards.

**CITY OF COTTONWOOD, ARIZONA**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2011**

**NOTE 1 GENERAL**

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards of the City of Cottonwood, Arizona (City). The City's reporting entity is defined in Note 1 to the City's basic financial statements for the year ended June 30, 2011. All federal awards received directly from federal agencies are included in the schedule.

**NOTE 2 BASIS OF ACCOUNTING**

The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting, which is described in Note 1 to the City's basic financial statements for the year ended June 30, 2011.