

City of Cottonwood

Cottonwood, Arizona

Single Audit and Independent Auditors' Reports

For the Year Ended June 30, 2017

City of Cottonwood
Single Audit Report
For the Year Ended June 30, 2017

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Certified Public
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Association of
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Accountants
Arizona Hispanic
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Commerce
Alliance of Arizona
Nonprofits

**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, 2017, 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 February 28, 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 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies. These significant deficiencies are items number 2017-001 and 2017-002.

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

As part of obtaining reasonable assurance about whether the City's 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*.

City's Response to Findings

The City's response to the 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 the financial statements and, accordingly, we express no opinion on it.

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 entity'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.



Lumbar & Associates, PLLC
(A Division of The Pun Group, LLP)
Phoenix, Arizona
February 28, 2018



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**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM, ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE
UNIFORM GUIDANCE, AND ON SCHEDULE OF EXPENDITURES 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, 2017. The City's major federal programs are identified in the summary of the auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's 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 types of 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, 2017.

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.

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.

To the Honorable Mayor and Members of City Council
of the City of Cottonwood
Cottonwood, Arizona
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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, 2017, and have issued our report thereon dated February 28, 2018 which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming our opinion on the City's 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.



Lumbar & Associates, PLLC
(A Division of The Pun Group, LLP)
Phoenix, Arizona
February 28, 2018

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City of Cottonwood
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA Number	Agency or Pass-Through Number	Federal Expenditures
U.S. Department of Housing and Urban Development:			
<i>Passed through State of Arizona Department of Housing:</i>			
Community Development Block Grant	14.228	124-16	\$ 44,850
Total U.S. Department of Housing and Urban Development			<u>44,850</u>
U.S. Department of Justice:			
<i>Passed through Arizona Department of Public Safety:</i>			
Crime Victim Assistance	16.575	2015-VA-GX-0032	45,531
Total U.S. Department of Justice			<u>45,531</u>
U.S. Department of Transportation:			
<i>Passed through the Arizona Department of Transportation:</i>			
Airport Improvement Program	20.106	3-06-0034-016-2014	1,072,987
Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research	20.505	ADOT GRT 15-0005554	7,759
Formula Grants for Rural Areas Program:			
<i>Passed through the Arizona Department of Transportation:</i>			
Formula Grants for Rural Areas	20.509	ADOT GRT 14-0004675	7,470
Formula Grants for Rural Areas	20.509	ADOT GRT 15-0005554	352,422
Formula Grants for Rural Areas	20.509	ADOT GRT 16-0005592	1,040,547
Total Formula Grants for Rural Areas Program			<u>1,400,439</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	5,685
State and Community Highway Safety	20.600	2016-PT-008	2,530
State and Community Highway Safety	20.600	2016-IL-008	3,079
Subtotal - Program 20.600			<u>11,294</u>
National Priority Safety Programs	20.616	2017-405d-005	16,140
Total Highway Safety Cluster			<u>27,434</u>
Total U.S. Department of Transportation			<u>2,508,619</u>
National Endowment for the Humanities:			
<i>Passed through The Arizona State Library :</i>			
Grants to States	45.310	2016-36001-02	4,295
Total National Endowment for the Humanities			<u>4,295</u>
Total Expenditures of Federal Awards			<u>\$ 2,603,295</u>

City of Cottonwood
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017

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 fund balance, or results of operations of the City.

Note 4 – Subrecipients

During the fiscal year ended June 30, 2017, 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, 2017

Section I – Summary of Auditor’s Results

Financial Statements

Types of auditors’ report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified? 2017-001
2017-002

Noncompliance material to the financial statements noted? No

Federal Awards

Internal control over major programs:

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

Type of auditor’s report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CRF 200.516? No

Identification of major programs:

Major Program	Federal CFDA #	Federal Expenditures
Highway Planning and Construction Cluster:		
Highway Planning and Construction	20.106	\$ 1,072,987
Total major program expenditures		\$ 1,072,987
Total federal award expenditures		\$ 2,603,295
Percent of total federal award expenditures		41.22%

Dollar threshold used to distinguish between type A and type B programs: \$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
For the Year Ended June 30, 2017

Section II – Financial Statement Findings

A. Current Year Findings – Financial Statement Audit

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

Criteria:

Management is responsible for designing, implementing, and maintaining appropriate internal control over financial reporting and compliance. Management is also responsible for the accuracy of the financial statements including disclosures. As part of satisfying that responsibility, staff must possess the skills, knowledge, and experience necessary to complete the year-end close and must diligently employ the skills, knowledge, and experience to produce reliable and accurate financial information.

Effective internal control over financial reporting provides reasonable assurance for the completeness and accuracy of accounting records and proper year-end closing. Internal control is defined as a process implemented and monitored by the City Council, management, and other personnel that provides reasonable assurance that the objectives of the City will be achieved. Internal control is not one event, but a series of events that occur throughout an entity's operations. The City's internal control system should be designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- reliability of financial reporting for internal and external use;
- effectiveness and efficiency of operations; and
- compliance with applicable laws and regulations.

The Internal Control Framework includes establishing or enhancing guidance in the following areas:

- *Control environment* sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure.
- *Risk assessment* is the entity's identification and analysis of relevant risks to achievement of its objectives, forming a basis for developing appropriate risk responses.
- *Control activities* are the actions management establishes through policies and procedures to achieve objectives and respond to risks in the internal control system.
- *Information and communication* systems support the identification, capture, and exchange of information in a form and time frame that enables people to carry out their responsibilities.
- *Monitoring* consists of activities management establishes and operates to assess the quality of performance over time.

Condition:

Due to limited staffing levels in Accounting, internal controls in the following areas are not adequately designed and mitigating controls, such as management review, are not effective to identify misstatement due from error.

1. Debt Accounting
2. Financial Reporting on Pensions
3. Accounting over Refunding Bond Proceeds for Defeased Debt

City of Cottonwood
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2017

Section II – Financial Statements Findings (Continued)

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

Condition (Continued):

In addition, the City does not have a systematic method for ensuring that timely and complete year end closing procedures including year-end entries were made before presenting the trial balance to auditors. This resulted in a number of material journal entries being prepared as part of the audit to correct or to reclassify balances in financial statements in order to conform to accounting principles generally accepted in the United States.

Cause:

The City also does not have standard year-end closing procedures which would reduce the risk that there are accounting errors recorded in the City's general ledger. In addition, it appears the prior auditor often made these entries on behalf of the City, which due to the number and size of the entries, can pose a risk to the auditor's independence without appropriate safeguards in place. In the prior years, these entries did not rise to a material level overall but in the current year they were material.

Identification as a Repeat Finding, If Applicable:

Yes – Prior Year Finding 2016-001.

Effect:

Delays in processing transactions timely and closing accounting periods can create accounting errors that could go undetected and may lead the financial statements to be materially misstated. In addition, this creates further delays in the release of audited financial statements as the auditors are required to increase audit procedures due to the increased risk of material misstatements. Adequate controls, including the closing process, provide assurance against irregularities, including fraud, and help to identify errors early or prevent them altogether.

Prior period (prior year) corrections were made for the following:

1. Adjusted beginning balance of long-term debt - Decrease debt \$709,400/Increase net position \$709,400

Adjustments to the current period were made for the following:

2. Adjusted interest payable - Increase liabilities \$292,038/Increase expenses \$292,038
3. Recorded pension liabilities/expense as follows:
 - a. Arizona State Retirement System pension costs - Increase liabilities \$935,795/Increase expenses \$935,795
 - b. Public Safety Retirement System Police pension costs - Increase liabilities \$1,549,156/Increase expenses \$1,549,156
 - c. Public Safety Retirement System costs - Increase liabilities \$1,111,481/Increase expenses \$1,111,481
4. Recorded deferred loss on debt refunding - Increase deferred outflows of resources \$345,320/Increase liabilities \$345,320
5. Reclassified capital assets - Increase land \$892,596/Decrease Water distribution system \$892,596
6. Removed defeased debt/escrow trust cash account – Decrease cash \$13,613,249/Decrease liabilities \$13,613,249

City of Cottonwood
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2017

Section II – Financial Statements Findings (Continued)

Finding 2017-001 **Internal Control Over Financial Reporting/Accounting Close and Accuracy in Financial Reporting (Continued)**

Questioned Costs:

None.

Recommendation:

We recommend that the City establish effective year-end closing procedures to include entries surrounding not only fund accounting but the long-term liabilities and capital assets. This will reduce the risk that there are accounting errors and the need for correcting journal entries as part of the audit. These procedures should 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. Additional training should be provided in these areas as needed.

Management’s Response and Corrective Action Plan:

See Corrective Action Plan.

City of Cottonwood
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2017

Section II – Financial Statements Findings (Continued)

Finding 2017-002 Indirect Costs Charged to Highway User Revenue Fund (HURF)

Criteria:

Per Arizona Constitution, Article IX §14 *Use and distribution of vehicle, user, and gasoline and diesel tax receipts* “..... and for distribution to counties, incorporated cities and towns to be used by them solely for highway and street purposes including costs of rights of way acquisitions and expenses related thereto, construction, reconstruction, maintenance, repair, roadside development, of county, city and town roads, streets, and bridges and payment of principal and interest on highway and street bonds.”

Condition:

The City calculates its indirect costs manually using spreadsheets that compile data such as employees, employee hours, costs charged by department and other allocation factors. Spreadsheets, though used frequently in accounting, are often prone to error because of the manual interface. Without a formal review process, errors can occur and go undetected. For the HURF, one employee’s wages was 100% directly charged between two departments – HURF and Maintenance. In the allocation of the indirect costs for the maintenance department, this employees total hours was included in the base for the allocation when the base allocation should have been reduced by the amount of time already directly charged to HURF. As a result, the employee was overcharged to HURF by approximately \$34,000 in the fiscal year ended June 30, 2017. Though the amount was not material to the financial statements overall, the lack of internal controls over the cost allocation model, including a separate review of the underlying data and allocation methodology, poses a risk that a material error could occur and go undetected.

Cause:

Due to the complexity involved in the preparation of indirect cost models and the allocation bases, the City did not have an adequate process to accurately charge direct salaries and indirect salaries for positions that are allocated across multiple funds.

Identification as a Repeat Finding, If Applicable:

No.

Effect:

The City overcharged indirect costs to Highway User Revenue Fee (HURF) program by approximately \$34,000.

Questioned Costs:

\$34,272.

City of Cottonwood
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2017

Section II – Financial Statements Findings (Continued)

Finding 2017-002 Indirect Costs Charged to Highway User Revenue Fund (HURF) (Continued)

Recommendation:

We recommend the City evaluate the cost of having the indirect cost plan prepared internally as opposed to externally by a consultant that is an expert in the areas of indirect cost charging to both Federal and State programs. The risk to the City of a multi-year error that could go undetected with interest could far exceed the costs related to outsourcing this function. In addition, the requirements continually change in Federal and State programs which requires a training investment by the City to keep current with the ever changing regulations. Last, the City may not be capturing all of its indirect costs that could be allocable to maximize the recover under its non-local resources. In addition, the City should evaluate all prior years and determine if overcharging of this employee occurred in the past and work with the State to determine the amounts to be repaid, if any

Management’s Response and Corrective Action Plan:

See Corrective Action Plan.

City of Cottonwood
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2017

B. Prior Year Findings – Financial Statement Audit

Finding 2016-001 Internal Controls over Accounting Records

Criteria:

City management is responsible for establishing and maintaining internal controls to ensure that all account balances are properly recorded in the financial statements in accordance with generally accepted accounting principles (GAAP).

Condition:

Audit adjustments were necessary to properly state the account balances within the City's financial records.

Cause:

The City does not have an adequate review process in place to ensure journal entries are made properly.

Identification as a Repeat Finding, If Applicable:

Yes – Prior Year Finding 2015-001.

Effect:

The City's accounting records required adjustments to properly state financial activity for the year. However, the adjustments noted below were not material to the overall financial statements.

Context:

The following errors were noted related to the City's accounting records:

- Principal expense and loan payable in the Debt Service Fund were understated by \$35,000.
- Interest expense and interest payable in the Debt Service Fund were overstated by \$35,000.
- Bond premium in the Water and Sewer Funds was not amortized for the year, resulting in overstatement of interest expense of \$29,412.
- The compensated absences balances were understated by \$55,494 in the Water and Sewer Funds.
- The Due To/From account balance across all funds did not balance by \$24,997.
- Unavailable revenues and revenues were misstated by \$99,709.
- One of six capital asset additions reviewed was not recorded at the correct value. The addition was recorded at \$175,980, rather than \$17,598 resulting in an overstatement of \$152,382.
- One capital asset costing \$38,160 which was previously reported as construction in progress was removed from construction in progress during the year since the asset was completed, however the asset was not recorded as an addition to the appropriate depreciable capital asset category.

Questioned Costs:

Not applicable.

City of Cottonwood
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2017

B. Prior Year Findings – Financial Statement Audit (Continued)

Finding 2016-001 Internal Controls over Accounting Records (Continued)

Recommendation:

Account balances within the financial records should be agreed to the supporting schedules by someone other than the individual responsible for preparing the schedules and updating the financial records to ensure that adjustments are recorded for the proper amounts and account codes.

Management’s Response and Corrective Action Plan:

See Corrective Action Plan.

City of Cottonwood
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2017

Section III – Federal Awards Findings and Questioned Costs

A. Current 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, 2017.

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, 2016.



"Inspiring a Vibrant Community"

CORRECTIVE ACTION PLAN – VIEWS OF RESPONSIBLE OFFICIALS

Finding Number FS-2016-001 references errors in journal entries. The Finance staff make every effort to ensure that each and every entry is correct. Unfortunately and occasionally entries that in error do get past the review process. We understand that this may not always be 100% unavoidable, however, our current review process is lacking. We evaluate our review procedures for ways to improve the process and continue reduce these type of errors.

We have improved our procedures and eliminated many of the past year's findings and will do the same with this finding. A closer review of journal entries will help reduce and possibly eliminate these type of errors. An annual reconciliation of the general ledger accounts and journal entries will be performed and reviewed by an additional Finance Staff member.

Responsible Party: Accounting/Budget Manager
Anticipated Completion Date: December 2018

Finding Number FS-2017-001 references errors in journal entries and the closing of the year. The Finance staff make every effort to ensure that each and every entry is correct. In previous years the Auditors performed many of the entries for closing the year and adjustments. The findings for the adjustment to beginning balance of long-term debt of \$709,400, the Pension liability/expense entries for the fiscal year and the reclassification of the capital assets from infrastructure to land are entries that the prior auditors were involved in creating and approved of the handling of those entries. The adjustments for those entries is due to the change in practice by the new auditors.

Due to the notification by the current auditors that these entries and the remaining entries in this finding will now be the responsibility of the Finance Department and that some of the previous entries were done incorrectly the Finance department will make every effort to correct these entries for future years.

Responsible Party: Accounting/Budget Manager
Anticipated Completion Date: December 2018

Finding Number FS-2017-002 references an error in accounting for indirect costs. The indirect costing method that has been used over the last few years will be reviewed and we will research to determine if there is a better indirect costing method that can be used by the City. The error in the FY2017 indirect costing sheet has been corrected in Fiscal year 2018 and the process will be evaluated to improve the indirect costing methods used.

Responsible Party: Accounting/Budget Manager
Anticipated Completion Date: December 2018