



Single Audit Report and Schedule of  
Expenditures of Federal Awards  
June 30, 2014

**City of Prescott, Arizona**

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**Independent Auditor's 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***

To the City Council  
City of Prescott, Arizona  
Prescott, Arizona

We have audited, 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Prescott, Arizona (the City) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 12, 2014.

**Internal Control over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not 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 a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as finding 2014-A, that we consider to be a significant deficiency.

**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*.

**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.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Phoenix, Arizona  
December 12, 2014



**Independent Auditor’s Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

To the City Council  
City of Prescott, Arizona

**Report on Compliance for Each Major Federal Program**

We have audited the City of Prescott’s (the City) 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, 2014. The City’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

**Management’s Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

**Auditor’s Responsibility**

Our responsibility is to express an opinion on the 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 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 compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City’s compliance.

**Opinion on Each Major Federal Program**

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2014.

## **Report on Internal Control over Compliance**

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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 compliance requirement 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 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

## **Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

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 as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated December 12, 2014, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. 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 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 financial statements and certain additional 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 expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.



Phoenix, Arizona  
December 12, 2014

City of Prescott, Arizona  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2014

Federal Grantor/Program Title/ Pass-Through Grantor	Federal CFDA Number	Pass-Through Grantor's Number	Fiscal Year 2014 Expenditures
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
Cooperative Forestry Assistance Program State Fire Assistance Passed Through the Arizona Office of the State Forester	10.664	WFHF 13-201	\$ 160,374
Passed Through the Arizona State Land Department and Prescott Wildland Urban Interface Commission	10.664	SFA 2008-08-002	<u>218,317</u>
			378,692
<b>Total for the U.S. Department of Agriculture</b>			<u><u>378,692</u></u>
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>			
Community Development Block Grant - Administration - Direct Program	14.218	N/A	40,677
WYGC Renovations - Direct Program	14.218	N/A	5,000
Coalition for Compassion & Justice - Direct Program	14.218	N/A	7,989
ARRA - Meals on Wheels - Direct Program	14.218	N/A	27,862
Cornucopia - Direct Program	14.218	N/A	2,340
Fair Housing Education Program - Direct Program	14.218	N/A	1,200
Dexter Sidewalk - Direct Program	14.218	N/A	22,505
Women's Shelter - Direct Program	14.218	N/A	<u>13,805</u>
Subtotal			121,378
<b>Total for the U.S. Dept of Housing &amp; Urban Development</b>			<u><u>121,378</u></u>
<b>OFFICE OF LIBRARY SERVICES</b>			
National Parks Service Historic Preservation Program Passed Through the Arizona State Parks	15.904	441311	225
<b>Total for the Office of Library Services</b>			<u><u>225</u></u>
<b>U.S. DEPARTMENT OF JUSTICE</b>			
Office of Justice Programs Bulletproof Vest Partnership Program - Direct Program	16.607	N/A	26,718
Recovery Act - C.O.P.S Hiring Recovery Program - Direct Program	16.710	2011-UM-WX-0017	225,844
Justice Assistance Grant Cluster- Edward Byrne Memorial Justice Assistance Grant - Direct Program	16.738	N/A	13,215
Recovery Act-Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories Passed Through the Arizona Criminal Justice Commission and Yavapai County	16.803	AL-150-10	<u>22,466</u>
Subtotal			35,681
<b>Total for the U.S. Dept. of Justice</b>			<u><u>288,243</u></u>

City of Prescott, Arizona  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2014

Federal Grantor/Program Title/ Pass-Through Grantor	Federal CFDA Number	Pass-Through Grantor's Number	Fiscal Year 2014 Expenditures
<b>U.S. DEPARTMENT OF TRANSPORTATION</b>			
Federal Highway Administration Passed Through the Arizona Governor's Office of Highway Safety			
STEP Enforcement	20.600	2014-PT-016	\$ 9,007
STEP Enforcement	20.600	2013-PT-037	5,774
DUI Enforcement	20.600	2014-AL-005	19,873
DUI Enforcement	20.600	2013-AL-035	8,781
Subtotal			<u>43,435</u>
DUI Motorcycle - Direct Program	20.608	2013-164-036	25,224
			<u>68,659</u>
<b>Total for U.S. Department of Transportation</b>			
<b>ENVIRONMENTAL PROTECTION AGENCY</b>			
Capitalization Grants for Clean Water State Revolving Funds Passed Through the Water Infrastructure Finance Authority of Arizona			
	66.458	N/A	10,226,349
Capitalization Grants for Drinking Water State Revolving Funds Passed Through the Water Infrastructure Finance Authority of Arizona			
	66.468	N/A	1,227,470
			<u>11,453,819</u>
<b>Total for the Environmental Protection Agency</b>			
<b>U.S. DEPARTMENT OF HOMELAND SECURITY</b>			
Law Enforcement Officer Reimbursement Agreement Program Passed Through the Transportation Security Administration			
	97.010	HSTS0213HSLR736	51,030
Assistance to Firefighters Grant Program Passed Through the Federal Emergency Management Agency			
	97.044	EMW-2012-FO-05969	186,000
Cooperating Technical Partners Grant Floodplain Mapping Passed Through the Federal Emergency Management Agency			
	97.045	EMF-2010-GR-1019	65,967
Homeland Security Grant Program Passed Through the Federal Emergency Management Agency			
	97.067	13-AZDOHS-HSGP-130509-01	26,160
Regional Response Teams Equipment - Direct Program	97.067	N/A	3,712
AIRS Communications - Direct Program	97.067	N/A	60,072
Subtotal			<u>89,943</u>
			<u>392,940</u>
<b>Total for the U.S. Department of Homeland Security</b>			
<b>TOTAL FEDERAL ASSISTANCE</b>			<u><u>\$ 12,703,956</u></u>

**Note 1 – Basis of Accounting**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Prescott, Arizona, and is presented on the accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations.

**Section I – Summary of Auditor’s Results**

Financial Statements

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	No
Significant deficiencies identified	Yes
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:		
Material weaknesses identified		No
Significant deficiencies 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 Circular A-133, Section .510(a)		None reported
Identification of major programs:	<u>CFDA Number</u>	
Capitalization Grants for Clean Water State Revolving Funds	66.458	\$ 10,226,349
Capitalization Grants for Drinking Water State Revolving Funds	66.468	1,227,470
		<u>\$ 11,453,819</u>
Dollar threshold used to distinguish between Type A and Type B programs		\$ 381,119
Auditee qualified as low-risk auditee		Yes

## **Section II - Financial Statement Findings**

### **Significant Deficiency**

#### 2014-A Significant Audit Adjustment

*Criteria or Specific Requirement:* A good system of internal accounting control contemplates an adequate system for recording and processing entries material to the financial statements.

*Condition:* During the course of our engagement, we proposed a significant audit adjustment that was not identified as a result of the City's existing internal controls, and therefore could have resulted in a misstatement of the City's financial statements.

*Context:* The audit adjustment identified impacted the City's government-wide presentation only. As such, this finding impacts the City's internal control for all significant, full-accrual accounting functions.

*Effect:* An unidentified misstatement of the City's government-wide financial statements that would not be prevented or detected prior to the commencement of the audit engagement.

*Cause:* At the time the audit adjustment was identified, the City's finance department had not completed the preparation of the financial statements. As the adjustment identified impacted the government-wide financial statement presentation only, it appears as though the City does not have an adequately robust internal control system designed to identify all necessary full-accrual adjustments.

*Recommendation:* A thorough review and reconciliation of accounts and transactions should take place prior to the beginning of the audit. This review should be done at both the accounting staff and accounting supervisor levels.

*Response:* The City of Prescott does have adequate internal controls in place; the incorrectly recorded transaction that was noted would have been discovered and corrected during preparation of the Statement of Activities, prior to the financial statements being finalized and issued. Controls have been improved to identify asset disposals earlier.

*Planned Corrective Action:* A review of the Council Agenda on a monthly basis to identify acquisitions and disposals of assets has been added to the Accountant position, which is responsible for maintaining the fixed asset records. This control was added when the position was filled in November 2014. Prior agendas for the current fiscal year are being reviewed to bring the current year fixed asset records up to date.

*Responsible Official:* Julie Walker, Accountant

*Planned Date of Corrective Action:* November 2014

## **Section III - Federal Award Findings and Questioned Costs**

None noted.

## **Section IV - Status of Prior Years Findings**

None noted.