

Single Audit

Schedule of Expenditures of Federal Awards
Reports on Internal Controls and Compliance with
Laws and Regulations

For the Fiscal Year Ended June 30, 2010

City of Prescott
Arizona

Single Audit

Schedule of Expenditures of Federal Awards

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City of Prescott
Arizona



**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 Members of the City Council
City of Prescott, Arizona

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Prescott, Arizona as of and for the year ended June 30, 2010, which collectively comprise City of Prescott, Arizona's basic financial statements and have issued our report thereon dated November 4, 2010. 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 City of Prescott, 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 City of Prescott, Arizona's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of City of Prescott, Arizona's internal control over financial reporting.

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 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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal over financial reporting, described in the accompanying schedule of findings and questioned costs as item 2010-1 that we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Prescott, 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*.

We noted certain matters that we reported to management of City of Prescott, Arizona in a separate letter dated November 4, 2010.

City of Prescott, Arizona's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit City of Prescott, Arizona's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the management, the Honorable Mayor and Members of the City Council, others within the entity, 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.

Heinfeld, Meech & Co., P.C.

HEINFELD, MEECH & CO., P.C.
Certified Public Accountants

November 4, 2010



**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**

Independent Auditors' Report

Honorable Mayor and Members of the City Council
City of Prescott, Arizona

Compliance

We have audited the City of Prescott, Arizona's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of City of Prescott, Arizona's major federal programs for the year ended June 30, 2010. City of Prescott, 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 Prescott, Arizona's management. Our responsibility is to express an opinion on City of Prescott, 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. 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 City of Prescott, 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 City of Prescott, Arizona's compliance with those requirements.

In our opinion, City of Prescott, 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, 2010. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2010-2.

Internal Control Over Compliance

Management of City of Prescott, 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 City of Prescott, Arizona's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order 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 City of Prescott, 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 a certain deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as item 2010-2. 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.

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 City of Prescott, Arizona as of and for the year ended June 30, 2010, and have issued our report thereon dated November 4, 2010, which contained unqualified opinions on those financial statements. Our audit was performed for the purpose of forming our opinions on the financial statements as a whole. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations* and is not a required part of the basic 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 information is fairly stated in all material respects in relation to the financial statements taken as a whole.

City of Prescott, Arizona's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit City of Prescott, Arizona's response and accordingly, we express no opinion on the response.

This report is intended solely for the information and use of management, the Honorable Mayor and Members of the City Council, others within the entity, 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.

Heinfeld, Meech & Co., P.C.

HEINFELD, MEECH & CO., P.C.
Certified Public Accountants

November 4, 2010

**CITY OF PRESCOTT, 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? yes X no
- Significant deficiency(ies) identified that are not considered to be a material weakness(es)? 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 that are not considered to be a material weakness(es)? 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 section 510(a) of OMB Circular A-133? X yes no

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
14.218, 14.253	Community Development Block Grant Cluster
66.468	ARRA – Capitalization Grants for Drinking Water State Revolving Funds

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

Auditee qualified as low-risk auditee? X yes no

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

**SECTION II – FINDINGS RELATED TO FINANCIAL STATEMENTS REPORTED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

2010-1 CRITERIA

City management is responsible for establishing and maintaining internal controls over the accounting for compensated absences. The City's system of internal controls should ensure that the compensated absences schedule is complete and accurate.

CONDITION/CONTEXT

The City's management did not have adequate internal controls in place over the compensated absences schedule. During our audit, we noted that the compensated absences liability was understated by over \$700,000 due to the omission of several employees' ending balances on the original schedule provided.

EFFECT

The City's internal controls over compensated absences are not adequate to ensure that a misstatement would be prevented and/or detected. This resulted in the compensated absences liability, as initially presented, being understated by over \$700,000.

CAUSE

This understatement was caused by a clerical error in the Excel spreadsheet used to calculate the compensated absences liability.

RECOMMENDATION

The City must design and implement effective internal control procedures to ensure the compensated absences schedule is properly stated and includes all eligible employees' ending balances.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS

This clerical error was corrected and the financial statements were not understated. We have modified our internal controls to have a second review of all manually prepared spreadsheets of a material nature.

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

SECTION III FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Finding Number: 2010-2

Questioned Costs: None noted

Program Name: Community Development Block Grant Cluster

CFDA Numbers: 14.218, 14.253

Pass-Through Agency: N/A

Grantor Numbers: N/A

CRITERIA

The Federal Code of Regulations requires the non-Federal entity to ensure all reporting requirements of the Community Development Block Grant Cluster are complied with.

CONDITION/CONTEXT

The City did not have the appropriate internal controls in place to ensure that three of the four quarterly cash transaction reports were submitted in a timely manner during fiscal year 2009-10.

EFFECT

Federal program requirements for reporting were not met.

CAUSE

There was a misunderstanding of the reporting responsibility which caused the SF-272 reports to be filed late.

RECOMMENDATION

The City should ensure that applicable Federal guidelines are followed.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS

This was a minor timing issue on the SF-272 reports and was corrected immediately upon discovery. We worked with the agency involved to resolve this issue and the City was not sanctioned. We have clarified the reporting responsibility for the necessary reports.

Contact Person: Linda Hartmann

Anticipated Completion Date: July 15, 2010

**CITY OF PRESCOTT, ARIZONA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2010**

Status of Federal Award Findings and Questioned Costs

The City had no findings or questioned costs related to federal awards noted in prior audits that require a status.

CITY OF PRESCOTT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For The Fiscal Year Ended June 30, 2010

<i>Federal Grantor/Program Title/ Pass-Through Grantor</i>	<i>Federal CFDA Number</i>	<i>Pass-Through Grantor's Number</i>	<i>Program or Award Amount</i>	<i>Fiscal Year 2010 Expenditures</i>
U.S. DEPARTMENT OF JUSTICE				
Office of Justice Programs Bulletproof Vest Partnership Program - Direct Program	16.607	N/A	\$ 4,026	\$ 4,026
Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program / Grants To Units Of Local Government - Direct Program	16.804	N/A	84,057	83,923
Edward Byrne Memorial Justice Assistance Grant - Direct Program	16.738	N/A	19,525	10,250
Total for the U.S. Dept. of Justice - Direct Programs			<u>\$ 107,608</u>	<u>\$ 98,199</u>
U.S. DEPARTMENT OF TRANSPORTATION FEDERAL AVIATION ADMINISTRATION				
Federal Aviation Administration Airport Wildlife Hazard Study Grant 030-2009 - Direct Program	20.106	3-04-0030-30-2009	\$ 80,750	\$ 32,687
Federal Aviation Administration Airport Environmental Study Grant 027-2008 - Direct Program	20.106	3-04-0030-27-2008	180,000	75,816
Federal Aviation Administration Airport Airport Masterplan Update Grant 025-2006 - Direct Program	20.106	3-04-0030-25-2006	185,000	25,750
Federal Aviation Administration Airport Electronic Fingerprinting Equipment 026-2008 - Direct Program	20.106	3-04-0030-26-2008	<u>25,000</u>	<u>3,062</u>
Total for the U.S. Dept. of Transportation - Direct Programs			<u>\$ 470,750</u>	<u>\$ 137,315</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
Community Development Block Grant - Administration - Direct Program	14.218	N/A	\$ 69,773	\$ 58,930
Community Development Block Grant - Project Aware - Direct Program	14.218	N/A	7,000	6,992
Community Development Block Grant - Prescott Women's Shelter - Direct Program	14.218	N/A	32,000	23,733
Recovery Act - Community Development Block Grant - Campbell Street - Direct Program	14.253	N/A	78,860	78,387
Community Development Block Grant - Compassionate Justice Mobile Repair - Direct Program	14.218	N/A	15,000	15,000
Community Development Block Grant - Meals on Wheels - Direct Program	14.218	N/A	15,000	12,200
Total for the U.S. Dept of Housing & Urban Development			<u>\$ 217,633</u>	<u>\$ 195,242</u>

(continued)

CITY OF PRESCOTT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For The Fiscal Year Ended June 30, 2010
 (continued)

<i>Federal Grantor/Program Title/ Pass-Through Grantor</i>	<i>Federal CFDA Number</i>	<i>Pass-Through Grantor's Number</i>	<i>Program or Award Amount</i>	<i>Fiscal Year 2010 Expenditures</i>
U.S. DEPARTMENT OF JUSTICE				
Narcotics Control Assistance Statewide Enhanced Drug Enforcement Program Passed Through the Arizona Criminal Justice Commission and the City of Sedona	16.579	AL-150-10	\$ 36,043	\$ 36,043
Total for the U.S. Department of Justice			<u>\$ 36,043</u>	<u>\$ 36,043</u>
U.S. DEPARTMENT OF TRANSPORTATION				
Federal Highway Administration DUI Enforcement Program Passed Through the Arizona Governor's Office of Highway Safety	20.601 20.601	2010-410-051 2008-410-019	\$ 60,000 60,000	\$ 23,335 17,644
			<u>\$ 120,000</u>	<u>\$ 40,979</u>
Federal Highway Administration Concentrated Occupant Protection Enforcement Program Passed Through the Arizona Governor's Office of Highway Safety	20.600 20.600 20.600 20.600	2010-PT-016 2007-OP-027 2009-PT-008 2010-AI-008	\$ 21,700 6,000 16,000 18,305	\$ 17,526 668 3,310 17,969
			<u>\$ 62,005</u>	<u>\$ 39,473</u>
Federal Highway Administration Highway Planning and Construction Passed through the Arizona Department of Transportation Highway Division				
FHWA Planning and Research Funds	20.205	PL 2009	\$ 114,399	\$ 25,467
FHWA Planning and Research Funds	20.205	PL 2010	32,602	33,193
FHWA Planning and Research Funds	20.205	SPR 2008	125,000	87,367
FHWA Planning and Research Funds	20.205	SPR 2009	125,000	
FHWA Planning and Research Funds	20.205	5303-07 2009	26,550	18,464
Transit Study/Implementation	20.205	5307 Transit Funds	620,808	18,705
			<u>\$ 1,044,359</u>	<u>\$ 183,196</u>
Total for the U.S. Department of Transportation			<u>\$ 1,226,364</u>	<u>\$ 263,648</u>
U.S. DEPARTMENT OF HOMELAND SECURITY				
Domestic Preparedness Equipment Support Program Passed Through Yavapai County Emergency County Homeland Grants Management	97.067 97.067 97.067 97.067 97.067	333508-04 440057-02 555512-03 555512-02 555512-01	\$ 35,900 126,248 527 52,500 10,400	\$ 32,217 94,554 527 45,738 9,727
			<u>\$ 225,048</u>	<u>\$ 182,763</u>
Transportation Security Administration Law Enforcement Officer Reimbursement Agreement Program	97.090	HSTS02909HSLR705	\$ 467,784	\$ 48,388
Total for the U.S. Department of Homeland Security			<u>\$ 692,832</u>	<u>\$ 231,151</u>
U.S. DEPARTMENT OF THE INTERIOR BUREAU OF RECLAMATION				
Water Conservation Education and Training - Direct Program	15.530	N/A	\$ 45,800	\$ 11,152
Total for the U.S. Dept of the Interior			<u>\$ 45,800</u>	<u>\$ 11,152</u>

(continued)

CITY OF PRESCOTT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For The Fiscal Year Ended June 30, 2010
 (continued)

<i>Federal Grantor/Program Title/ Pass-Through Grantor</i>	<i>Federal CFDA Number</i>	<i>Pass-Through Grantor's Number</i>	<i>Program or Award Amount</i>	<i>Fiscal Year 2010 Expenditures</i>
OFFICE OF LIBRARY SERVICES				
National Parks Service Historic Preservation Program passed through Arizona State Parks	15.904	440006-17	\$ 5,400	\$ 58
Total for the Office of Library Services			<u>\$ 5,400</u>	<u>\$ 58</u>
INSTITUTE OF MUSEUM AND LIBRARY SERVICES				
Grants to States - Camp Verde USD, passed through the Arizona State Library, Archives and Public Records Office	45.310	2010-30058-03	\$ 18,579	\$ 18,579
Total for the Institute of Museum and Library Services			<u>\$ 18,579</u>	<u>\$ 18,579</u>
DEPARTMENT OF ENERGY				
Recovery Act - Energy Efficiency and Conservation Block Grant Program	81.128	N/A	\$ 197,000	\$ 51,378
Total for the Institute of Museum and Library Services			<u>\$ 197,000</u>	<u>\$ 51,378</u>
ENVIRONMENTAL PROTECTION AGENCY				
Recovery Act - Capitalization Grants for Drinking Water State Revolving Funds passed through the Water Infrastructure Finance Authority of Arizona	66.468	92A166-09	\$ 4,000,000	\$ 4,000,000
ENVIRONMENTAL PROTECTION AGENCY				
Recovery Act - Capitalization Grants for Drinking Water State Revolving Funds passed through the Water Infrastructure Finance Authority of Arizona	66.468	92A154-10	\$ 2,155,128	\$ 2,025,720
Total for the Environmental Protection Agency			<u>\$ 6,155,128</u>	<u>\$ 6,025,720</u>
U.S. DEPARTMENT OF AGRICULTURE				
Cooperative Forestry Assistance Program State Fire Assistance Passed Through the Arizona Office of the State Forester	10.664	WFHF 09-024	\$ 367,000	\$ 257,495
Cooperative Forestry Assistance Program State Fire Assistance Passed Through the Arizona State Land Department and the Prescott Wildland Urban Interface Commission	10.664	SFA 2008-08-002	114,879	114,879
Total for the U.S. Department of Agriculture			<u>\$ 481,879</u>	<u>\$ 372,374</u>
TOTAL FEDERAL ASSISTANCE			<u>\$ 9,655,016</u>	<u>\$ 7,440,859</u>

See accompanying notes to schedule

City of Prescott, Arizona
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2010

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.

Note 2 - Subrecipients

Of the federal expenditures presented in the Schedule of Expenditures of Federal Awards, the City of Prescott, Arizona provided federal awards to subrecipients as follows:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Provided to Subrecipients</u>
Federal Highway Administration DUI Enforcement Program	20.600	\$ 39,473

Note 3 - Catalog of Federal Domestic Assistance (CFDA) Numbers

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2010 catalog of Federal Domestic Assistance.