

CITY OF COTTONWOOD, ARIZONA
SINGLE AUDIT ACT REPORTS
FOR THE
FISCAL YEAR ENDED JUNE 30, 2007

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***

The Honorable Mayor and City Council of the
City of Cottonwood, 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 the City of Cottonwood, Arizona (City) as of and for the year ended June 30, 2007, and have issued our report thereon dated May 27, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City of Cottonwood, Arizona's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing 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 would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Cottonwood, Arizona's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the City of Cottonwood, Arizona's financial statements that is more than inconsequential will not be prevented or detected by the City of Cottonwood, Arizona's internal control. We consider the deficiencies described as in the accompanying schedule of findings and questioned costs as items 07-2 and 07-3 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Cottonwood, Arizona's internal control.

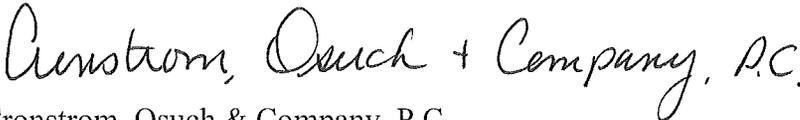
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 07-3 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 07-1.

We noted certain matters that we reported to management of City of Cottonwood, Arizona in a separate letter dated May 27, 2008.

This report is intended solely for the information and use of the members of the City Council, management, 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. However, this report is a matter of public record and its distribution is not limited.


Cronstrom, Osuch & Company, P.C.

May 27, 2008

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance with Requirements Applicable to Each Major Program

We have audited the compliance of the City of Cottonwood, Arizona (City) with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. The City of Cottonwood, Arizona's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Cottonwood, Arizona's management. Our responsibility is to express an opinion on the City of Cottonwood, Arizona's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Cottonwood, Arizona's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on 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 requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007. 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 07-5.

Internal Control over Compliance in Accordance with OMB Circular A-133

The management of the City of Cottonwood, Arizona is responsible for establishing and maintaining effective internal control over compliance with 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 in order to determine our auditing procedures for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Cottonwood, Arizona's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the City of Cottonwood, Arizona's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency in the City's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood that the noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 07-6 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control. We consider item 07-6 described in the accompanying schedule of findings and questioned costs to be a material weakness.

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

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 of Cottonwood, Arizona as of and for the year ended June 30, 2007, and have issued our report thereon dated May 27, 2008. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Cottonwood, Arizona'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 the members of the City Council, management, 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. However, this report is a matter of public record and its distribution is not limited.

Cronstrom, Osuch + Company, P.C.

Cronstrom, Osuch & Company, P.C.

May 27, 2008

CITY OF COTTONWOOD, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FISCAL YEAR ENDED JUNE 30, 2007

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: *Unqualified*
Internal control over financial reporting:
• Material weakness(es) identified? X yes no
• Significant deficiency(ies) identified
not considered to be material weaknesses? X yes none reported
Noncompliance material to financial statements
noted? X yes no

Federal Awards

Internal Control over major programs:
• Material weakness(es) identified? X yes no
• Significant deficiency(ies) identified not
considered to be material weaknesses? yes X none reported

Type of auditor's report issued on compliance
for major programs: *Unqualified*

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

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
20.507	Federal Transit Capital and Operating Assistance

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 COTTONWOOD, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FISCAL YEAR ENDED JUNE 30, 2007

SECTION II—FINANCIAL STATEMENT FINDINGS

FINANCIAL STATEMENTS

07-1	<i>Condition/ Context</i>	The year-end financial statements and single audit reports were not completed by February 28 and March 31, respectively.
	<i>Criteria</i>	Arizona State Law and OMB Circular A-133 – Reporting.
	<i>Effect</i>	Noncompliance with Arizona State Law and OMB Circular A-133.
	<i>Cause</i>	The City did not complete its year-end closing procedures (including reconciling and recording current year capital asset additions) timely to allow sufficient time to complete the annual financial report by February 28 th as required by Arizona State Law or the single audit by March 31 st as required by OMB Circular A-133.
	<i>Recommendation</i>	In order to comply with Arizona State Law and OMB Circular A-133, the City should conduct its year-end closing procedures more timely in the future to allow sufficient time to complete the audit by February 28 th and March 31 st .
	<i>Corrective Action Plan</i>	The City concurs with this recommendation and will ensure procedures are put into place to ensure the financial statements and federal awards can be audited in sufficient time to complete the audit by February 28 th and March 31 st .
	<i>Contact Person</i>	Jesus Rudy Rodriguez, Finance Director

CITY OF COTTONWOOD, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FISCAL YEAR ENDED JUNE 30, 2007

SECTION II—FINANCIAL STATEMENT FINDINGS

FINANCIAL STATEMENTS (CONT'D)

07-2	<i>Condition/ Context</i>	Adequate internal controls were not maintained over the compilation and review of the year-end financial statements and related disclosures.
	<i>Criteria</i>	Accounting principles generally accepted in the United States of America (GAAP) and internal control procedures.
	<i>Effect</i>	Noncompliance with GAAP and significant audit adjustments were necessary to properly state account balances for financial statement disclosure.
	<i>Cause</i>	The City did not have the staffing level necessary to properly review the adjusted ending balances and review the financial statement disclosures prior to the audit.
	<i>Recommendation</i>	In order to comply with GAAP and strengthen internal controls, the City should develop internal control procedures that specifically address financial statement disclosures to ensure amounts and footnote disclosures are adequately reported.
	<i>Corrective Action Plan</i>	The City concurs with this recommendation and will review its internal control procedures and will seek outside assistance (if necessary) to properly design its control procedures over the financial statements and related disclosures.
	<i>Contact Person</i>	Jesus Rudy Rodriguez, Finance Director

CITY OF COTTONWOOD, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FISCAL YEAR ENDED JUNE 30, 2007

SECTION II—FINANCIAL STATEMENT FINDINGS

FINANCIAL STATEMENTS (CONCL'D)

07-3	<i>Condition</i>	Material audit adjustments were necessary to properly report financial statement amounts and financial statement disclosures.
	<i>Context</i>	Several adjustments in excess of \$500,000 were necessary to properly record account balances.
	<i>Criteria</i>	Accounting principles generally accepted in the United States of America (GAAP) and internal control procedures.
	<i>Effect</i>	Noncompliance with GAAP and internal control weakness.
	<i>Cause</i>	The City did not have adequate internal controls over its financial statements and several year-end closing adjustments were not recorded.
	<i>Recommendation</i>	In order to comply with GAAP and strengthen internal controls, the City should develop adequate internal control procedures over its financial statements that include appropriate year-end closing procedures.
	<i>Corrective Action Plan</i>	The City concurs with this recommendation and will review its internal control procedures and will seek outside assistance (if necessary) to properly design its control procedures over the financial statements and related disclosures.
	<i>Contact Person</i>	Jesus Rudy Rodriguez, Finance Director

CITY OF COTTONWOOD, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FISCAL YEAR ENDED JUNE 30, 2007

SECTION II—FINANCIAL STATEMENT FINDINGS

ACCOUNTS PAYABLE

07-4	<i>Condition/ Context</i>	The City did not maintain an accounts payable subsidiary ledger.
	<i>Criteria</i>	Internal control procedures.
	<i>Effect</i>	Internal control weakness.
	<i>Cause</i>	Clerical oversight.
	<i>Recommendation</i>	In order to strengthen internal controls, the City should maintain an accounts payable subsidiary ledger and reconcile the subsidiary ledger to the general ledger.
	<i>Corrective Action Plan</i>	The City concurs with this recommendation and will utilize the accounts payable function in its current general ledger software.
	<i>Contact Person</i>	Jesus Rudy Rodriguez, Finance Director

CITY OF COTTONWOOD, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FISCAL YEAR ENDED JUNE 30, 2007

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

**U.S. DEPARTMENT OF TRANSPORTATION
FEDERAL TRANSIT CAPITAL AND OPERATING ASSISTANCE
PASSED THROUGH ARIZONA DEPARTMENT OF TRANSPORTATION
CFDA No. 20.507**

07-5	<i>Condition/ Context</i>	The year-end financial statements and single audit reports were not completed by March 31.
	<i>Criteria</i>	OMB Circular A-133 – Reporting.
	<i>Effect</i>	Noncompliance with OMB Circular A-133.
	<i>Cause</i>	The City did not complete its year-end closing procedures (including reconciling and recording current year capital asset additions) timely to allow sufficient time to complete the annual financial report or the single audit by March 31 st .
	<i>Recommendation</i>	In order to comply with OMB Circular A-133, the City should conduct its year-end closing procedures more timely in the future to allow sufficient time to complete the audit March 31 st .
	<i>Corrective Action Plan</i>	The City concurs with this recommendation and will ensure procedures are put into place to ensure the financial statements and federal awards can be audited in sufficient time to complete the audit by March 31 st .
	<i>Contact Person</i>	Jesus Rudy Rodriguez, Finance Director

CITY OF COTTONWOOD, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FISCAL YEAR ENDED JUNE 30, 2007

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

**U.S. DEPARTMENT OF TRANSPORTATION
FEDERAL TRANSIT CAPITAL AND OPERATING ASSISTANCE
PASSED THROUGH ARIZONA DEPARTMENT OF TRANSPORTATION
CFDA No. 20.507**

07-6	<i>Condition</i>	Material audit adjustments were necessary to properly report financial statement amounts and financial statement disclosures.
	<i>Context</i>	Several adjustments in excess of \$500,000 were necessary to properly record account balances.
	<i>Criteria</i>	OMB Circular A-133 – Reporting.
	<i>Effect</i>	Noncompliance with OMB Circular A-133.
	<i>Cause</i>	The City did not have adequate internal controls over its financial statements and several year-end closing adjustments were not recorded.
	<i>Recommendation</i>	In order to comply with OMB Circular A-133 and strengthen internal controls, the City should develop adequate internal control procedures over its financial statements that include appropriate year-end closing procedures.
	<i>Corrective Action Plan</i>	The City concurs with this recommendation and will review its internal control procedures and will seek outside assistance (if necessary) to properly design its control procedures over the financial statements and related disclosures.
	<i>Contact Person</i>	Jesus Rudy Rodriguez, Finance Director

SECTION IV – SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

None noted.

CITY OF COTTONWOOD, ARIZONA
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2007

Grantor Agency	Federal CFDA Number	Pass-through Grantor's Number	Expenditures
U.S. Department of Justice			
Passed through Arizona Criminal Justice Commission:			
Edward Byrne Memorial Formula Grant Program	16.579	N/A	\$ 30,000
Passed through City of Sedona:			
Edward Byrne Justice Assistance Grant Program	16.738	N/A	14,587
Passed through Phoenix Police Department:			
Internet Crimes Against Children	16.543	2005-MC-CX-K009	5,295
Total U.S. Department of Justice			<u>49,882</u>
U.S. Department of Transportation			
Airport Improvement Grant	20.106	N/A	50,475
Passed through Arizona Department of Transportation:			
Federal Transit Capital and Operating Assistance	20.507	KR05-0741TRN	45,168
Federal Transit Capital and Operating Assistance	20.507	KR06-0480TRN	188,995
Passed through Governor's Office of Highway Safety:			
Selective Traffic Enforcement Program	20.600	2006-PT-017	28,000
DUI Task Force Enforcement Overtime-Tri-City DUI Task Force	20.600	2007-K8HV-021	4,645
Total U.S. Department of Transportation			<u>317,283</u>
U.S. Department of Housing and Urban Development			
Passed through the Arizona Department of Commerce:			
Community Development Block Grant	14.228	331.04	109,560
Total U.S. Department of Housing and Urban Development			<u>109,560</u>
U.S. Department of Homeland Security			
Passed through Arizona Department of FEMA:			
Homeland Security Grant	97.074	2005-GE-T5-0030	29,835
			<u>29,835</u>
TOTAL FEDERAL AWARDS			<u>\$ 506,560</u>

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