

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, 2007

City of Prescott
Arizona

Single Audit Schedule of Expenditures of Federal Awards

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City of Prescott
Arizona



**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 Honorable Mayor and Members of the Council
City of Prescott, Arizona
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 the **City of Prescott** as of and for the year ended June 30, 2007, which collectively comprise the **City of Prescott's** basic financial statements and have issued our report thereon dated November 14, 2007. 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; and the provisions of Title 28, Chapter 18, Article 2 of the Arizona Revised Statutes.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the city's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the statements, but not for the purpose of expressing an opinion on the effectiveness of the **City of Prescott's** internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the **City of Prescott'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 a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

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 in a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the **City of Prescott's** ability to initiate, authorize, record, process, 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 Prescott's** financial statements that is more than inconsequential will not be prevented or detected by the **City of Prescott's** internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs as 07-1 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency or a 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 Prescott's** internal control.

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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 disclose all matters in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be a material weakness. However, we believe that the significant deficiency described above is not a material weakness.

Compliance and Other Matters

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

Arizona Legal Compliance

In connection with our audit, nothing came to our attention that caused us to believe that the **City of Prescott** failed to use highway user revenue fund monies received pursuant to Arizona Revised Statutes Title 28, Chapter 18, Article 2 and any other dedicated state transportation revenues received by the **City of Prescott** solely for the authorized transportation purposes. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

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

Eide Bailly LLP

Phoenix, Arizona
November 14, 2007



CPAs & BUSINESS ADVISORS

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

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

Compliance

We have audited the compliance of the **City of Prescott** 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 Prescott'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 Prescott's** management. Our responsibility is to express an opinion on the **City of Prescott'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 Prescott'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 Prescott's** compliance with those requirements.

In our opinion, the **City of Prescott** 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.

Internal Control Over Compliance

The management of the **City of Prescott** 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 Prescott's** internal control over compliance with 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 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 the **City of Prescott's** internal control over compliance with requirements that could have a direct and material effect on a major federal program. Accordingly, we do not express an opinion on the effectiveness of the **City of Prescott's** internal control over compliance.

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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 noncompliance on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the **City of Prescott's** ability to initiate, authorize, report, process, or report on compliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited such that there is more than a remote likelihood that a noncompliance that is more than inconsequential will not be prevented or detected by the **City of Prescott's** internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a noncompliance, with a type of compliance requirement of federal program will not be prevented or detected by the **City of Prescott's** internal control.

Our consideration of internal control over compliance 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 or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **City of Prescott** as of and for the year ended June 30, 2007, and have issued our report thereon dated November 14, 2007. Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the **City of Prescott's** basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

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

Eide Bailly LLP

Phoenix, Arizona
November 14, 2007

CITY OF PRESCOTT, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007

SECTION I - SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of City of Prescott.
2. A significant deficiency was disclosed during the audit of the financial statements is reported in the Independent Auditor's Report on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.
3. No instances of noncompliance material to the financial statements of City of Prescott, which would be required to be reported in accordance with Government Auditing Standards, were disclosed during the audit.
4. No significant deficiencies were noted during the audit of the major federal award program or reported in the Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.
5. The auditor's report on compliance for the major federal award program for City of Prescott expresses an unqualified opinion on the major federal programs.
6. No audit finding that was required to be reported in accordance with Section 510(a) of OMB Circular A-133 is reported in Section III.
7. The programs tested as major program were: US Department of Housing and Urban Development-Community Development Block Grant, CFDA # 14.228 and CFDA # 14.218.
8. The threshold for distinguishing between Type A and B programs was \$300,000.
9. City of Prescott qualifies as a low-risk auditee.

CITY OF PRESCOTT, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007

SECTION II - FINANCIAL STATEMENT FINDINGS

SIGNIFICANT DEFICIENCY

Finding No. 07-1 Reclassifying Journal Entries

Condition: During the course of our engagement, we proposed a reclassifying audit adjustment related to the proper accrual of the year end payroll obligation.

Criteria: The year end payroll should be recorded as a liability until payment is completed.

Cause: Transactions associated with year end payroll were recorded as payment in transit and not as an accrued liability.

Effect: The reclassifying journal entry only affected the statement of net assets and not the statement of activities as expenditures were recorded properly.

Recommendation: We recommend the City review the year-end procedures to identify this reclassification in the future.

Response: The City converted payroll systems during the year. At year-end the payroll was properly reflected as an expense in the appropriate funds and statements. The new system offset cash instead of establishing a liability for the accrued payroll related to amounts due employees. The system properly reflected the liabilities for payroll related taxes and deductions. Even though the payment of cash in the questioned transaction was imminent and occurred four days after year-end, the transaction should have been reflected as an accrued liability and an entry was made to properly reflect this in the financial statements. We believe that a user of the financial statements would conclude, after considering the possibility of further undetected misstatements, that the misstatement would be immaterial to the financial statements. However, we respect the auditor's conclusion in light of the new auditing requirements. We have updated our year-end procedures to ensure payroll accruals are properly reflected in the financial statements.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COST

No matters are reportable.

FOLLOW-UP ON PRIOR FINDINGS

No matters reported in prior year.

CITY OF PRESCOTT, ARIZONA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007

<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 2007 Expenditures</i>
U.S. DEPARTMENT OF JUSTICE - Direct Programs				
Local Law Enforcement Block Grant Police Equipment Grants 2006 - Direct Program	16.592	N/A	15,300	13,401
Office of Community Oriented Policing Services 2002 Equipment Grants - Direct Program	16.710	N/A	178,250	98,428
Office of Justice Programs Bulletproof Vest Partnership Program - Direct Program	16.607	N/A	7,349	6,667
Total for the U.S. Dept. of Justice - Direct Programs			<u>\$ 200,899</u>	<u>\$ 118,496</u>
U.S. DEPARTMENT OF TRANSPORTATION FEDERAL AVIATION ADMINISTRATION				
Federal Aviation Administration Airport Taxiway D & F Electrical Rehab Grant - Direct Program	20.106	3-04-0030-23	872,114	9,465
Total for the U.S. Dept. of Transportation - Direct Programs			<u>\$ 872,114</u>	<u>\$ 9,465</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
Community Development Block Grant - Administration - Direct Program	14.218	N/A	\$ 65,704	\$ 62,832
Community Development Block Grant - Dexter Sidewalks - Direct Program	14.218	N/A	365,966	359,234
Community Development Block Grant - West Yavapai Guidance Clinic - Direct Program	14.218	N/A	135,000	91,124
			<u>566,670</u>	<u>513,190</u>
Community Development Block Grant - Administration Passed Through Arizona Department of Housing	14.228	140-05	46,268	11,338
Community Development Block Grant - Project Aware Passed Through Arizona Department of Housing	14.228	145-05	286,368	202,595
Community Development Block Grant - Habitat for Humanity Passed Through Arizona Department of Housing	14.228	140-05	115,630	103,960
Community Development Block Grant - West Yavapai Guidance Clinic Passed Through Arizona Department of Housing	14.228	138-05	84,000	10,323
Community Development Block Grant - Adult Center Passed Through Arizona Department of Housing	14.228	139-05	410,700	287,490
			<u>942,966</u>	<u>615,706</u>
Total for the U.S. Dept of Housing & Urban Development - Direct Programs			<u>\$ 1,509,636</u>	<u>\$ 1,128,896</u>

(continued)

CITY OF PRESCOTT, ARIZONA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007

<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 2007 Expenditures</i>
U.S. DEPARTMENT OF JUSTICE				
Narcotics Control Assistance Statewide Enhanced Drug Enforcement Program Passed Through the Arizona Criminal Justice Commission	16.579	AL-150-08	72,888	72,888
Total for the U.S. Department of Justice			<u>\$ 72,888</u>	<u>\$ 72,888</u>
U.S. DEPARTMENT OF TRANSPORTATION				
Federal Highway Administration DUI Enforcement Program Passed Through the Arizona Governor's Office of Highway Safety	20.600	2007-K8HV-020	60,000	44,359
	20.600	2006-PT-027	5,113	1,284
	20.600	2005-163-001	30,000	19,707
			<u>95,113</u>	<u>65,350</u>
Federal Highway Administration Concentrated Occupant Protection Enforcement Program Passed Through the Arizona Governor's Office of Highway Safety	20.600	2007-OP-012	3,733	3,663
			<u>98,846</u>	<u>69,013</u>
Federal Highway Administration Rails to Trails Program Passed Through the Arizona Department of Transportation Highway Division	20.205	STP-PRS-0(1)P	398,000	1,513
Federal Highway Administration Highway Planning and Construction Passed through the Arizona Department of Transportation Highway Division	20.205	PL 2004	100,000	69,886
FHWA Planning and Research Funds	20.205	PL 2005	114,086	86,878
Transit Plan	20.205	5303	77,409	77,409
AZ Rides	20.205	5303 Transit Funds	5,200	5,200
			<u>617,286</u>	<u>240,886</u>
Federal Highway Administration Transportation Enhancement Grant Passed through the Arizona Department of Transportation Highway Division	20.219	TEA-21	482,788	4,715
Total for the U.S. Department of Transportation			<u>\$ 1,198,920</u>	<u>\$ 314,614</u>
U.S. DEPARTMENT OF HOMELAND SECURITY				
Domestic Preparedness Equipment Support Program Passed Through Yavapai County Emergency Management	97.004	MU-T3-0034	\$ 225,000	\$ 101,705
Law Enforcement Terrorism Prevention Program Passed through the State of Arizona Division of Emergency Management	97.004	2005-GE-T5-030	159,969	144,025
	97.004	2006-GE-T6-0007	7,323	6,612
			<u>167,292</u>	<u>150,637</u>
Total for the U.S. Department of Homeland Security			<u>\$ 392,292</u>	<u>\$ 252,342</u>

(continued)

CITY OF PRESCOTT, ARIZONA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007

<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 2007 Expenditures</i>
U.S. DEPARTMENT OF AGRICULTURE				
Forest Service Cooperative Forestry Program State Fire Assistance SFA 3001 Passed Through the Arizona State Land Department and the Prescott Wildland Urban Interface Commission	10.664	SFA 5-2	\$ 200,000	\$ 178,188
Forest Service Cooperative Forestry Program Elks Historical Preservation	10.672	N/A	<u>9,600</u>	<u>1,217</u>
Total for the U.S. Department of Agriculture			<u>\$ 209,600</u>	<u>\$ 179,405</u>
OFFICE OF LIBRARY SERVICES				
Library Services & Technology Act School Membership Grant Passed Through the Arizona State Library	45.310	261-5-1-(09)	\$ 12,000	\$ 12,000
National Parks Service Historic Preservation Program passed through the Arizona State Parks	15.904	440006-17	<u>9,062</u>	<u>9,062</u>
Total for the Office of Library Services			<u>\$ 21,062</u>	<u>\$ 21,062</u>
TOTAL FEDERAL ASSISTANCE			<u>\$ 4,477,411</u>	<u>\$ 2,097,168</u>

CITY OF PRESCOTT, ARIZONA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007

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	\$ 31,408