

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, 2011

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City of Prescott  
Arizona

# Single Audit

# Schedule of Expenditures of Federal Awards

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City of Prescott  
Arizona



HENRY & HORNE, LLP  
Certified Public Accountants

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 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 the City of Prescott (the City), Arizona as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 5, 2011. 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'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's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City'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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as 2011-1 to be a material weakness.

**Tempe**  
2055 E. Warner Road  
Suite 101  
Tempe, AZ 85284-3487  
(480) 839-4900  
Fax (480) 839-1749

**Scottsdale**  
7098 E. Cochise Road  
Suite 100  
Scottsdale, AZ 85253-4517  
(480) 483-1170  
Fax (480) 483-7126

**Casa Grande**  
1115 E. Cottonwood Lane  
Suite 100  
Casa Grande, AZ 85122-2950  
(520) 836-8201  
Fax (520) 426-9432

The Honorable Mayor and Council  
City of Prescott  
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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. We did not identify any deficiencies in internal control over financial reporting that we consider to be significant deficiencies, as defined above.

#### Compliance and Other Matters

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

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

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

*Henry + Horne LLP*

Casa Grande, Arizona  
December 5, 2011



HENRY & HORNE, LLP  
 Certified Public Accountants

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

The Honorable Mayor and Council  
 City of Prescott, Arizona

Compliance

We have audited the compliance of the City of Prescott (the City), Arizona with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that that could have a direct and material effect on each of City of Prescott's major federal programs for the year ended June 30, 2011. 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. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City'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'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 the City's compliance with those requirements.

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, 2011.

**Tempe**  
 2055 E. Warner Road  
 Suite 101  
 Tempe, AZ 85284-3487  
 (480) 839-4900  
 Fax (480) 839-1749

**Scottsdale**  
 7098 E. Cochise Road  
 Suite 100  
 Scottsdale, AZ 85253-4517  
 (480) 483-1170  
 Fax (480) 483-7126

**Casa Grande**  
 1115 E. Cottonwood Lane  
 Suite 100  
 Casa Grande, AZ 85122-2950  
 (520) 836-8201  
 Fax (520) 426-9432

The Honorable Mayor and Council  
City of Prescott, Arizona  
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### Internal Control Over Compliance

Management of the 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 the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program 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 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 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.

### 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 as of and for the year ended June 30, 2011, which collectively comprise the City of Prescott's basic financial statements, and have issued our report thereon dated December 5, 2011, which contained unqualified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Prescott's basic financial statements. 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 basic 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 basic financial statements as a whole.

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

*Henry & Horne LLP*

December 5, 2011  
Casa Grande, Arizona

CITY OF PRESCOTT, ARIZONA  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 June 30, 2011

SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:

Unqualified

Internal control over financial reporting:

- Material weakness(es) identified?
- Significant deficiency(ies) identified that are not considered to be a material weakness(es)? reported

X  yes      no

yes     X  none

Noncompliance material to financial statements noted?

yes     X  no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified?
- Significant deficiency(ies) identified that are not considered to be a material weakness(es)? reported

yes     X  no

yes     X  none

Type of auditors' report issued on compliance for major programs:

Community Development Block Grants  
 Airport Improvement Grants

Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?

yes     X  no

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grants
20.106	Airport Improvement Grants

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  
June 30, 2011

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

FINDING: 2011-1 Revenue Recognition

CRITERIA

Proper controls over the financial reporting process of revenue recognition are necessary to ensure proper application of generally accepted accounting principles.

CONDITION/CONTEXT

The City did not have the proper controls in place to defer the revenue that was not received within 60 days of the fiscal year end.

EFFECT

Material audit adjustments were made to correctly state revenue recognized in the current and prior years.

CAUSE

Management had not established year-end closing controls over the process of recording deferred revenue within 60 days of the fiscal year end.

RECOMMENDATION

We recommend that the finance department have a process in place to monitor and review the recording of grant and intergovernmental agreement revenue.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTION

A process was not in place to ensure that revenues received more than 60 days after the close of the fiscal year were deferred correctly. This issue was addressed in the current year report, and proper deferral will occur in subsequent years.

CITY OF PRESCOTT, ARIZONA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
June 30, 2011

SECTION III – FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS

None Noted

SECTION IV – PRIOR YEAR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding No. 2010-2  
Program Name: Community Development Block Grant Cluster  
CFDA No. 14.218, 14.253

Status: Corrected

CITY OF PRESCOTT  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 For The Fiscal Year Ended June 30, 2011

<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 2011 Expenditures</i>
<b>U.S. DEPARTMENT OF JUSTICE</b>				
Bureau of Justice Assistance Public Safety Stabilization (ARRA)	84.397	N/A	50,000	\$ 50,000
Office of Justice Programs Bulletproof Vest Partnership Program - Direct Program	16.607	N/A	4,000	3,514
Edward Byrne Memorial Justice Assistance Grant - Direct Program	16.738	N/A	27,023	27,023
<b>Total for the U.S. Dept. of Justice - Direct Programs</b>			<u>\$ 81,023</u>	<u>\$ 80,537</u>
<b>U.S. DEPARTMENT OF TRANSPORTATION FEDERAL AVIATION ADMINISTRATION</b>				
* Federal Aviation Administration Airport Construct Airfield Markings	20.106	3-04-0030-31-2010	\$ 202,033	\$ 202,033
* Federal Aviation Administration Airport Runway Extention	20.106	3-04-0030-32-2011	2,571,365	370,700
* Federal Aviation Administration Airport Wildlife Hazard Study Grant 030-2009 - Direct Program	20.106	3-04-0030-30-2009	80,750	45,077
* Federal Aviation Administration Airport Environmental Study Grant 027-2008 - Direct Program	20.106	3-04-0030-27-2008	180,000	75,036
* Federal Aviation Administration Airport Airport Masterplan Update Grant 025-2006 - Direct Program	20.106	3-04-0030-25-2006	185,000	3,834
<b>Total for the U.S. Dept. of Transportation - Direct Programs</b>			<u>\$ 3,219,148</u>	<u>\$ 696,680</u>
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>				
* Community Development Block Grant - Administration - Direct Program	14.218	N/A	\$ 63,776	\$ 63,776
* Community Development Block Grant - Project Aware - Direct Program	14.218	N/A	164,000	162,785
* Community Development Block Grant - Catholic Charities Virginia St.	14.218	N/A	67,000	35,129
* Recovery Act - Community Development Block Grant - Housing Rehab	14.218	N/A	110,800	38,593
* Community Development Block Grant - Entitlement WYGC Renovations	14.218	N/A	80,000	35,801
* Community Development Block Grant - Meals on Wheels (ARRA) - Direct Program	14.218	N/A	30,000	30,000
* Community Development Block Grant - ADA Improvements Dexter	14.218	N/A	19,107	12,100
* Community Development Block Grant - Fair Housing Education Program	14.218	N/A	3,000	835
<b>Total for the U.S. Dept of Housing &amp; Urban Development</b>			<u>\$ 515,576</u>	<u>\$ 379,019</u>

(continued)

\* Indicates a Major Program

CITY OF PRESCOTT  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 For The Fiscal Year Ended June 30, 2011  
 (continued)

Federal Grantor/Program Title/ Pass-Through Grantor	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	Fiscal Year 2011 Expenditures
<b>U.S. DEPARTMENT OF JUSTICE</b>				
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	\$ 32,718	\$ 32,718
<b>Total for the U.S. Department of Justice</b>			<u>\$ 32,718</u>	<u>\$ 32,718</u>
<b>U.S. DEPARTMENT OF TRANSPORTATION</b>				
Federal Highway Administration DUI Enforcement Program Passed Through the Arizona Governor's Office of Highway Safety	20.601	2010-410-051	\$ 60,000	\$ 41,097
			<u>\$ 60,000</u>	<u>\$ 41,097</u>
Federal Highway Administration Occupant Protection Enforcement Program	20.600	2010-PT-016	\$ 58,727	\$ 58,727
Tri City DUI Enforcement	20.600	2011-410-018	10,000	7,152
			<u>\$ 68,727</u>	<u>\$ 65,879</u>
Federal Highway Administration Highway Planning and Construction Passed through the Arizona Department of Transportation Highway Division				
FHWA Planning and Research Funds	20.205	SPR 2009	\$ 132,742	\$ 132,742
FHWA Planning and Research Funds	20.205	PL 2010	14,948	14,948
FHWA Planning and Research Funds	20.205	SPR 2008	35,025	35,025
Transit Study/Implementation	20.205	5307 Transit Funds	30,795	30,795
			<u>\$ 213,510</u>	<u>\$ 213,510</u>
<b>U.S. DEPARTMENT OF HOMELAND SECURITY</b>				
Domestic Preparedness Equipment Support Program	97.067	333508-04	\$ 253	\$ 253
Passed Through Yavapai County Emergency	97.067	440057-02	4,491	4,491
TRT and Rescue Equipment	97.067	555512-03	28,000	23,154
MDC	97.067	10-AZDOHS-HSGP-777510-01	67,502	54,476
HAZ MAT DET	97.067	10-AZDOHS-HSGP-777510-02	6,604	6,604
TRT EQ	97.067	10-AZDOHS-HSGP-777510-03	18,547	4,025
FEMA Disaster Funds	97.067	1888-DR-AZ	63,123	63,123
CONF SP TRLR	97.067	10-AZDOHS-HSGP-777510-04	6,600	5,489
Management	97.067	555512-02	4,320	4,320
			<u>\$ 199,440</u>	<u>\$ 165,935</u>
Fuels Reduction (ARRA)	10.688	AR-10-204	<u>\$ 80,000</u>	<u>\$ 67,818</u>
FEMA Cooperating Technical Partners Grant Floodplain Mapping	97.045	EMF-2010-GR-1019	<u>\$ 350,000</u>	<u>\$ 132,822</u>
Transportation Security Administration Law Enforcement Officer Reimbursement Agreement Program	97.090	HSTS02909HSLR705	<u>\$ 467,784</u>	<u>\$ 51,378</u>
<b>Total for the U.S. Department of Homeland Security</b>			<u>\$ 1,097,224</u>	<u>\$ 417,953</u>

(continued)

\* Indicates a Major Program

CITY OF PRESCOTT  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 For The Fiscal Year Ended June 30, 2011  
 (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 2011 Expenditures</i>
<b>OFFICE OF LIBRARY SERVICES</b>				
National Parks Service Historic Preservation Program passed through Arizona State Parks	15.904	440006-17	\$ 5,400	\$ 167
<b>Total for the Office of Library Services</b>			<u>\$ 5,400</u>	<u>\$ 167</u>
<b>DEPARTMENT OF ENERGY</b>				
Recovery Act - Energy Efficiency and Conservation Block Grant Program	81.128	N/A	\$ 197,000	\$ 132,663
<b>Total for the Department of Energy</b>			<u>\$ 197,000</u>	<u>\$ 132,663</u>
<b>ENVIRONMENTAL PROTECTION AGENCY</b>				
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	\$ 25,000
<b>Total for the Environmental Protection Agency</b>			<u>\$ 2,155,128</u>	<u>\$ 25,000</u>
<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 09-024	\$ 367,000	\$ 109,572
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	375,000	148,099
<b>Total for the U.S. Department of Agriculture</b>			<u>\$ 742,000</u>	<u>\$ 257,671</u>
<b>TOTAL FEDERAL ASSISTANCE</b>			<u>\$ 8,387,454</u>	<u>\$ 2,342,894</u>

See accompanying notes to schedule  
 \* Indicates a Major Program

**City of Prescott, Arizona**  
**Notes to the Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2011**

**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 - Catalog of Federal Domestic Assistance (CFDA) Numbers**

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2011 catalog of Federal Domestic Assistance.