

**SINGLE AUDIT ACT REPORTS
AND SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS
JUNE 30, 2008**

**CITY OF SHOW LOW,
ARIZONA**

DRAFT

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING 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 Show Low, Arizona
Show Low, 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 Show Low as of and for the year ended June 30, 2008, which collectively comprise the City of Show Low's basic financial statements and have issued our report thereon dated January 8, 2009 . 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 opinion 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 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'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's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as 08-1 and 08-02 to be significant deficiencies 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's internal control.

Our consideration of the 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 a material weakness. However, of the significant deficiencies described above, we consider items 08-2 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants 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's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the City's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Council Members, management, 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.

Phoenix, Arizona
January XX, 2009

DRAFT

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

To the Honorable Mayor and Members of the Council
City of Show Low, Arizona
Show Low, Arizona

Compliance

We have audited the compliance of the City of Show Low 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, 2008. The City of Show Low'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 Show Low's management. Our responsibility is to express an opinion on the City of Show Low'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 Show Low'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 Show Low's compliance with those requirements.

In our opinion, the City of Show Low 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, 2008.

Internal Control Over Compliance

The management of the City of Show Low 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 of Show Low'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, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A control deficiency in an entity'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 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 deficiencies in internal control over compliance described in the accompanying schedule of findings and question cost as items 08-3 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 entity'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 do not consider the significant deficiency described in the accompanying schedule of findings and questioned cost is a material weakness.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit management'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 Show Low, as of and for the year ended June 30, 2008, and have issued our report thereon dated January 8, 2009. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Show Low'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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Council Members, management, 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.

Phoenix, Arizona
January XX, 2009

CITY OF SHOW LOW, ARIZONA
SCHEDULE OF AUDITORS RESULTS
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 Show Low.
2. Two significant deficiencies relating to the audit of the financial statements is reported in the Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. We consider item - 8-02 to be a material weakness.
3. No instances of noncompliance material to the financial statements of City of Show Low, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. One significant deficiency was reported during the audit of internal control over major federal award programs in the Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133. We do not consider the significant deficiency to be a material weakness.
5. The auditor's report on compliance for the major federal award program for City of Show Low expresses an unqualified opinion on the major federal program.
6. Audit findings 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 a major program were:
 - United States Department of Transportation, Arizona Department of Transportation, CFDA 20.509 and United States Department of Transportation, Federal Aviation Agency, Airport Improvement, CFDA 20.106.
8. The threshold for distinguishing between Type A and B programs was \$300,000.
9. City of Show Low does not qualify as a low-risk auditee.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SECTION II - FINANCIAL STATEMENT FINDINGS

SIGNIFICANT DEFICIENCIES

Finding No. 08-1

Condition: The City does not have an internal control system designed to provide for the preparation of the financial statements being audited. The auditors were requested to, and did, draft the City's financial statements and accompanying notes to the financial statements.

Criteria or Specific Requirement: A good system of internal control contemplates the preparation of financial statements including the relevant footnote disclosures.

Context: This finding impacts the City's ability to internally prepare their financial statements.

Effect: The financial disclosures in the financial statements could be incomplete.

Cause: The City does not have an internal control system designed to provide for the preparation of the financial statements being audited.

Recommendation: This circumstance is not unusual in a City of your size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Response: The City of Show Low elected not to have an internal control system designed to provide for the preparation of the financial statements being audited due to budget constraints, but will re-evaluate this election on an annual basis.

Finding No. 08-2

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

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

Context: This finding impacts the City's internal control for all significant accounting functions.

Effect: A material misstatement of the City's financial statements that would not be prevented or detected.

Cause: City of Show Low does not have an internal control system designed to identify all necessary adjustments.

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

Response:

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COST

SIGNIFICANT DEFICIENCIES

Finding No. 08-3

CFDA Numbers: 20.509 Bus Grant

Programs: Formula grants for other than urbanized areas.

Agencies: U.S. Department Transportation

Award Year: July 1, 2007 – June 30, 2008

Federal Award Numbers: 20.509

Questioned Costs: N/A

Criteria: Grant agreement requires the City to perform tests to verify that program income was properly determined and recorded in the accounting records.

Condition: The City did not document visits to MV Transportation because the City does not have a formal internal control process in place on bus fares collected by MV Transportation.

Cause: The City does not have a formal internal control process over program income.

Effect: When the compliance procedures are not performed, the granting agency could delay funding or stop funding the program.

Recommendation: The City of Show Low should establish internal control procedures and document the procedures and the performance of these procedures to ensure compliance with the grant requirements.

Response:

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SECTION IV - FOLLOW-UP ON PRIOR FINDINGS

Item 07-04 RESOLVED

CFDA Numbers: 20.106, Airport Grant

Programs: Formula grants for other than urbanized areas.

Agencies: U.S. Department Transportation

Award Year:

ADOT E6S17	Aug-05	ongoing
ADOT E6F71	Aug-04	ongoing
ADOT E7S71	Jun-07	ongoing
ADOT E7S03	Sep-06	ongoing
ADOT E7F40	Dec-06	ongoing
ADOT E5S33	Aug-04	ongoing
ADOT E4F26	Nov-05	Jun-07
ADOT E5S32	Aug-04	Jun-07
ADOT E0135	Jul-99	Jun-07
CJPA05073A	Jan-06	Jun-07
AIP 3-04-0035-15	Aug-06	ongoing
AIP 3-04-0035-14	Aug-05	ongoing
AIP 3-04-0035-12	Aug-03	Jun-07

Federal Award Numbers: 20.106

Questioned Costs: N/A

Criteria: 29 CRF part 5 requires a non-federal entities to perform certain compliance items if applicable to a grant. The above grant agreement requires compliance with the Davis-Bacon Act.

Condition: The City did not comply with the Davis Bacon Act

Cause: The city was unaware of the compliance requirements

Effect: When the compliance procedures are not performed, the granting agency could delay funding or stop funding the program.

Recommendation: The City of Show Low should establish policies and procedures to ensure compliance with the Davis-Bacon Act.

Response: Effective May, 2008 processes are being put in place to acquire certified payroll information from contractors falling under the Davis Bacon Act as related to US Department of Transportation grant funding.

SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS

	Agency or Pass-Through Contract Number	Federal CFDA Number	Federal Expenditures
<u>U.S. Department of Transportation</u>			
Passed-through Arizona Department of Transportation			
Section 18	AZ-18-0025	20.509	\$ 207,110
Section 19	AZ-18-0026	20.509	184,838
			<u>391,948</u>
Airport Taxiway A-4/Sweeper/Heliport	AIP 3-04-0035-14	20.106	175,000
Airport Taxiway A-4/Sweeper/Heliport	AIP 3-04-0035-15	20.106	82,614
Airport heliport & AWOS installation	AIP 3-04-0035-16	20.106	21,609
			<u>279,223</u>
Total Arizona Department of Transportation			<u>671,171</u>
Passed-through Governor's Office of Highway Safety (GOHS)			
State and community highway safety	2007-001	20.600	7,328
State and community highway safety	2007-PT-031	20.600	40,000
State and community highway safety	2008-OP-010	20.600	4,176
			<u>51,504</u>
Total Governor's Office of Highway Safety			<u>51,504</u>
Total U.S. Department of Transportation			<u>722,675</u>
<u>U.S. Department of Agriculture</u>			
Passed-through Arizona Department of Lands			
Cooperative forestry assistance	SFA 5-3	10.664	<u>29,651</u>
<u>U.S. Department of Homeland Security</u>			
Passed through the Arizona Division of Emergency Management			
Homeland security grant	2005-GE-T5-0051	97.067	1,336
Homeland security grant	2007-GE-T7-006	97.067	23,000
Homeland security grant	2007-GE-T7-006	97.067	130,500
			<u>154,836</u>
Law enforcement officer grant	HSTS0208HSLR349	97.09	<u>3,035</u>
Total U.S. Department of Homeland Security			<u>157,871</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 910,197</u>

CITY OF SHOW LOW, ARIZONA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED 2008

NOTE 1 - BASIS OF ACCOUNTING

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

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