



Single Audit Report and Schedule of  
Expenditures of Federal Awards  
June 30, 2013

**City of Flagstaff, Arizona**

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CPAs & BUSINESS ADVISORS

**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 Flagstaff, Arizona  
Flagstaff, Arizona

We have audited, 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Flagstaff, Arizona (the City) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 23, 2013.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 2013-A to be a material weakness.

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 consider the deficiency described in the accompanying schedule of findings and questioned costs as 2013-B to be a significant deficiency.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free from 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*.

**Management's Response to Finding**

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Phoenix, Arizona  
December 23, 2013



**Independent Auditor's Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

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

**Report on Compliance for Each Major Federal Program**

We have audited the City of Flagstaff, Arizona's (the City) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2013. 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.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on the compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. 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 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

**Basis for Qualified Opinion on U.S. Department of Housing and Urban Development CFDA 14.850 and 14.872**

As described in the accompanying schedule of findings and questioned costs, the City did not comply with requirements regarding U.S. Department of Housing and Urban Development CFDA 14.850 as described in finding 2013-001 for Special Tests and Provisions, and U.S. Department of Housing and Urban Development CFDA 14.850 and 14.872 as described in finding 2013-002 for Reporting. Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to those programs.

### **Qualified Opinion on U.S. Department of Housing and Urban Development CFDA 14.850 and 14.872**

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect regarding the U.S. Department of Housing and Urban Development CFDA 14.850 and 14.872 for the year ended June 30, 2013.

### **Unmodified Opinion on Each of the Other Major Federal Programs**

In our opinion, the City, complied, in all material respects, with the compliance requirements, as referred to above, that could have a direct and material effect on each of its other major Federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2013.

### **Other Matters**

The City's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

### **Report on Internal Control over Compliance**

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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. 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.

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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2013-001 and 2013-002 that we consider to be material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be significant deficiencies.

The City's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

**Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

We have audited the financial statements of the City of Flagstaff as of and for the year ended June 30, 2013, and have issued our report thereon dated December 23, 2013, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. 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 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 schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

*Eide Bailly LLP*

Phoenix, Arizona  
March 5, 2014



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## **Report on Compliance with Requirements Applicable to the Passenger Facility Charge Program and on Internal Control over Compliance**

The Honorable Mayor,  
Members of the City Council, and  
Federal Aviation Administration  
City of Flagstaff, Arizona

### **Report on Compliance**

We have audited the compliance of Flagstaff Pulliam Airport with the compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration (Guide), for its passenger facility charge program for the quarters and year ended June 30, 2013.

### **Management's Responsibility for Compliance**

Compliance with the requirements of laws and regulations applicable to its passenger facility charge program is the responsibility of the Airport's management.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on Flagstaff Pulliam Airport's compliance based on our audit of the types of compliance requirements referred to above. 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 the Guide. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance that could have a material effect on the passenger facility charge program occurred. An audit includes examining, on a test basis, evidence about Flagstaff Pulliam Airport'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 Flagstaff Pulliam Airport's compliance with those requirements.

### **Opinion**

In our opinion, Flagstaff Pulliam Airport complied, in all material respects, with the requirements referred to above that are applicable to its passenger facility charge program for the year ended June 30, 2013.

### **Report on Internal Control over Compliance**

Management of Flagstaff Pulliam Airport is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered Flagstaff Pulliam Airport's internal control over compliance with the types of requirements that could have a direct and material effect on the passenger facility charge program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance and to test and report on internal control over compliance in accordance with the Guide, 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 Flagstaff Pulliam Airport'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 the passenger facility charge 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 compliance requirement will not be prevented, or detected and corrected, on a timely basis. *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 the passenger facility charge 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.

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 that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Guide. Accordingly, this report is not suitable for any other purpose.

This report is intended solely for the information and the use of the Mayor, City Council, management and the Federal Aviation Administration and is not intended to be and should not be used by anyone other than these specified parties.

*Eide Bailly LLP*

Phoenix, Arizona  
December 23, 2013

**City of Flagstaff, Arizona**  
**Schedule of Expenditures of Federal Awards**  
**June 30, 2013**

FEDERAL GRANTOR/PASS THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	CONTRACT/ GRANT NUMBER	AWARD AMOUNT	ACCRUED OR (DEFERRED) REVENUE AT JUNE 30, 2012	RECEIPTS	EXPENDITURES	ACCRUED OR (DEFERRED) REVENUE AT JUNE 30, 2013
<b>Department of Agriculture</b>							
<i>Passed through Arizona State Forestry Division</i>							
Cooperative Forestry Assistance-Hazardous Fuels	10.664	WFHF 09-007	\$ 359,030	\$ 123,512	\$ 123,379	\$ 46,943	\$ 47,076
Cooperative Forestry Assistance-Our Forest Our Future	10.664	SFA 11-203	107,500	-	-	6,221	6,221
Total Department of Agriculture				123,512	123,379	53,164	53,297
<b>Department of Commerce</b>							
<i>Direct Programs:</i>							
Economic Adjustment Assistance-Business Accelerator	11.307	07-79-06817	4,000,000	-	-	20,025	20,025
Subtotal				-	-	20,025	20,025
<i>Passed through Institute of Museum and Library Services,</i>							
ARRA Broadband Technology Opportunities Program	11.557	BTOP 2	37,791	11,400	27,168	15,768	-
Total Department of Commerce				11,400	27,168	35,793	20,025
<b>Department of Housing and Urban Development</b>							
<i>Direct Programs:</i>							
Community Development Block Grant 2009-2010	14.218	B-09-MC-04-0510	619,558	21,562	21,562	-	-
Community Development Block Grant 2010-2011	14.218	B-10-MC-04-0510	670,179	91,362	136,405	50,886	5,843
Community Development Block Grant 2011-2012	14.218	B-11-MC-04-0510	559,009	196,888	359,858	174,945	11,975
Community Development Block Grant 2012-2013	14.218	B-12-MC-04-0510	532,465	-	113,381	157,558	44,177
Subtotal				309,812	631,206	383,389	61,995
<i>Passed through the Arizona Department of Housing</i>							
Home Investment Partnership Program 2012	14.239	304-12	300,000	49,153	171,779	153,708	31,082
Public and Indian Housing	14.850	AZ006-00000112D	297,285	-	147,767	147,767	-
Public and Indian Housing	14.850	AZ006-00000113D	260,338	-	133,936	133,936	-
Public and Indian Housing	14.850	AZ006-00000212D	295,880	-	148,469	148,469	-
Public and Indian Housing	14.850	AZ006-00000213D	307,755	-	158,228	158,228	-
Subtotal				-	588,400	588,400	-

**City of Flagstaff, Arizona**  
**Schedule of Expenditures of Federal Awards**  
**June 30, 2013**

FEDERAL GRANTOR/PASS THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	CONTRACT/ GRANT NUMBER	AWARD AMOUNT	ACCRUED OR (DEFERRED) REVENUE AT JUNE 30, 2012	RECEIPTS	EXPENDITURES	ACCRUED OR (DEFERRED) REVENUE AT JUNE 30, 2013
Lower Income Housing Assistance Program	14.856	AZ006MRO001/AZ006SRO001	86,297	(8,200)	81,160	86,297	(3,063)
- Section 8 Moderate Rehab							
Resident Opportunity and Supportive Services	14.870	AZ006RPS083A009	168,762	4,853	57,349	56,048	3,552
- Service Coordination	14.871	AZ006	3,298,076	(202,219)	3,298,076	3,499,924	(371)
Section 8 Housing Choice Voucher							
Public Housing Capital Fund	14.872	AZ20P00650109	474,286	54,380	54,380	-	-
Public Housing Capital Fund	14.872	AZ20P00650110	471,624	68,000	94,322	26,322	-
Public Housing Capital Fund	14.872	AZ20P00650111	392,085	23,678	272,115	248,437	-
Public Housing Capital Fund	14.872	AZ20P00650112	360,994	-	21,080	107,958	86,878
Subtotal				146,058	441,897	382,717	86,878
Total Department of Housing and Urban Development				299,457	5,269,867	5,150,483	180,073
<b>Department of Interior</b>							
<i>Direct Programs:</i>							
National Park Service Conservation, Protection, Outreach and Education							
-Dispatch Services	15.954	P12AC10702	5,000	-	5,000	5,000	-
Total Department of Interior				-	5,000	5,000	-
<b>Department of Justice</b>							
<i>Passed through State of Arizona</i>							
Missing Children's Assistance 2013-ICAC	16.543	2012-50210-AZ-MC	4,000	-	-	4,000	4,000
Subtotal				-	-	4,000	4,000
<i>Direct Programs:</i>							
Bulletproof Vest Partnership Program	16.607	2010 BVP	3,240	2,087	2,087	-	-
Bulletproof Vest Partnership Program	16.607	2011 BVP	4,253	1,604	2,090	2,648	2,162
Bulletproof Vest Partnership Program	16.607	2012 BVP	10,073	-	-	5,247	5,247
Subtotal				3,691	4,177	7,895	7,409
ARRA - Public Safety Partnership and Community Policing Grant 2011	16.710	2011UMXW0015	966,336	49,433	250,823	262,454	61,064
ARRA - Public Safety Partnership and Community Policing Grant	16.710	2009RKWX0072	1,365,432	115,257	275,241	159,984	-
Subtotal				164,690	526,064	422,438	61,064

**City of Flagstaff, Arizona**  
**Schedule of Expenditures of Federal Awards**  
**June 30, 2013**

FEDERAL GRANTOR/PASS THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	CONTRACT/ GRANT NUMBER	AWARD AMOUNT	ACCRUED OR (DEFERRED) REVENUE AT JUNE 30, 2012	RECEIPTS	EXPENDITURES	ACCRUED OR (DEFERRED) REVENUE AT JUNE 30, 2013
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2010-DJ-BX-0931	59,192	-	-	20,414	20,414
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2011-DJ-BX-3022	41,808	12,025	12,025	-	-
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2012-DJ-BX-1184	23,402	-	-	7,842	7,842
Subtotal				12,025	12,025	28,256	28,256
ARRA-Edward Byrne Memorial Justice Assistance Grant Program	16.804	2009-SB-B9-3125	311,417	36,084	106,542	70,458	-
<b>Passed through Arizona Criminal Justice Commission</b>							
Edward Byrne Memorial Justice Assistance Grant Program	16.738	DC-12-044	298,117	70,029	70,039	10	-
Edward Byrne Memorial Justice Assistance Grant Program	16.738	DC-13-044	157,406	-	111,537	151,807	40,270
Project Safe Neighborhoods FY12	16.609	PSN-12-010	10,000	5,022	5,022	-	-
Subtotal			75,051	186,598	186,598	151,817	40,270
Total Department of Justice			291,541	835,406	835,406	684,864	140,999
<b>Department of Transportation</b>							
<b>Direct Programs:</b>							
Airport Improvement Program-AIP 34	20.106	AIP 3-04-0015-034-2010	1,223,613	661,465	661,465	-	-
Airport Improvement Program-AIP 35	20.106	AIP-3-04-0015-035-2011	3,512,782	2,287,758	3,037,132	749,374	-
Subtotal			2,949,223	3,698,597	3,698,597	749,374	-
<b>Passed through Arizona Department of Transportation:</b>							
Highway Planning and Construction - 2011 STP	20.205	T0649--B0001	105,000	12,017	20,005	17,635	9,647
Highway Planning and Construction - 2011 PL	20.205	T0649--B0001	137,527	31,225	70,151	38,926	-
Highway Planning and Construction - 2012 SPR	20.205	JPA 11-085	125,000	53,967	62,648	8,681	-
Highway Planning and Construction - 2012 PL	20.205	JPA11-085	82,623	61,602	89,144	27,542	-
Highway Planning and Construction - 2013 PL	20.205	JPA11-085	104,191	-	22,441	76,128	53,687
Highway Planning and Construction - 2013 SPR	20.205	JPA11-085	95,490	-	83,580	95,490	11,910
Highway Planning and Construction - Rt 66 East	20.205	P001-2009-003797	470,964	206,421	206,421	-	-
Highway Planning and Construction - Woodland Village	20.205	P001-2010-004154	500,000	21,142	345,634	360,932	36,440
Highway Planning and Construction - HSIP Signs	20.205	P001-2010-002128	175,000	-	-	10,598	10,598
Subtotal			386,374	900,024	900,024	635,932	122,282

The accompanying notes are an integral part of this schedule.

**City of Flagstaff, Arizona**  
**Schedule of Expenditures of Federal Awards**  
**June 30, 2013**

FEDERAL GRANTOR/PASS THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	CONTRACT/ GRANT NUMBER	AWARD AMOUNT	ACCRUED OR (DEFERRED) REVENUE AT JUNE 30, 2012	RECEIPTS	EXPENDITURES	ACCRUED OR (DEFERRED) REVENUE AT JUNE 30, 2013
<b>Passed through Arizona Department of Transportation:</b>							
Public Transportation Research-2010 FTA(18)	20.514	T06-49-B0001	26,497	22,611	22,611	-	-
Public Transportation Research-2011 FTA(19)	20.514	JPA-11-085	26,844	1,772	6,153	8,842	4,461
Subtotal				24,383	28,764	8,842	4,461
<b>Passed through Arizona's Governor's Office of Highway Safety</b>							
State & Community Highway Safety-Holiday							
DUI Enforcement	20.600	2012-AL-032	20,000	5,164	10,642	5,478	-
State & Community Highway Safety-DUI Enforcement	20.600	2013-AL-012	30,000	-	7,332	17,706	10,374
State & Community Highway Safety-Selective							
Traffic Enforcement	20.600	2013-PT-009	5,000	-	576	4,057	3,481
Subtotal				5,164	18,550	27,241	13,855
Total Department of Transportation				3,365,144	4,645,935	1,421,389	140,598
<b>Institute Of Museum And Library Services</b>							
<b>Passed through AZ State Library,</b>							
<b>Archives &amp; Public Records</b>							
Grants to States-Library Special Services	45.310	2010 LSTA	25,000	(209)	-	-	(209)
Grants to States-State Grant in Aid	45.310	2012 SGIA	25,000	-	25,000	25,000	-
Grants to States - Surge of Technology	45.310	2011 LSTA	41,778	(4,911)	-	4,911	-
Grants to States - Flagstaff: A Look Back In Time	45.310	2011 LSTA	12,263	(5,927)	-	5,927	-
Total Institute of Museum and Library Services				(11,047)	25,000	35,838	(209)
<b>Environmental Protection Agency</b>							
<b>Pass through Water Infrastructure Finance Authority of AZ</b>							
Capitalization Grants for Drinking Water State Revolving Funds							
- Legal Fees & Aquifer Study	66.468	720011-10	1,100,000	-	91,109	91,109	-
Capitalization Grants for Drinking Water State Revolving Funds							
- Energy Audit	66.468	820069-12	35,000	-	35,000	35,000	-
Subtotal					126,109	126,109	-
<b>Direct Programs:</b>							
Fire Management Assistance Grant							
Subtotal	66.818	00T97401	700,000	-	123	5,725	5,602
Total Environmental Protection Agency					126,232	131,834	5,602

The accompanying notes are an integral part of this schedule.

**City of Flagstaff, Arizona**  
**Schedule of Expenditures of Federal Awards**  
**June 30, 2013**

FEDERAL GRANTOR/PASS THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	CONTRACT/GRANT NUMBER	AWARD AMOUNT	ACCRUED OR (DEFERRED) REVENUE AT JUNE 30, 2012	RECEIPTS	EXPENDITURES	ACCRUED OR (DEFERRED) REVENUE AT JUNE 30, 2013
<b>Department of Energy</b>							
<b>Passed through Arizona's Governor's Office of Energy Policy</b>							
Energy Efficiency and Renewable Energy-Rooftop Challenge Subtotal	81.117	SU-ESA-12-3045-02	43,500	-	37,752	37,752	-
<b>Direct Programs:</b>							
ARRA-Energy Efficiency and Conservation Block Grant Subtotal	81.128	DE-SC0002532	587,100	101,418	191,508	90,090	-
Total Department of Energy				101,418	229,260	127,842	-
<b>Department of Homeland Security</b>							
<b>Passed through AZ Division of Emergency Management</b>							
Disaster Grant - Public Assistance (2010 Winter Storm) Disaster Grant - Public Assistance (Shultz Flooding) Subtotal	97.036	FEMA-1888-DR FEMA-1940-DR	68,416 3,503,405	(1,155) 1,170,973	- 2,507,575	- 1,266,975	(1,155) (69,627)
				1,169,818	2,507,575	1,266,975	(70,782)
Homeland Security Grant Program-Fire-WMD Training Homeland Security Grant Program -Police-Forward Looking Homeland Security Grant Program-Fire-Mobile Data Terminal Homeland Security Grant Program-Fire-RRT Comm Upgrade Homeland Security Grant Program -Police-Mobile Repeater Homeland Security Grant Program-Fire-Enhancing Agent Subtotal	97.067	09-AZDOHS-HSGP-555101-02 09-AZDOHS-HSGP-555105-11 10-AZDOHS-HSGP-777108-02 11-AZDOHS-HSGP-888105-01 11-AZDOHS-HSGP-888106-01 12-AZDOHS-HSGP-999105-01	2,520 5,999 19,800 31,200 14,550 4,504	63,061 5,999 -	55,855 5,999 -	- -	7,206 -
				29,200 14,492 -	28,721 14,492 -	19,800 (479)	19,800
				112,752	105,067	23,565	4,244 31,250
<b>Passed through Coconino County from FEMA</b>							
Fire Management Assistance Grant (Schultz Fire)	97.046	FM-2846	32,909	32,909	-	-	32,909
<b>Direct Programs:</b>							
TSA-Law Enforcement Officer Reimbursement Agreement Program Total Department of Homeland Security	97.090	HSTS0208HSLR313	284,043	41,071	50,047	43,260	34,284
				1,356,550	2,662,689	1,333,800	27,661
<b>Total Expenditures of Federal Awards</b>			<b>\$ 5,537,975</b>	<b>\$ 13,949,936</b>	<b>\$ 8,980,007</b>	<b>\$ 568,046</b>	

**Note 1 - Basis of Accounting**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of City of Flagstaff, Arizona, 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*.

**Note 2 - Subrecipients**

From the federal expenditures presented in the schedule above, the City expended the following to subrecipients.

<u>Sub Recipient</u>	<u>Project Name</u>	<u>Program Title</u>	<u>CFDA #</u>	<u>Total Award Amount</u>
Bothands	Acquisition Rehabilitation	Community Development Block Grant-2010/2011	14.218	\$ 50,886
Bothands	Financial Assistance Program	Community Development Block Grant-2011/2012	14.218	46,436
Habitat for Humanity	Project			3,361
Flagstaff Shelter	Shelter Operations			30,500
Coconino County - Housing	Housing Stabilization			9,303
Bothands	Financial Assistance Program	Community Development Block Grant - 2012/2013	14.218	33,020
Flagstaff Shelter	Shelter Rehabilitation			13,778
Flagstaff Shelter	Shelter Operations			29,000

**Section I - Summary of Auditor's Results**

Financial Statements

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	Yes
Significant deficiencies identified	Yes
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weaknesses identified	Yes
Significant deficiencies identified	None reported

Type of auditor's report issued on compliance for major programs	
Community Development Block Grant 14.218	Unmodified
Home Investment Partnership Program 14.239	Unmodified
Public and Indian Housing 14.850	Qualified
Public Housing Capital Fund 14.872	Qualified
Highway Planning and Construction 20.205	Unmodified
Disaster Grant - Public Assistance 97.036	Unmodified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	Yes
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Identification of major programs:	<u>CFDA Number</u>	
Community Development Block Grant	14.218	\$ 383,389
Home Investment Partnership Program	14.239	153,708
Public and Indian Housing	14.850	588,400
Public Housing Capital Fund	14.872	382,718
Highway Planning and Construction	20.205	635,932
Disaster Grant - Public Assistance	97.036	1,266,975
		\$ 3,411,122

Dollar threshold used to distinguish between Type A and Type B programs	\$ 300,000
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Auditee qualified as low-risk auditee	Yes
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## **Section II - Financial Statement Findings**

### **Material Weakness**

#### 2013-A Controls over Utility Billing and Fee Revenue

*Criteria or Specific Requirement:* A good system of internal accounting control contemplates an adequate system for detecting, identifying, and rectifying potential errors that are material to the financial statements.

*Condition:* The City's management identified material misstatements in the areas of utility billing and capacity fee revenue during the fiscal year; however, such misstatements were not corrected prior to the initiation of our engagement. Furthermore, the misstatements were not identified as a result of the City's internal control structure, but rather through mechanisms outside of the finance and utility billing departments.

*Context:* This finding impacts the City's internal control for all significant accounting functions due to the lack of adequate and consistent review of significant financial statement areas.

*Effect:* Material misstatements in the City's financial statements are not consistently and systematically identified as a result of management's internal control system. Furthermore, once identified material misstatements are not consistently and timely properly corrected and accounted for.

*Cause:* The City does not have an internal control system designed to adequately review and identify all potentially material adjustments.

*Recommendation:* A thorough review, reconciliation of accounts and correction of known misstatements should take place prior to the beginning of the audit. This review should be performed within the Revenue Section and should then be communicated to accounting supervisors to ensure timely and proper recording of transactions and events.

*Action Plan in Response to Finding:* The City agrees with the finding and will take the necessary steps to improve review of Utility billing and fee revenues. We will have the Director of the program responsible for calculating, billing, and collection of fees related to utilities. That review will then be provided to the Finance Section to assure that necessary adjustments are properly posted in a timely fashion and completed prior to on-site audit visits.

*Explanation of Disagreement:* None

*Official Responsible for Ensuring Corrective Action:* Rick Tadder, Finance Manager

*Planned Completion Date for Corrective Action:* June 30, 2014

*Plan to Monitor Completion of Corrective Action:* Finance staff will include this item as part of the annual work plan to assure the task is completed.

## Significant Deficiency

### 2013-B Timely Reconciliation of Miscellaneous Receivables

*Criteria or Specific Requirement:* A good system of internal accounting control contemplates a system for adequate and timely reconciliation and review of significant or sensitive account balances.

*Condition:* Certain reports generated through the City's accounting system are date-sensitive and unique and therefore must be generated on specified reporting dates to be relevant and correct. Specifically, the City must generate a report for miscellaneous accounts receivable on June 30<sup>th</sup> of each year for that report to contain values actually outstanding as of that date. In the event that date-sensitive, unique reports are not generated on specified reporting dates, the City's management must prepare a reconciliation of activity to be able to record actual miscellaneous accounts receivable and related revenue balances at the end of the fiscal year. The City prepares such reconciliations annually.

As a result of auditing procedures performed, we noted that the report for miscellaneous accounts receivable as of June 30, 2013 was generated on July 9, 2013. As a result, a significant reconciliation of related account balances was prepared by management. Certain miscellaneous receivable account balances were not able to be completely reconciled. Furthermore, upon testing of miscellaneous receivable account balances, we identified certain misstatements within the reconciled balances.

*Context:* This finding impacts the City's efficiency and increases risk of material misstatement in the financial statements.

*Effect:* Without timely generation of date-sensitive reports and reconciliation of significant account balances, the City's financial statements could contain material misstatements that would not be identified by management due to lack of adequate internal control systems.

*Cause:* The City's software does not allow accurate reporting from previous dates. The City does not have an internal control system designed to adequately mitigate this limitation and provide for timely reconciliations.

*Recommendation:* The City's management should have procedures in place to ensure that date sensitive, unique reports are timely generated. A thorough review of reports, timely reconciliation of accounts and correction of known misstatements should take place prior to the beginning of the audit. This review should be done at both the accounting staff and accounting supervisor levels.

*Action Planned in Response to Finding:* The City agrees with the finding and will take necessary steps to improve the timely reconciliation of miscellaneous receivables. The City of Flagstaff's financial system for miscellaneous receivables does not allow staff to run trail balances for a previous date. Therefore, city staff will make an effort to run specific reports on the proper date.

*Explanation of Disagreement:* None

*Official Responsible for Ensuring Corrective Action:* Rick Tadder, Finance Manager

*Planned Completion Date for Corrective Action:* June 30, 2014

*Plan to Monitor Completion of Corrective Action:* Revenue Section staff are scheduling tasks on their calendar to remind them to run the trail balance report. A total of four staff will have this reminder to help assure completion.

### **Section III - Federal Award Findings and Questioned Costs**

#### **Material Weakness**

##### 2013-001 Special Tests and Provisions

U.S. Department of Housing and Urban Development Public and Indian Housing CFDA 14.850

*Criteria:* The *Office of Management and Budget* requires a current Declaration of Trust be filed against all public housing property owned by Public Housing Authorities that have been maintained or assisted with funds from the U.S. Housing Act of 1937.

*Condition:* Declarations of Trust were not always filed as required.

*Questioned Costs:* None identified.

*Context:* In testing three of the sixteen properties subject to the Declaration of Trust requirement, a Declaration of Trust was not filed for one of these properties.

*Effect:* The City is not in compliance with federal requirements. This instance of noncompliance could result in withdrawn funding or penalties by the U.S. Department of Housing and Urban Development.

*Cause:* The City does not have policies and procedures in place sufficient to identify and comply with certain compliance requirements.

*Recommendation:* We recommend that current Declarations of Trust be filed on all properties owned by the Flagstaff Housing Authority. Further we recommend that policies and procedures be reviewed and altered to include policies, procedures, best practices, and controls sufficient to ensure compliance with this and all federal requirements.

*Action Planned in Response to Finding:* The City of Flagstaff Housing Authority concurs that Declarations were not always filed as required. City of Flagstaff Housing Authority will file updated Declarations of Trust on all properties and maintain current declarations as required in the future, and will develop Standard Operating Procedures as described below to ensure compliance.

*Explanation of Disagreement:* None

*Official Responsible for Ensuring Corrective Action:* Rick Tadder, Finance Manager

*Planned Completion Date for Corrective Action:* April 30, 2014

*Plan to Monitor Completion of Corrective Action:* Review and Filing of declarations of Trust will be added to the Finance Manager's responsibilities. The Finance Manager will develop a standard operating procedure for monitoring and ensuring compliance. In short, the procedures will require annual review of the status of Declarations of Trust, including an analysis of terms in place, and filing new declarations as required.

2013-002 Reporting

U.S. Department of Housing and Urban Development Public and Indian Housing CFDA 14.850  
U.S. Department of Housing and Urban Development Public Housing Capital Fund CFDA 14.872

*Criteria:* Federal compliance provisions require periodic reporting in accordance with requirements specific to the program. Such provisions specify the type of reporting as well as the frequency, timing, and period of reporting. In order to comply with federal financial reporting requirements, the recipient of federal funds must maintain accurate and complete financial records of expenditures incurred, funds reimbursed, and other performance related data. Additionally federal compliance provisions require controls to be consistently implemented in the City's procedures sufficient to ensure compliance with all federal requirements.

*Condition:* The City did not maintain documentation of compliance with reporting requirements and did not file for the proper reporting period.

*Questioned Costs:* None identified.

*Context:* This condition was found in one annual report required under both of the above identified major programs funded by the U.S. Department of Housing and Urban Development. The report was properly filed in previous years but was not filed on the required calendar year basis for the year under audit.

*Effect:* The City is not in compliance with federal requirements.

*Cause:* The City does not have policies and procedures in place to ensure maintenance of compliance documentation and timely, accurate, and compliant reporting.

*Recommendation:* We recommend that documentation of all reports and other compliance requirements be maintained and procedures and policies be implemented to ensure timely, accurate, and compliant reporting.

*Action Planned in Response to Finding:* The City of Flagstaff Housing Authority concurs that the Section 3 Report was filed for the year ended in June instead of the year ended in December. Section 3 filings will be made on a calendar year basis in the future.

*Explanation of Disagreement:* None

*Official Responsible for Ensuring Corrective Action:* Rick Tadder, Finance Manager

*Planned Completion Date for Corrective Action:* The report for the year ended December 31, 2013 is ready for filing. However, the HUD automated filing system is not working. We will file for the year as soon as HUD corrects the technical issues on its web based filing system, and continue to file on a calendar year basis in the future.

*Plan to Monitor Completion of Corrective Action:* Standard Operating Procedures for HUD reporting will be developed to clarify reporting requirement and record keeping method.

**Section IV - Status of Prior Years Findings**

None noted.