

Single Audit Report and Schedule of Expenditures of Federal Awards June 30, 2012

City of Flagstaff, Arizona

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	
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	3
Report on Compliance with Requirements Applicable to the Passenger Facility Charge Program and on Internal Control over Compliance	5
Schedule of Expenditures of Federal Awards	7
Notes to Schedule of Expenditures of Federal Awards	12
Schedule of Findings and Ouestioned Costs	13



# 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 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, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 19, 2012. 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**

Management of the City is responsible for establishing and maintaining effective 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 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.

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 financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as reference 2012-1 that we consider to be a significant deficiency in internal control over financial reporting. 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.

#### **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 instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of City in a separate letter dated January 11, 2013.

The City's response to the finding 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.

#### **Arizona Legal Compliance**

In connection with our audit, nothing came to our attention that caused us to believe that the City 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 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.

Phoenix, Arizona December 19, 2012

Esde Sailly LLP

2



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 Flagstaff, Arizona Flagstaff, Arizona

#### **Compliance**

We have audited the City of Flagstaff, Arizona's (the City) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal program for the year ended June 30, 2012. 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 on 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, 2012.

#### **Internal Control over Compliance**

Management of the City 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'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 the 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's 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 a 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 the City, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 19, 2012, which contained unqualified opinions on these financial statements. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by OMB Circular A-133 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 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 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 these specified parties.

Phoenix, Arizona January 11, 2013

Esde Saelly LLP



# 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

### 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, 2012. Compliance with the requirements of laws and regulations applicable to its passenger facility charge program is the responsibility of the Airport's management. Our responsibility is to express an opinion on Flagstaff Pulliam Airport'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 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.

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, 2012.

#### **Internal Control over Compliance**

The management of Flagstaff Pulliam Airport is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws and regulations applicable to the passenger facility charge program. In planning and performing our audit, we considered the Flagstaff Pulliam Airport's internal control over compliance with requirements that could have a direct and material effect on the passenger facility charge program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with the Guide.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws and regulations that would be material in relation to the passenger facility charge program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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.

Phoenix, Arizona

Esde Saelly LLP

January 11, 2013

FEDERAL GRANTOR/PASS THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	CONTRACT/ GRANT NUMBER	AWARD AMOUNT	ACCRUED OR (DEFERRED) REVENUE AT JUNE 30, 2011	RECEIPTS	EXPENDITURES	ACCRUED OR (DEFERRED) REVENUE AT JUNE 30, 2012
Department of Agriculture							
Passed through Arizona State Forestry Division							
Cooperative Forestry Assistance	10.664	WFHF 09-007	\$ 359,030	\$ 71,934	\$ 104,020	\$ 155,598	\$ 123,512
Passed through USDA Forest Service, Coconino National Forest							
Schools and Road-Grants to States-Schultz Flooding	10.665	11-CA-11939429-036	250,000	-	250,000	250,000	-
Total Department of Agriculture				71,934	354,020	405,598	123,512
Department of Defense							
Direct Programs:							
Basic and Applied Scientic Research-Naval Observatory	12.300	N6473-10-2-0023	6,000	-	2,250	2,250	-
Total Department of Defense				-	2,250	2,250	
Department of Housing and Urban Development							
Direct Programs:							
Community Development Block Grant/Entitlement Grants	14.218	B-08-MC-04-0510	610,025	28,255	28,255	-	-
Community Development Block Grant/Entitlement Grants	14.218	B-09-MC-04-0510	676,874	52,018	177,838	147,382	21,562
Community Development Block Grant/Entitlement Grants	14.218	B-10-MC-04-0510	670,179	89,551	417,907	419,718	91,362
Community Development Block Grant/Entitlement Grants	14.218	B-11-MC-04-0510	608,905		72,696	269,584	196,888
Subtotal				169,824	696,696	836,684	309,812
Home Investment Partnership Program 2010	14.239	303-10	330,000	42,928	244,441	201,513	-
Home Investment Partnership Program 2012	14.239	304-12	330,000	-	-	49,153	49,153
Subtotal				42,928	244,441	250,666	49,153
Public and Indian Housing	14.850	AZ006	637,882	-	637,882	637,882	-
Public Housing Capital Fund	14.872	AZ20P006501-(08,09,10)	1,337,995	8,369	293,557	431,246	146,058
Resident Opportunity and Supportive Services - Service Coordinators	14.870	AZ006RPS083A009	44,369	-	39,516	44,369	4,853
Section 8 Housing Choice Vouchers	14.871	AZ006	3,257,482	-	3,459,701	3,257,482	(202,219)
Lower Income Housing Assistance Program - Section 8 Moderate		AZ006MRO001					
Rehabilitiation	14.856	AZ006SRO001	68,346	-	76,546	68,346	(8,200)
Subtotal				8,369	4,507,202	4,439,325	(59,508)
Total Department of Housing and Urban Development				221,121	5,448,339	5,526,675	299,457

FEDERAL GRANTOR/PASS THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	CONTRACT/ GRANT NUMBER	AWARD AMOUNT	ACCRUED OR (DEFERRED) REVENUE AT JUNE 30, 2011	RECEIPTS	EXPENDITURES	ACCRUED OR (DEFERRED) REVENUE AT JUNE 30, 2012
Department of Justice							
Direct Programs:							
Edward Byrne Memorial Justice Assistance Grant Program FY09	16.738	2009-DJ-BX-0118	72,338	7,711	33,877	26,166	-
Edward Byrne Memorial Justice Assistance Grant Program FY10	16.738	2010-DJ-BX-0931	59,192	17,667	38,778	21,111	-
Edward Byrne Memorial Justice Assistance Grant Program FY11 Subtotal	16.738	2011-DJ-BX-3022	41,808	25,378	72,655	12,025 59,302	12,025 12,025
Bulletproof Vest Partnership Program	16.607	2009 BVP	4,348	1,805	1,805	_	-
Bulletproof Vest Partnership Program	16.607	2010 BVP	3,558	-	924	3,011	2,087
Bulletproof Vest Partnership Program	16.607	2011 BVP	4,253		_	1,604	1,604
Subtotal				1,805	2,729	4,615	3,693
Public Safety Parntership and Community Policing Grants 2011	16.710	2011-UMXW0015	966,336	-	14,447	63,880	49,433
ARRA - Public Safety Partnership and Community Policing Grants	16.710	2009RKWX0072	1,365,432	111,103	401,902	406,056	115,257
Subtotal				111,103	416,349	469,936	164,690
ARRA-Edward Byrne Memorial Justice Assistance Grant Program	16.804	2009-SB-B9-3125	311,417	2,217	37,853	71,720	36,084
Passed through Arizona Criminal Justice Commission							
ARRA - Edward Byne Memorial Justice Assistance Grant (JAG)	16.803	DC-10-044	651,740	54,749	54,749	-	-
Edward Byrne Memorial Justice Assistance Grant Program - Cycle 25		DC-12-044	298,117	-	210,120	280,149	70,029
Project Safe Neighborhoods 2011	16.609	PSN-11-007	10,032	4,509	4,509	-	-
Project Safe Neighborhoods 2012 Subtotal	16.609	PSN-12-010	10,000	59,258	4,978 274,356	10,000 290,149	5,022 75,051
Suototai				39,238	274,330	290,149	73,031
Passed through State of Arizona							
Missing Children Assistance 2010-2011	16.543	2009-MC-CX-K013	10,000	10,000	10,000	-	-
Missing Children Assistance 2011-2012	16.543	2009-MC-CX-K013	4,500	_	4,406	4,406	
Subtotal				10,000	14,406	4,406	-
Passed through Sunnyside Neighborhood Association							
Community Capacity Development Office - 09/10 Police	16.595	2009-W0183-AZ-W	8,000	1,164	-	(1,164)	-
Passed through Arizona's Governor's Officeof Highway Safety							
Enforcing Underage Drinking Laws Program	16.727	2010-OJJDP-023	24,445	2,506	2,506	-	-
Total Department of Justice				213,431	820,854	898,964	291,543

FEDERAL GRANTOR/PASS THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	CONTRACT/ GRANT NUMBER	AWARD AMOUNT	ACCRUED OR (DEFERRED) REVENUE AT JUNE 30, 2011	RECEIPTS	EXPENDITURES	ACCRUED OR (DEFERRED) REVENUE AT JUNE 30, 2012
Department of Transportation	<u> </u>						
Direct Programs:							
Airport Improvement Program-AIP 34	20.106	AIP 3-04-0015-034-2010	1,223,613	31,683	58,045	687,827	661,465
Airport Improvement Program-AIP 35	20.106	AIP-3-04-0015-035-2011	3,512,782	_	63,917	2,351,675	2,287,758
Subtotal				31,683	121,962	3,039,502	2,949,223
Passed through Arizona Department of Transportation:							
Highway Planning and Construction - 2010 SPR	20.205	T06-49-B0001	125,000	124,998	125,000	2	-
Highway Planning and Construction - 2010 PL	20.205	T06-49-B0001	118,004	49,422	49,422	-	-
Highway Planning and Construction - 2011 SPR	20.205	T06-49-B0002	125,000	72,167	125,000	52,833	-
Highway Planning and Construction - 2011 SPR Winter Study	20.205	T06-49-B0002	75,000	30,568	75,000	44,432	-
Highway Planning and Construction - 2011 STP	20.205	T0649B0001	105,000	-	24,730	36,747	12,017
Highway Planning and Construction - 2011 PL	20.205	T0649B0001	137,527	51,687	63,594	43,132	31,225
Highway Planning and Construction - 2012 SPR	20.205	JPA 11-085	125,000	-	62,352	116,319	53,967
Highway Planning and Construction - 2012 PL	20.205	JPA11-085	82,623	-	24,804	86,406	61,602
Highway Planning and Construction - TE Rnd 14	20.205	P001-2009-003797	470,964	115,881	115,881	206,421	206,421
Highway Planning and Construction - TE Rnd 15	20.205	P001-2009-003906	485,889	476,620	476,620	-	-
Highway Planning and Construction - TE Rnd 16	20.205	P001-2010-004154	500,000			21,142	21,142
Subtotal				921,343	1,142,403	607,434	386,374
Passed through Arizona Department of Transportation:							
Public Transportation Research-2008 FTA(16)	20.514	T06-49-B0001	43,689	1,654	-	(1,654)	-
Public Transportation Research-2009 FTA(17)	20.514	T06-49-B0001	25,803	10,183	26,416	16,233	-
Public Transportation Research-2010 FTA(18)	20.514	T06-49-B0001	26,497	-	3,886	26,497	22,611
Public Transportation Research-2011 FTA(19)	20.514	JPA-11-085	26,844	-	-	1,772	1,772
Subtotal				11,837	30,302	42,848	24,383
Passed through Arizona's Governor's Office of Highway Safety							
State & Community Highway Safety	20.600	2010-HFR-017	30,000	14,799	14,799	_	_
State & Community Fighway Safety	20.600	2010-EM-003	8,500	2,652	2,652	_	_
State & Community Fighway Safety	20.600	2011-EM-001	9,041	5,030	5,030	_	_
State & Community Highway Safety	20.600	2011-A1-011	6,840	3,856	3,856	_	_
State & Community Highway Safety	20.600	2011-OP-030	5,000	5,000	5,000	_	_
State & Community Highway Safety	20.600	2011-AL-029	15,000	3,015	3,015	_	_
State & Community Highway Safety	20.600	2011-PT-024	60,467	46,874	58,282	11,408	_
State & Community Highway Safety	20.600	2012-AL-032	20,000	-	9,358	14,522	5,164
Subtotal			-,-	81,226	101,992	25,930	5,164
Total Department of Transportation				1,046,089	1,396,659	3,715,714	3,365,144

FEDERAL GRANTOR/PASS THROUGH GRANTOR/PROGRAM TITLE  Department of Energy	FEDERAL CFDA NUMBER	CONTRACT/ GRANT NUMBER	AWARD AMOUNT	ACCRUED OR (DEFERRED) REVENUE AT JUNE 30, 2011	RECEIPTS	EXPENDITURES	ACCRUED OR (DEFERRED) REVENUE AT JUNE 30, 2012
Direct Programs:	01.120	DE 000000500	507 100	0.071	175.052	266.500	101 410
ARRA-Energy Efficiency and Conservation Block Grant Total Department of Energy	81.128	DE-SC0002532	587,100	9,971 9,971	175,053 175,053	266,500 266,500	101,418
Total Department of Energy				9,971	173,033	200,300	101,418
Department of Education							
Passed through Governor's Office of Economic Recovery							
ARRA - State Fiscal Stabilization Fund	84.397	OER-11-IGA0GS-199	80,000	-	80,000	80,000	-
ARRA - State Fiscal Stabilization Fund	84.397	OER-11-IGA-GS-229	300,000	-	293,306	293,306	-
ARRA - State Fiscal Stabilization Fund	84.397	OER-11-IGA-GS-58	50,000	47,333	83,372	36,037	(2)
Total Department of Education				47,333	456,678	409,343	(2)
Department of Homeland Security							
Direct Programs:							
TSA-Law Enforcement Officer Reimbursement Agreement Program	97.090	HSTS0208HSLR313	284,043	56,550	56,550	41,071	41,071
Passed through AZ Division of Emergency Management							
Disaster Grant - Public Assistance (2010 Winter Storm)	97.036	FEMA-1888-DR	68,416	48,566	25,951	(23,770)	(1,155)
Disaster Grant - Public Assistance (Shultz Flooding)	97.036	FEMA-1940-DR	3,503,405	53,256	-	1,117,717	1,170,973
Subtotal				101,822	25,951	1,093,947	1,169,818
Homeland Security Grant Program - Fire	97.067	08-AZDOHS-HSGP-44410:	4,241	-	4,241	4,241	-
Homeland Security Grant Program - Fire	97.067	09-AZDOHS-HSGP-55510:	42,000	41,079	41,079	-	-
Homeland Security Grant Program - Fire	97.067	09-AZDOHS-HSGP-55510	2,520	-	-	63,061	63,061
Homeland Security Grant Program -Police	97.067	09-AZDOHS-HSGP-55510	5,999	-	-	5,999	5,999
Homeland Security Grant Program - Fire	97.067	10-AZDOHS-HSGP-77710	14,371	-	14,371	14,371	-
Homeland Security Grant Program -Police	97.067	10-AZDOHS-HSGP-777109	89,700	-	86,531	86,531	-
Homeland Security Grant Program - Fire	97.067	11-AZDOHS-HSGP-88810:	31,200	-	-	29,200	29,200
Homeland Security Grant Program -Police	97.067	11-AZDOHS-HSGP-88810	14,550		-	14,492	14,492
Subtotal				41,079	146,222	217,895	112,752
Passed through Coconino County from FEMA							
Fire Management Assistance Grant	97.046	FM-2846	32,909	32,909		=	32,909
Total Department of Homeland Security				232,360	228,723	1,352,913	1,356,550

FEDERAL GRANTOR/PASS THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	CONTRACT/ GRANT NUMBER	AWARD AMOUNT	ACCRUED OR (DEFERRED) REVENUE AT JUNE 30, 2011	RECEIPTS	EXPENDITURES	ACCRUED OR (DEFERRED) REVENUE AT JUNE 30, 2012
<b>Environmental Protection Agency</b>							
Pass through Water Infrastructure Finance Authority of AZ							
Capitalization Grants for Drinking Water State Revolving Funds	66.468	92A148-10	775,000	184,093	184,093	-	-
Capitalization Grants for Drinking Water State Revolving Funds	66.468	920173-10	1,000,000	-	11,124	11,124	-
Capitalization Grants for Drinking Water State Revolving Funds	66.468	720011-10	1,100,000	188,120	630,240	442,120	-
Capitalization Grants for Drinking Water State Revolving Funds	66.468	920212-11	1,833,828		1,633,933	1,633,933	
Total Environmental Protection Agency				372,213	2,459,390	2,087,177	-
Department of Commerce Passed through Institue of Museum and Library Services,							
•	11.557	DTOD 2	27.701		22.266	24.666	11 400
ARRA AZ Public Computers	11.557	BTOP 2	37,791		23,266	34,666	11,400
Total Department of Commerce				-	23,266	34,666	11,400
Institute Of Museum And Library Services							
Passed through AZ State Library,							
Archives & Public Records							
Grants to States - Every Child Ready to Read	45.310	2009-32201-04	12,387	(164)	-	164	-
Grants to States-Library Special Services	45.310	2010 LSTA	25,000	(14,134)	-	13,925	(209)
Grants to States-State Grant in Aid	45.310	2012 SGIA	25,000	-	25,000	25,000	-
Grants to States-Promoting quality Electronic Resources	45.310	2010 LSTA	24,955	(16,516)	-	16,516	-
Grants to States - Surge of Technology	45.310	2011 LSTA	41,778	-	41,778	36,867	(4,911)
Grants to States - Flagstaff: A Look Back In Time	45.310	2011 LSTA	12,263		12,263	6,336	(5,927)
Total Institute of Museum and Library Services				(30,814)	79,041	98,808	(11,047)
Total Expenditures of Federal Awards				\$ 2,183,638	\$ 11,444,273	\$ 14,798,608	\$ 5,537,975

# **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.

		CFDA	
Sub Recipient	Program Title	Number	<b>Amount</b>
Bothands	Community Develoment Block Grant-2009/2010	14.218	\$ 21.454
Hope Cottage-Sunshine			1,928
Flagstaff Shelter Services			124,000
Bothands	Community Develoment Block Grant-2010/2011	14.218	198,353
Flagstaff Shelter			47,398
Catholic Charities			36,968
Bothands	Community Develoment Block Grant-2011/2012	14.218	78,957
Habitat for Humanity			9,882
Flagstaff Shelter			95,500
Coconino County	Edward Byrne Memorial Justice Assistance Grant Program FY10	16.738	17,667
Coconino County	Edward Byrne Memorial Justice Assistance Grant Program FY11	16.738	12,025
NACOG	ARRA-Energy Efficiency and Conservation Block Grant	81.128	9,063
TGen	ARRA-Rural Economic Development	84.397	80,000

# Section I - Summary of Auditor's Results

Financial :	Statements
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Type of auditor's report issued		Unq	ualified
Internal control over financial reporting: Material weaknesses identified Significant deficiencies identified		No Yes	
Noncompliance material to financial statements noted?		No	
Federal Awards			
Internal control over major programs:  Material weaknesses identified  Significant deficiencies identified		No Non	e reported
Type of auditor's report issued on compliance for major programs		Unq	ualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .501(a)		No	
Identification of major programs: Section 8 Housing Choice Voucher Airport Improvement Program COPS Hiring Recovery Program COPS Hiring Program State Fiscal Stabilization FEMA Disaster Grant	CFDA Number 14.871 20.106 16.710 - ARRA 16.710 84.397 - ARRA 97.036	\$	3,502,714 3,039,502 406,056 63,880 409,343 980,232 8,401,727
Dollar threshold used to distinguist between Type A and Type B programs		\$	443,958
Auditee qualified as low-risk auditee		No	

#### **Section II - Financial Statement Findings**

#### 2012-1

*Criteria:* Article VII, Section 5 of the City of Flagstaff Charter requires the City Council to approve any transfers of property to the City prior to title of property officially passing to the City. GASB Codification §1400.155 states that assets received through contributions should be reported at fair value and revenues should be presented on the Government-wide Statements.

*Condition:* During fiscal year 2012, land and right of way assets that had been donated to the City in previous years were approved by the City Council and were added to the financial system.

Cause: In order for the Council to approve a land conveyance, the City must first perform due diligence to ensure that it wants or needs the land that is being conveyed and that the land is conveyed properly as to exact location, acreage, fair value, etc. The due diligence includes performing environmental surveys, title searches, and valuing the land. This work is performed by an assistant to the City Manager. In previous years, City staff did not have procedures in place to identify or reconcile properties donated for right of way, easements, open spaces, or other purposes. Many properties during this time period were donated as a result of development agreements. The City's process only identified certain of these donations, including street and urban trail system right of ways. This created a situation wherein some donated properties were missed during the annual capitalization of assets.

Effect: The City Council had not been made aware of, and therefore had not approved, several land donations between 2006 and 2011. As a result, these lands and the related revenue had not been reflected in the government-wide financial statements. During fiscal year 2012, the assistant to the City Manager, Real Estate Manager, did a thorough review of property conveyed to the City in previous years going back to fiscal year 2006. Prior to fiscal year 2006, properties were identified during GASB 34 implementation of infrastructure requirements.

*Recommendation:* We recommend that the City implement a program to compare its records of land held to those of the County in order to ensure that all land is properly recorded in the City's records. We also recommend that in the future, the City compare the County record of donations to listings kept by the City Manager's office to ensure that donations are being investigated and brought to the Council in a timely manner.

*Response:* City staff began improving the process in fiscal year 2012 and plan to continue their efforts to create a process that brings acceptance of donated properties to City Council on a semi-annual basis. We are also planning to audit the County parcel records and tie the information down to the City's fixed asset system.

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

No matters are reportable.



# City of Flagstaff

December 22, 2010

CORRECTIVE ACTION PLAN YEAR ENDED JUNE 30, 2012

FINDING: 2012-1

1. Actions Planned in Response to the Finding:

The City has made adjustments to the process for identifying donated properties. We will continue to improve the process in Fiscal Year 2013. We will be setting up a meeting with key staff members which include the Real Estate Manger, Community Development, and Finance. We will expect to gain a better understanding on the process of accepting donated properties and identify the best method for reconciling each year. We also plan to take donated properties to Council semi-annually. Finance staff, with the help of the Real Estate Manager and our GIS staff, plan to audit County records for City owned properties. From this we expect to add the County parcel number to our fixed asset system.

2. Explanation of Disagreement:

There is no disagreement with the audit finding.

3. Official Responsible for Ensuring Corrective Action:

Rick Tadder, Finance Director

4. Planned Completion Date for the Corrective Action:

At the completion of the Fiscal Year 2013 audit, no later than December 31, 2013.

5. Plan to Monitor Completion of Corrective Action:

The City will add this item to our year-end procedure lists. We will monitor the year end journals related to this issue to ensure proper reporting.

Should you have any questions or concern, please call me at (928) 213-2215.

Sincerely

Rick Tadder Finance Director

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