

CITY OF SEDONA, ARIZONA
SINGLE AUDIT ACT REPORTS
FISCAL YEAR ENDED JUNE 30, 2009

**CITY OF SEDONA, ARIZONA
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FISCAL YEAR ENDED JUNE 30, 2009**

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**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**

Honorable Mayor and City Council
City of Sedona, Arizona

We have audited the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Sedona, Arizona (City) as of and for the year ended June 30, 2009, and have issued our report thereon dated January 6, 2010. 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 of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Sedona, Arizona as of and for the year ended June 30, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered City of Sedona, Arizona's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

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 entity'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 entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in item 2009-1 in the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over financial reporting.

Honorable Mayor and City Council
City of Sedona, Arizona

A material weakness is a significant deficiency, or 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 the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, for the significant deficiency described above, we consider item 2009-1 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 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*.

We noted other matters that we have reported to management of the City in a separate letter dated January 6, 2010.

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

LarsonAllen LLP

LarsonAllen LLP

Mesa, Arizona
January 6, 2010

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

Honorable Mayor and City Council
City of Sedona, Arizona

COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM

We have audited the compliance of the City of Sedona, Arizona (City) 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, 2009. The City of Sedona, Arizona'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 Sedona, Arizona's management. Our responsibility is to express an opinion on the City of Sedona, Arizona'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 Sedona, Arizona'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 City of Sedona, Arizona's compliance with those requirements.

In our opinion, the City of Sedona, Arizona complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the fiscal year ended June 30, 2009.

INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

The management of the City of Sedona, Arizona is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Sedona, Arizona'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 internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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 as defined below. However, as described below, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency.

A control deficiency in the City'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 the 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 deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2009-2 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 City's internal control. We do not consider the significant deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs to be a material weakness.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Sedona, Arizona as of and for the year ended June 30, 2009, and have issued our report thereon dated January 6, 2010. Our audit was performed for the purpose of forming opinions on the financial statements, which collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the members the Arizona State Legislature, the Auditor General of the State of Arizona, the City Council, 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. However, this report is a matter of public record and its distribution is not limited.

Larson Allen LLP

LarsonAllen LLP

Mesa, Arizona
January 6, 2010

**CITY OF SEDONA, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FISCAL YEAR ENDED JUNE 30, 2009**

SECTION I – SUMMARY OF AUDITORS’ RESULTS

Financial Statements

Type of auditor's report issued: *Unqualified*
 Internal control over financial reporting:

- Material weakness(es) identified? X yes no
- Significant deficiency(ies) identified not considered to be material weakness? yes X none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes X no
- Significant deficiency(ies) identified not considered to be material weakness? X yes none reported

Type of auditor's report issued on compliance for major programs: *Unqualified*

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)? yes X no

Identification of major programs:

CFDA Numbers
16.710

Name of Federal Program or Cluster
Community Policing Grants

Dollar threshold used to distinguish between Type A and Type B programs: \$ 300,000

Auditee qualified as low-risk auditee? yes X no

CITY OF SEDONA, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2009

SECTION II – FINANCIAL STATEMENT FINDINGS

2009-1: Oversight of the Financial Reporting Process

Condition: The City does not have a system of internal controls that would enable management to conclude the financial statements and related disclosures are complete and presented in accordance with GAAP. As such, management requested us to prepare a draft of the financial statements, including the related footnote disclosures.

The audit firm proposed and the City posted to its general ledger accounts, journal entries to correct misstatements in cash, interest receivables, long-term debt, fund balance and the GASB34 conversion entries. Long-term debt entries that were not properly recorded by the City include: 1) Principal and interest not recorded in the proper fund; 2) Bond issuance costs not amortized; and 3) Bond premiums not amortized. These entries relate to internal controls over the year-end close-out process. The absence of a complete control procedure or process in this area is considered a material weakness because the potential exists that a material misstatement of the financial statements could occur and not be prevented or detected by the City's internal control processes.

Criteria: The City should have controls in place to prevent and detect a material misstatement in the financial statements in a timely manner. Management is responsible for the accuracy and completeness of all financial records and related information. Their responsibilities include adjusting the financial statements to correct material misstatements.

Effect: No effect on the financial statements.

Cause: The City has not established controls to ensure that all accounts are adjusted to their appropriate year-end balances in accordance with GAAP. The City relies on the audit firm to prepare the annual financial statements, related footnote disclosures, and to verify balances are correct at year-end. However, they have reviewed and approved the annual financial statements and related footnote disclosures.

Recommendation: We recommend the City continue to evaluate its internal control processes to determine if additional internal control procedures should be implemented to ensure that accounts are adjusted to their appropriate year-end balances in accordance with GAAP. Additionally, we recommend that the City review these adjustments and modify year-end reconciling procedures in an effort to avoid similar adjustments next year.

Lastly, should the City elect to establish the "full oversight" of the financial statement preparation, we suggest management establish effective review policies and procedures, including but not limited to, the following functions: reconciling general ledger amounts to the draft financial statements; review of all supporting documentation and explanations for journal entries proposed by us and approve the entries; review the adequacy of financial statement disclosures by completing a disclosure checklist; review and approval of schedules and calculations supporting the amounts included in the notes to the financial statements; apply analytic procedures to the draft financial statements; and perform other procedures considered necessary by management.

**CITY OF SEDONA, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2009**

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2009-2

CFDA Number, Title and Award Number:

16.710 – Community Oriented Policing Services Grant Program

Grantor:

U.S. Department of Justice

Award Period:

December 26, 2007 through December 25, 2010

Condition: No *Excluded Parties List System (EPLS)* check was being performed on vendors that the City made purchases with greater than \$25,000.

Criteria: The A-133 compliance supplement requires cities to verify that entities are not suspended or debarred or otherwise excluded for covered transactions. "Covered transactions" include those procurement contracts for goods and services awarded under a nonprocurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed \$25,000 or meet certain other specified criteria. This verification may be accomplished by checking the EPLS maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity.

Questioned Costs: None.

Possible Asserted Effect: The City could use a suspended or debarred vendor.

Recommendation: The City should establish a policy for verifying that entities are not suspended or debarred or otherwise excluded for covered transactions.

Management Response: The City concurs with this recommendation and will establish a policy to check vendors with purchases greater than \$25,000 against the EPLS.

SECTION IV – SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

None noted.

**CITY OF SEDONA, ARIZONA
 SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FISCAL YEAR ENDED JUNE 30, 2009**

Grantor Agency	Federal CFDA Number	Pass-through Grantor's Number	Expenditures
U.S. Department of Justice			
Passed through Arizona Criminal Justice Commission			
Community Oriented Policing Services Grant Program	16.710	2008CKWX0318	\$ 316,775
Byrne Formula Grant Program	16.738	DC-09-021	104,893
Total U.S. Department of Justice			<u>421,668</u>
U.S. Department of Housing and Urban Development			
Passed through the Arizona Department of Commerce:			
Community Development Block Grant	14.228	147-08	139,136
Total U.S. Department of Housing and Urban Development			<u>139,136</u>
TOTAL FEDERAL AWARDS			<u><u>\$ 560,804</u></u>

(1) This schedule was prepared using the modified accrual basis of accounting.

(2) The City did not pass-through any funds to subrecipients.