

**CITY OF WILLCOX, ARIZONA**  
**SINGLE AUDIT ACT REPORT**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

**CITY OF WILLCOX, ARIZONA**

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**HINTONBURDICK**  
CPAs & ADVISORS

**Independent Auditors' Report on Internal Control  
Over Financial Reporting and on Compliance and other  
Matters Based on an Audit of Financial Statements  
Performed in Accordance with Government Auditing Standards**

The Honorable Mayor and  
City Council  
Willcox, Arizona

We have audited, in accordance with the 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 Willcox, Arizona, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise City of Willcox, Arizona's basic financial statements, and have issued our report thereon dated February 15, 2019.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City of Willcox, Arizona'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 of Willcox, Arizona's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Willcox, Arizona's internal control.

*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. 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.

Our consideration of internal control 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the schedule of findings and recommendations that we consider to be significant deficiencies.

2014-001 Accounting Adjustments not Initially Identified by the City's Internal Controls  
2018-002 Required Reserve Accounts

## Compliance and Other Matters

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

## 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.



HintonBurdick, PLLC

Gilbert, Arizona

March 15, 2019



**HINTONBURDICK**  
CPAs & ADVISORS

**Independent Auditors' Report on Compliance  
for Each Major Program and on Internal Control  
Over Compliance Required by the Uniform Guidance**

Honorable Mayor and City Council  
City of Willcox  
Willcox, Arizona

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

We have audited the City of Willcox, Arizona's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City of Willcox, Arizona's major federal programs for the year ended June 30, 2018. The City of Willcox, Arizona'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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the City of Willcox, Arizona'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 the audit requirements of Title 2 *U.S. Code of Federal Regulations Part 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 Willcox, 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Willcox, Arizona's compliance.

**Opinion on Each Major Federal Program**

In our opinion, the City of Willcox, Arizona, complied, in all material respects, with the types of 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, 2018.

## Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2018-001, 2018-002, 2018-003, and 2018-004. Our opinion on each major federal program is not modified with respect to these matters.

The City of Wilcox, Arizona's responses to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City of Wilcox, Arizona'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 of Willcox, Arizona, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Willcox, Arizona'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 the Uniform Guidance, 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 of Willcox, Arizona'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. 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.

## Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

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 Willcox, Arizona, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City of Willcox, Arizona's basic financial statements. We issued our report thereon dated February 15, 2019, which contained an unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of

additional analysis as required by the Uniform Guidance 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 basic 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 basic financial statements or to the basic 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 basic financial statements as a whole.

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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*HintonBurdick, PLLC*

HintonBurdick, PLLC

Gilbert, Arizona

March 15, 2019

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**CITY OF WILLCOX, ARIZONA**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2018**

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**Section I - Summary of Auditors' Results**

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Financial Statements

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

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

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

Any audit findings disclosed that are required to be reported  
in accordance with 2 CFR 200.516(a)?            \_\_\_ yes     X  no

Identification of major programs.

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
66.202	Congressionally Mandated Projects

Dollar threshold used to distinguish between type  
A and type B programs: \$ 750,000

Auditee qualified as low-risk auditee?            \_\_\_ yes     X  no

**CITY OF WILLCOX, ARIZONA**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2018**

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**Section II - Financial Statement Findings**

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**Findings and Recommendations:**

**Material Weaknesses:**

None noted

**Significant Deficiencies:**

2014-001      Accounting Adjustments not Initially Identified by the City's Internal Control  
Prior Year Reworded, Reissued

*Criteria:* Auditing standards indicate that the identification by the auditor of accounting adjustments that were not initially identified by the City's internal controls may be a significant deficiency in the City's internal controls.

*Condition:* We proposed accounting adjustments to correct items that were not initially identified by the City's internal controls.

*Cause:* Procedures for year-end adjustments may need to be revised or improved in order to properly identify certain adjustments for new accounting standards or other non-routine adjustments.

*Effect:* The financial statements would not have been fairly stated in all material respects without the adjustments.

*Recommendation:* Management should continue to review and understand the adjustments proposed by the auditor so adjustments can be identified and corrected in future fiscal years. The City should continue to improve its internal controls to a level where the controls will identify and correct these items prior to the annual audit.

2018-002      Required Reserve Accounts

*Criteria:* The City entered into an agreement with North American Development Bank to obtain grant assistance for the Wastewater Treatment Plant Improvements Project in Willcox, Arizona. The agreement stipulated that the City was to create separate commercial bank accounts for the Operation and Maintenance Reserve of \$59,726 at year end and the Reserve and Replacement Reserve of \$141,613 at year end.

*Condition:* At year end June 30, 2018, separate bank accounts had not been created with the required reserve amounts.

*Cause:* City management was not aware of the requirement.

**CITY OF WILLCOX, ARIZONA**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2018**

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**Section II - Financial Statement Findings, Continued**

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*Effect:* The City was not in compliance with grant agreement.

*Recommendation:* We recommend the City become familiar with the reserve requirements in the grant agreement and establish required reserve accounts.

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

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2018-001      Documentation Requirements in the *Uniform Guidance*

*Criteria:* Part 200 of the *Uniform Guidance* outlines uniform administrative requirements, cost principles, and audit requirements for federal awards. Specific documentation requirements include written procedures to implement the cash management requirements, the allowability of costs in accordance with cost principles of the federal awards, the procurement standard followed, the conflict of interest policy, the travel policy, and the documentation of monitoring and risk assessment of subrecipients.

*Condition:* While it appears the City has general written policies and procedures in place, they did not have the written procedures applicable to federal awards as required by the *Uniform Guidance*.

*Cause:* City management was not aware of the requirement.

*Effect:* The City was not in compliance with *Uniform Guidance* requirements.

*Recommendation:* We recommend the City review the *Uniform Guidance* and ensure their written policies and procedures are updated and in compliance with the *Uniform Guidance*.

*Client Response:* The City will become familiar with the documentation requirements under the *Uniform Guidance* and develop policies and procedures over federal awards which includes the necessary documentation.

*Client Response:* The City will become familiar with the documentation requirements under the *Uniform Guidance* and develop policies and procedures over federal awards which includes the necessary documentation.

2018-002      Financial Reports and Supporting Documentation Retained

*Criteria:* Per the grant agreement, the City is to retain all financial records, supporting documentation and all other records pertinent to the grant for 3 years.

*Condition:* The City could not locate the grant agreement.

**CITY OF WILLCOX, ARIZONA**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2018**

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**Section III - Federal Award Findings and Questioned Costs, Continued**

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*Cause:* The previous City Manager who administered the grant left on March 27, 2018 and City employees could not locate the agreement.

*Effect:* The City did not have the grant agreement and was not familiar with the compliance requirements.

*Recommendation:* We recommend the City obtain the grant agreement and review all compliance requirements.

*Client response:* The City will obtain and retain all federal loan and grant agreements.

2018-003

Notification and Reporting Requirements to Granting Agency

*Criteria:* Per the grant agreement, the City is required to notify and submit the following reports to the granting agency:

- Notification on changes in key personnel
- Notification of the firm engaged to conduct the annual audit, with their profile and qualifications
- Reports 1 through 5 per Annex 3 of the grant agreement 45 days following the end of each fiscal quarter
- Report 6 “Debt Service Coverage Ratio Certification” 45 days following the end of the fiscal year
- The “Project Construction Performance Reports 15 days after each quarter
- Quarterly reports detailing operations of the waste water facility showing various performances of the system as detailed in the grant agreement page 9.b.
- Fiscal year budget
- Provide EPA with fair share objectives/goals and studies required by regulations

*Condition:* The City did not notify or submit the required reports of the items listed above to the granting agency.

*Cause:* The City was not aware of the notification and reporting requirements as they did not have the grant agreement upon termination of the previous City Manager. Previous City management did not notify the City of requirements.

*Effect:* The City did not notify or submit the reporting requirements to the granting agency.

*Recommendation:* We recommend the City review the grant agreement and provide to the granting agency all required notifications and reports.

*Client response:* The City will review all federal loan and grant agreements, determine the compliance requirements, and comply with all necessary reporting and notifications.

**CITY OF WILLCOX, ARIZONA**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2018**

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**Section IV – Summary Schedule of Prior Audit Findings**

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None Noted.

**CITY OF WILLCOX, ARIZONA**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2018**

Grantor Agency	Federal CFDA Number	Pass-through Entity Identifying Number	Pass-through to Subrecipients	Expenditures
<b>Environmental Protection Agency</b>				
(Passed through North American Development Bank)				
Congressionally Mandated Projects	66.202	BEIF AZ2180	\$ -	\$ 4,618,182
<b>U.S. Department of Agriculture:</b>				
USDA Rural Utility Services				
Capitalization Loans for water and waste disposal systems for rural communities	10.760		-	3,383,636
Capitalizaion Grant for water and waste disposal system fo rural communities	10.760		-	320,067
<b>U.S. Department of Transportation:</b>				
(Passed through the Governors Office of Highway Safety)				
National Highway Safety Act	20.600		-	17,082
<b>Institute of Museum and Library Services:</b>				
(Passed through the State of Arizona)				
Library Services and Technology Act	45.310		-	14,158
Total expenditure of federal awards			<u>\$ -</u>	<u>\$ 8,353,125</u>

The accompanying notes are an integral part of this schedule.

**CITY OF WILLCOX, ARIZONA**  
**Notes to the Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2018**

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**Reporting Entity:**

The accompanying schedule of expenditures of federal awards (schedule) presents all activity or expenditure or all federal award programs of the City of Willcox, Arizona (City) for the year ended June 30, 2018. The City's reporting entity is defined in note 1 of the basic financial statements. All expenditure of federal awards received directly from federal agencies as well as federal awards passed through other government agencies are included in the schedule.

**Basis of Accounting:**

This accompanying schedule has been prepared on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

**Relationship to the Basic Financial Statements:**

Expenditures of federal awards have been reported in the following funds. Expenditures in the business-type activities have been capitalized and reported as capital assets:

Governmental -Type Activities:	
Non-major funds:	
Grants Fund	\$ 31,240
Business-Type Activities:	
Sewer Fund	8,321,885
	<hr/>
	\$ 8,353,125
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**Indirect Cost Rate:**

The City did not elect to use the 10% de minimis indirect cost rate for fiscal year 2018.

**Federal Loans and Loan Guarantee Programs Outstanding:**

The City received funding from the U.S. Department of Agriculture through the USDA Rural Utility Services for CFDA #10.760 Capitalization Loans for construction and capital improvements of a waste water system in fiscal year ending June 30, 2018 in the amount of \$3,383,636. There were no additional compliance requirements for these loans.