City of Peoria, Arizona Single Audit Reporting Package Year Ended June 30, 2016

CITY OF PEORIA, ARIZONA SINGLE AUDIT REPORTING PACKAGE FOR THE YEAR ENDED JUNE 30, 2016

CONTENTS	<u>Page</u>
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>	1
Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance	3
Schedule of Expenditures of Federal Awards	6
Notes to Schedule of Expenditures of Federal Awards	8
Schedule of Findings and Questioned Costs	9
Corrective Action Plan	11



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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*

Independent Auditor's Report

Honorable Mayor and Members of the City Council City of Peoria, 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 City of Peoria, Arizona, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise City of Peoria, Arizona's basic financial statements, and have issued our report thereon dated December 15, 2016. Our report included an emphasis of matter paragraph as to comparability because of the implementation of Governmental Accounting Standards Board Statement No.72.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Peoria, 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 City of Peoria, Arizona's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Peoria, 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 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. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item FS-2016-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Peoria, 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*.

City of Peoria, Arizona's Response to Findings

City of Peoria, Arizona's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. City of Peoria, Arizona's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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.

Heinfeld, Meech & Co., P.C. Phoenix, Arizona December 15, 2016



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Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Independent Auditor's Report

Honorable Mayor and Members of the City Council City of Peoria, Arizona

Report on Compliance for Each Major Federal Program

We have audited City of Peoria, 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 City of Peoria, Arizona's major federal programs for the year ended June 30, 2016. City of Peoria, 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 City of Peoria, 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 City of Peoria, 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 City of Peoria, Arizona's compliance.

Opinion on Each Major Federal Program

In our opinion, City of Peoria, 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, 2016.

Report on Internal Control Over Compliance

Management of City of Peoria, 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 City of Peoria, 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 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 City of Peoria, 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 of deficiencies, in internal control over compliance 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.

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.

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 City of Peoria, Arizona as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise City of Peoria, Arizona's basic financial statements. We issued our report thereon dated December 15, 2016, which contained 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 expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Heinfeld, Meech & Co., P.C. Phoenix, Arizona December 15, 2016

CITY OF PEORIA, ARIZONA SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2016

Federal Grantor/Pass-Through <u>Grantor/Program Title</u>	CFDA <u>Number</u>	Grantor's <u>Number</u>	Payments to <u>Subrecipients</u>	Expenditures <u>& Transfers</u>
U.S. Department of Housing and Urban Development				
Direct Programs:				
Community Development Block Grants/Entitlement Grants	14.218	N/A	417,712	701,019
Community Development Block Grants/Entitlement Grants	14.218	B-11-MN-04-0508		387,004
Passed through Maricopa County:				
HOME Investment Partnership Program	14.239	N/A	313,709	325,272
Total U.S. Department of Housing and Urban Develop	oment		731,421	1,413,295
U.S. Department of Justice				
Direct Programs:				
Public Safety Partnership and Community Policing Grants Passed through Maricopa County:	16.710	2013ULWX0041		92,926
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2012-DJ-BX-1182		472
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2013-DJ-BX-1164		10,074
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2014-DJ-BX-1197		14,573
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2015-DE-BX-KO20		53,170
				78,289
Passed through Arizona Department of Public Safety:		2014 10 4		
Crime Victim Assistance	16.575	2014-106		12,697
Crime Victim Assistance	16.575	2014-257		53,005
				65,702
Total U.S. Department of Justice				236,917
U.S. Department of Homeland Security				
Passed through Arizona Division of Emergency Management:				
Homeland Security Grant Program	97.067	140821-02		2,368
Homeland Security Grant Program	97.067	140821-01		48,053
Homeland Security Grant Program	97.067	140821-03		1,814
Homeland Security Grant Program	97.067	150815-01		53,558
Homeland Security Grant Program	97.067	150815-02		36,787
Homeland Security Grant Program	97.067	150814-01		9,500
Homeland Security Grant Program	97.067	150814-02		33,936
Homeland Security Grant Program	97.067	140820-01		10,213
Homeland Security Grant Program	97.067	140820-02		360
Homeland Security Grant Program	97.067	130817-01		1,301
Total U.S. Department of Homeland Security				197,890
U.S. Department of Transportation				
Passed through Arizona Governor's Office of Community & Highw	ay Safety:			
Highway Safety Cluster				
State and Community Highway Safety	20.600	2015-OP-005		7,200
State and Community Highway Safety	20.600	2016-PS-010		16,963
State and Community Highway Safety	20.600	2016-PT-024		377
State and Community Highway Safety	20.600	2016-SB-001		213
State and Community Highway Safety	20.600	2015-PS-002		6,772
State and Community Highway Safety	20.600	2015-PT-027		22,758
State and Community Highway Safety	20.600	2016-AI-003		6,142
(Highway Safety Cluster continued next page)				

CITY OF PEORIA, ARIZONA SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2016

Federal Grantor/Pass-Through	CFDA	Grantor's	Payments to	Expenditures
<u>Grantor/Program Title</u>	<u>Number</u>	<u>Number</u>	<u>Subrecipients</u>	<u>& Transfers</u>
U.S. Department of Transportation (continued)				
State and Community Highway Safety	20.600	2016-AL-024		27,439
State and Community Highway Safety	20.600	2016-Al-068		4,996
State and Community Highway Safety	20.600	2016-MC-002		10,433
Incentive Grant Program to Increase Motorcyclist Safety	20.612	2015-2010-001		306
National Priority Safety Programs	20.616	2015-405d-012		12,625
National Priority Safety Programs	20.616	2016-CIOT-011		7,500
Total Highway Safety Cluster				123,724
Passed through Maricopa Association of Governments:				
Highway Planning and Construction	20.205	MAG16-431C3		231,215
Passed through City of Phoenix Transit:				
Federal Transit Formula Grants	20.507	AZ-90-X103		65,228
Federal Transit Formula Grants	20.507	AZ-90-X109		13,741
Federal Transit Formula Grants	20.507	AZ-90-X114		62,178
Federal Transit Formula Grants	20.507	AZ-90-X124-1		123,528
Federal Transit Formula Grants	20.507	AZ-95-X009		3,668
Federal Transit Formula Grants	20.507	AZ-57-X016		21,119
				289,462
Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	AZ-16-X005		67,026
Total U.S. Department of Transportation				711,427
U.S. Department of the Interior				
Direct Programs:				
WaterSMART	15.507	R14AP00071		66,554
Passed through State Historic Preservation Office:				
Historic Preservation Fund Grants-In-Aid	15.904	P14AF00147		4,695
Total U.S. Department of the Interior				71,249
U.S. Environmental Protection Agency				
Passed through Water Infrasctructure Finance Authority of Arizona:				
Capitalization Grants for Drinking Water State Revolving Funds	66.468	920260-16		8,293,937
Total U.S. Environmental Protection Agency				8,293,937
U.S. Department of Education				
Passed through Peoria Unified School District:				
Twenty-First Century Community Learning Centers	84.287	15FLCCY1-511321-11A		24,420
Total U.S. Department of Education				24,420
Total Expenditures of Federal Awards			\$ 731,421	\$ 10,949,135

CITY OF PEORIA, ARIZONA Notes to the Schedule of Expenditures of Federal Awards Year ended June 30, 2016

NOTE 1 – Basis of Presentation

The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Peoria, Arizona, and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Uniform Guidance.

NOTE 2 – Catalog of Federal Domestic Assistance (CFDA) Numbers

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2016 *Catalog of Federal Domestic Assistance.*

NOTE 3 – Use of Program Income

The amount reported on the Schedule for the Community Development Block Grants/Entitlement Grants program includes expenditures of program income in the amount of \$22,970.

NOTE 4 – Subrecipients

From the federal expenditures presented in the schedule, the City awarded the following to subrecipients:

	CFDA	Subrecipient	Amount
Community Development Block Grant/	14.218	Alzheimer's Support Services	15,000
Entitlement grants		Ability 360	21,255
		Benevilla	70,000
		Boys & Girls Clubs	10,000
		Central Arizona Shelter Services	50,000
		Habitat for Humanity	200,092
		Homeward Bound	9,145
		St. Mary's Food Bank	30,000
		Valleylife	12,220
HOME Investment Partneship Program	14.239	Habitat for Humanity	313,709

NOTE 5 – Indirect Cost Rate

The City has not elected to use the 10-percent de minimus indirect cost rate as covered in §200.414 Indirect (F&A) costs.

CITY OF PEORIA, ARIZONA SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2016

Summary of Auditor's Results:

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Significant deficiency(ies) identified: Yes
- Material weakness(es) identified: No

Noncompliance material to financial statements noted: No

Federal Awards

Internal control over major programs:

- Significant deficiency(ies) identified: No
- Material weakness(es) identified: No

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 §200.516 of Uniform Guidance: No

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
66.468	Capitalization Grants for Drinking Water State Revolving Funds

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

Auditee qualified as low-risk auditee: Yes

Findings Related to Financial Statements Reported in Accordance with *Government Auditing Standards*: Yes

Findings and Questioned Costs Related to Federal Awards: No

Summary Schedule of Prior Audit Findings required to be reported: No

CITY OF PEORIA, ARIZONA SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2016

FINDINGS RELATED TO FINANCIAL STATEMENTS REPORTED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Finding Number: FS-2016-001 **Repeat Finding:** No **Type of Finding:** Significant Deficiency **Description:** Internal Controls Over Capital Asset Reporting

CRITERIA

City management is responsible for establishing and maintaining internal controls to ensure that capital asset balances are properly recorded in the financial statements in accordance with generally accepted accounting principles (GAAP).

CONDITION

The construction in progress listing was not properly reviewed/evaluated by City management to determine if projects were completed.

CAUSE

The City Finance Department relied heavily on the Engineering Department to assess the completion of various ongoing construction projects without considering whether or not the projects were substantially complete from an accounting perspective. The Finance Department's process for completing capital assets does not include a thorough review of projects included in construction in progress.

EFFECT

The City's capital assets activity was not reported correctly in the financial statements by asset classification. Additionally, accumulated depreciation and depreciation expense were understated in the financial statements. Estimated misstatements are not expected to be material to the financial statements, however a complete analysis of the construction in progress balance is necessary to determine the amount of misstatement.

CONTEXT

During review of the 22 largest projects included in the construction in progress listing, it was determined the projects were completed and were not properly moved from construction in progress to the appropriate asset classification. As a result of the misclassification, the projects were not depreciating properly.

RECOMMENDATION

The City Finance Department should thoroughly review the projects currently included in construction in progress and made the necessary adjustments to the capital asset listing.

VIEWS OF RESPONSIBLE OFFICIALS

See Corrective Action Plan.



City of Peoria

FINANCE DEPARTMENT FINANCIAL SERVICES

8401 West Monroe Street Peoria, Arizona 85345 **T** 623.773.7150 **F** 623.773.7033

December 15, 2016

To Whom It May Concern:

The accompanying Corrective Action Plan has been prepared as required by U.S. Office of Management and Budget Uniform Guidance. The name of the contact person responsible for corrective action, the planned corrective action, and the anticipated completion date for the finding included in the current year's Schedule of Findings and Questioned Costs have been provided.

Sincerely,

Brent Mattingly

Chief Financial Officer

CITY OF PEORIA, ARIZONA CORRECTIVE ACTION PLAN YEAR ENDED JUNE 30, 2016

Findings Related to Financial Statements Reported in Accordance with *Government* Auditing Standards

Finding Number: FS-2016-001 Contact Person: Yiannis Kalaitzidis, Accounting Supervisor Anticipated Completion Date: 6/30/17

Planned Corrective Action: The City has updated the annual report compilation procedures to ensure that all current and future construction in progress assets are properly reviewed and reclassified, annually, at year-end. The City plans to complete the review by June 30, 2017 and present any necessary corrections in the next year's comprehensive annual financial report.