

**CITY OF ELOY, ARIZONA**  
**SINGLE AUDIT ACT REPORT**  
**FISCAL YEAR ENDED JUNE 30, 2011**

**CITY OF ELOY, ARIZONA**

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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***

The Honorable Mayor and  
 City Council  
 City of Eloy, Arizona

We have audited the basic financial statements of the City of Eloy, as of and for the year ended June 30, 2011, and have issued our report thereon dated December 3, 2011. 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

Management of the City of Eloy is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Eloy’s internal control over financial reporting as basis for designing our auditing procedures for the purpose of expressing our opinion on the financial 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 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 material misstatements of the entity’s financial statements will not be prevented, detected and corrected, on a timely basis.

Our consideration of the 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 certain deficiencies in internal control over financial reporting, described in the schedule of findings and recommendations dated December 3, 2011 that we consider to be significant deficiencies in internal control over financial reporting.

- 07-5 Journal Entries
- 10-1 Stale Outstanding Checks
- 11-1 Grant Management

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 of Eloy'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 certain other matters that we have reported to the management of the City of Eloy in a separate letter dated December 3, 2011.

This report is intended solely for the information of the mayor, audit committee, management, and various federal and state agencies, and is not intended to be an should not be used by anyone other than these specified part parties. However, this report is a matter of public record and its distribution is not limited.



HINTON, BURDICK, HALL & SPILKER, PLLC  
December 3, 2011



**Report on Compliance with Requirements That  
 Could Have a Direct and Material Effect on Each  
 Major Program and on Internal Control Over  
 Compliance in Accordance with OMB Circular A-133**

Honorable Mayor & City Council  
 City of Eloy  
 Eloy, Arizona

We have audited the City of Eloy’s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Eloy’s major federal programs for the year ended June 30, 2011. The City of Eloy’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 Eloy’s management. Our responsibility is to express an opinion on the City of Eloy’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. 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 Eloy’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 the City of Eloy’s compliance with those requirements.

In our opinion, the City of Eloy complied, in all material respects, with the 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, 2011.

**Internal Control Over Compliance**

Management of the City of Eloy is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Eloy’s internal control over compliance with the 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 and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Eloy’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.

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 basic financial statements of the City of Eloy, Arizona, as of and for the year ended June 30, 2011, and have issued our report thereon dated December 3, 2011. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of management, the City Council, various state agencies, 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.



HINTON, BURDICK, HALL & SPILKER, PLLC  
December 3, 2011

**CITY OF ELOY, ARIZONA**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2011**

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

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Financial Statements

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

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

Noncompliance material to financial statements noted?  yes  no

Federal Awards

Internal Control over major programs:

- Material weakness (es) identified?  yes  no
- Significant deficiency (ies) identified that are not considered to be material weaknesses?  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 section 510(a) of Circular A-133?  yes  no

Identification of major programs.

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.228	Community Development Block Grants
14.255	<b>ARRA</b> - Community Development Block Grants

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

Auditee qualified as low-risk auditee?  yes  no

**CITY OF ELOY, ARIZONA**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2011**

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**Section II - Financial Statement Findings**

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**INTERNAL CONTROL OVER FINANCIAL REPORTING**

**Material Weaknesses:**

None noted

**Significant Deficiencies:**

07-5. Journal Entries

During our audit we made recommendations for various journal entries that were necessary to make accruals and other miscellaneous adjustments. Overall, management did a great job posting year-end journal entries but some were not done correctly and a few were overlooked.

Recommendation

We recommend that management review the journal entries and discuss them with us to ensure management agrees with the entries and understands the purpose of the underlying accounting principles associated with each entry.

10-1. Stale Outstanding Checks

We noted that the general checking account reconciliation lists many checks which have been outstanding for a significant amount of time. Although the total of these items appears to be immaterial to the financial statements, they should be investigated and cleared from the reconciliations as is appropriate.

Recommendation

We recommend that management investigate all checks which have been outstanding for a significant amount of time and either re-issue the checks or void them.

11-1. Grant Management

We noted the City's grant management needs improvement. Although we did not detect any material instances of non-compliance with grant requirements, a few accruals were missed and locating some of the needed information for the audit was difficult to obtain.

**CITY OF ELOY, ARIZONA**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2011**

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

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Recommendation

We understand the passing of Mr. O'Haus, former Grants Coordinator, has caused the City some difficulty with grant management. We recommend the City explore options for replacing Mr. O'Haus or reassigning his responsibilities to another City employee.

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

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No significant matters were noted.

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

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No significant matters were noted.

**CITY OF ELOY, ARIZONA**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2011**

<u>Grantor Agency</u>	<u>Federal CFDA Number</u>	<u>Grantor's Number</u>	<u>Expenditures</u>
<b>U.S. Department of Agriculture and Rural Development</b>			
ARRA - Community Facilities Loans and Grants	10.780		\$ 2,500
ARRA - Rural Business Enterprise Grants	10.783		<u>22,279</u>
Total U.S. Department of Agriculture and Rural Development			<u>24,779</u>
<b>U.S. Department of Housing and Urban Development</b>			
Passed through Arizona Department of Housing:			
Community Development Block Grant	14.228	105-09	245,468
Community Development Block Grant	14.228	122-11	273,480
Community Development Block Grant	14.228	172.10	31,937
ARRA - Community Development Block Grants	14.255	111-10	228,697
Home Investment Partnership Program	14.239	302-10	<u>40,000</u>
Total U.S. Department of Housing and Urban Development			<u>819,582</u>
<b>U.S. Department of Justice:</b>			
Passed through Arizona Department of Public Safety:			
ARRA - State and Local Law Enforcement Assistance Program: Combating Criminal Narcotics Activity Stemming from the Border of the United States Competitive Grant Program	16.809		96,131
ARRA - Public Safety Partnership and Community Policing Grants	16.710		54,897
ARRA - BJA FY2009 Recovery Act Edward Byrne Memorial Justice Assistance Grant program	16.804	2009-SB-BP2281	<u>11,901</u>
Total U.S. Department of Justice			<u>162,929</u>
<b>U.S. Department of Transportation:</b>			
Airport Improvement Program	20.106		<u>116,401</u>
<b>U.S. Department of Energy:</b>			
Passed through Arizona Governor's Office of Energy:			
Energy Efficiency and Conservation Block Grant	81.128	R16-10-16	<u>95,340</u>
<b>U.S. Department of Education:</b>			
Passed through Arizona Governor's Office:			
Governor's Discretionary Funds	84.397		<u>12,586</u>
<b>U.S. Department of Homeland Security:</b>			
Passed through Arizona Department of Homeland Security:			
Homeland Security Grant Program	97.067	555305-02	2,617
Homeland Security Grant Program	97.067	555305-03	51,536
Homeland Security Grant Program	97.067	555305-04	28,893
Homeland Security Grant Program	97.067	777302-02	<u>50,694</u>
Total U.S. Department of Homeland Security			<u>133,740</u>
Total expenditure of federal awards			<u>\$ 1,365,357</u>

Note: This schedule has been prepared on the modified accrual basis of accounting.