

**CITY OF SURPRISE, ARIZONA
SINGLE AUDIT ACT REPORTS
YEAR ENDED JUNE 30, 2017**

**CITY OF SURPRISE, ARIZONA
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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF BASIC FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Honorable Mayor and Members of the City Council
City of Surprise, Arizona
Surprise, 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 Surprise, Arizona, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City of Surprise, Arizona's basic financial statements, and have issued our report thereon dated December 29, 2017.

Internal Control Over Financial Reporting

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Surprise, 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 result of that testing, and not to provide an opinion on the effectiveness of the City of Surprise, Arizona'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 City of Surprise, Arizona's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Phoenix, Arizona
December 29, 2017



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM, REPORT ON INTERNAL CONTROL OVER COMPLIANCE, AND
REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AS
REQUIRED BY THE UNIFORM GUIDANCE**

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

Report on Compliance for Each Major Federal Program

We have audited the City of Surprise, 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 Surprise, Arizona's major federal programs for the year ended June 30, 2017. The City of Surprise, Arizona's major federal programs are identified in the summary of auditors' 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.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of City of Surprise, 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 Surprise, 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 Surprise, Arizona's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Surprise, 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, 2017.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2017-001. Our opinion on each major federal program is not modified with respect to this matter.

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

Report on Internal Control Over Compliance

Management of City of Surprise, 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 Surprise, 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 City of Surprise, 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 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. *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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2017-001, which we consider to be a significant deficiency.

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

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

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 Surprise, Arizona as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise City of Surprise, Arizona's basic financial statements. We issued our report thereon dated, December 29, 2017, 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 as a whole.



CliftonLarsonAllen LLP

Phoenix, Arizona
December 29, 2017

**CITY OF SURPRISE, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2017**

SECTION I – SUMMARY OF AUDITORS’ RESULTS

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? _____ 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? X yes _____ 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)? X yes _____ no

Identification of major programs:

CFDA Numbers
12.610

Name of Federal Program or Cluster
Community Economic Adjustment Assistance for Compatible Use and Joint Land Use Studies

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

Auditee qualified as low-risk auditee? X yes _____ no

**CITY OF SURPRISE, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2017**

SECTION II – FINANCIAL STATEMENT FINDINGS

None noted

**CITY OF SURPRISE, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2017**

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2017-001

Department of Defense

Community Economic Adjustment Assistance for Compatible Use and Joint Land Use Studies

CFDA Number: 12.610

Grant Award Number: EN-1567-16-01

Award Period: May 1, 2016 – December 31, 2017

Reporting

Type of Finding: Compliance (Other Matters) and Significant Deficiency in Internal Control over Compliance

Criteria: 2 CFR Part 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Award* requires compliance with the provisions of reporting. Internal controls over compliance would dictate that reports be submitted in accordance with grant requirements, including the timeliness of the submission to the federal agency.

Condition: Semi-annual performance reports were not submitted timely.

Questioned Costs: None.

Context: Two of two performance reports tested.

Cause: The City lacked internal controls over reporting to ensure reports are submitted to the federal agency in accordance with grant requirements.

Effect: The City was not compliant with grant requirements.

Repeat Finding: No

Recommendation: We recommend the City implement a system of internal controls to monitor federal program reporting requirements to ensure compliance.

Views of responsible officials: There is no disagreement with the audit finding.

**CITY OF SURPRISE, ARIZONA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2017**

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number/Other Award ID Number	Expenditures	Subrecipient's Share of Total Expenditures
<u>U.S. DEPARTMENT OF DEFENSE</u>				
Community Economic Adjustment Assistance for Compatible Use and Joint Land Use Studies	12.610	EN-1567-16-01	\$ 384,017	\$ 384,017
<u>U.S. DEPARTMENT OF HOUSING & URBAN DEVELOPMENT</u>				
Neighborhood Stabilization Program (NSP1)	14.218	Program Income	23,155	-
Neighborhood Stabilization Program (NSP3)	14.218	Program Income	8,150	-
Community Development Block Grants/Entitlement Grants	14.218	B13-MC-04-0514	107,748	-
Community Development Block Grants/Entitlement Grants	14.218	B15-MC-04-0514	60,548	14,406
Community Development Block Grants/Entitlement Grants	14.218	B16-MC-04-0514	173,002	28,302
Total Community Development Block Grant Cluster - CFDA No. 14.218			372,603	42,708
<u>Passed Through Maricopa County HOME Consortium</u>				
HOME Investment Partnership Program - 2012	14.239	3,085	57,757	-
HOME Investment Partnership Program - 2013	14.239	C-22-14-0393-00	32,944	-
HOME Investment Partnership Program - 2015	14.239	COS-09-017	19,570	-
HOME Investment Partnership Program - 2015	14.239	3,230	114,150	-
HOME Investment Partnership Program	14.239	C-22-17-046-3-00	26,241	-
Total HOME Investment Partnership Program - CFDA No. 14.239			250,662	-
Total U.S. Department of Housing and Urban Development			623,265	42,708
<u>U.S. DEPARTMENT OF JUSTICE</u>				
Law Enforcement Assistance_Narcotics and Dangerous Drugs Training	16.004		32,059	-
<u>Passed Through Arizona Department of Public Safety</u>				
Office of Victims of Crime/Crime Victim Assistance	16.575	2015-VA-GX-0032	20,483	-
Office of Victims of Crime/Crime Victim Assistance	16.575	2015-VA-GX-0032	53,131	-
Office of Victims of Crime/Crime Victim Assistance	16.575	2015-VA-GX-0032	11,385	-
Office of Victims of Crime/Crime Victim Assistance	16.575	2014-VA-GX-0018	22,623	-
Office of Victims of Crime/Crime Victim Assistance	16.575	2015-VA-GX-0032	66,884	-
Total Office of Victims of Crime/Crime Victim Assistance - CFDA No. 16.575			174,506	-
Joint Law Enforcement Operations (JLEG)	16.unkn	MN-16-0014	2,343	-
Joint Law Enforcement Operations (JLEG)	16.unkn	MN-16-0014	2,408	-
Total Drug Enforcement Agency/Task Force - CFDA No. 16.unkn			4,751	-
Total U.S. Department of Justice			211,316	-
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>				
<u>Passed Through Arizona Department of Transportation</u>				
Highway Planning and Construction	20.205	SUR-0(229)T	11,724	-
Total Highway Planning and Construction Grant			11,724	-
<u>Passed through Governor's Office of Highway Safety</u>				
State and Community Highway Safety	20.600	2016-AL-044	16,545	-
State and Community Highway Safety	20.600	2017-AL-045	7,165	-
State and Community Highway Safety	20.600	2017-CIOT-019	4,000	-
State and Community Highway Safety	20.600	2017-AL-044	4,547	-
National Priority Safety Programs	20.616	2017-II-015	31,740	-
National Priority Safety Programs	20.616	2017-II-016	5,805	-
Total Highway Safety Cluster - CFDA No. 20.600 and 20.616			69,802	-
Total U.S. Department of Transportation			81,526	-

See accompanying Notes to Schedule of Expenditures of Federal Awards.

**CITY OF SURPRISE, ARIZONA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
YEAR ENDED JUNE 30, 2017**

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number/Other Award ID Number	Expenditures	Subrecipient's Share of Total Expenditures
<u>U.S. DEPARTMENT OF HUMAN SERVICES</u>				
Passed through the Area Agency on Aging, Region One				
Special Programs for the Aging - Title III, Part C - Nutritional Services	93.045	2017-37-SUR	\$ 48,484	\$ -
Passed Through Maricopa County Human Services				
Community Action Program Services	93.667	C-22-16-043-3-00	79,984	-
Total Department of Health and Human Services			<u>128,468</u>	<u>-</u>
<u>U.S. DEPARTMENT OF HOMELAND SECURITY/FEMA</u>				
Passed through the Arizona Department of Homeland Security				
Homeland Security Grant Program	97.067	150822-01	9,933	-
Homeland Security Grant Program	97.067	160823-01	16,996	-
Homeland Security Grant Program	97.067	150822-02	9,298	-
Homeland Security Grant Program	97.067	150821-01	492	-
Homeland Security Grant Program	97.067	160822-01	42,921	-
Total Homeland Security Grant Program - CFDA No. 97.067			<u>79,640</u>	<u>-</u>
Staffing for Adequate Fire and Emergency Response (SAFER)	97.083	EMW-2015-FH-00791	136,400	-
Total U.S. Department of Homeland Security			<u>216,040</u>	<u>-</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 1,644,632</u>	<u>\$ 426,725</u>

See accompanying Notes to Schedule of Expenditures of Federal Awards.

**CITY OF SURPRISE, ARIZONA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2017**

NOTE 1 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of the City of Surprise, Arizona under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of 2 CFR Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City of Surprise, Arizona.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. City of Surprise, Arizona has not elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE 3 CATALOG OF FEDERAL DOMESTIC ASSISTANCE (CFDA) NUMBER

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2017 *Catalog of Federal Domestic Assistance*. When no CFDA number had been assigned to a program, the two-digit federal agency identifier and the federal contract number were used. When there was no federal contract number, the two-digit federal agency identifier and the word "unknown" were used.

NOTE 4 INDIRECT COST RATE

The City did not elect to use the 10 percent de minimis indirect cost rate as covered in 2 CFR §200.414 Indirect (F&A) costs.