

**CITY OF NOGALES, ARIZONA**  
**SINGLE AUDIT ACT REPORTS**  
**YEAR ENDED JUNE 30, 2020**

**CITY OF NOGALES, 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 FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Honorable Mayor and City Council  
City of Nogales, Arizona  
Nogales, 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, business-type activities, each major fund, and the aggregate remaining fund information of the City of Nogales, Arizona (City), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated April 28, 2021. Our report includes a reference to other auditors who audited the financial statements of the Nogales Housing Authority Enterprise Fund, as described in our report on the City of Nogales, Arizona's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those other auditors.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City'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's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Nogales, 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 City'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 have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2020-001 that we consider to be a material weakness.

Honorable Mayor and City Council  
City of Nogales, Arizona

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Nogales, 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 Nogales, Arizona’s Response to Finding**

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

**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’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’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



**CliftonLarsonAllen LLP**

Phoenix, Arizona  
April 28, 2021



**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  
REQUIRED BY THE UNIFORM GUIDANCE**

Honorable Mayor and City Council  
City of Nogales, Arizona  
Nogales, Arizona

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

We have audited the City of Nogales, Arizona (City)'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 its major federal programs for the year ended June 30, 2020. The City of Nogales, Arizona's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

The City's basic financial statements include the operations of the Nogales Housing Authority, which expended \$1,618,517 in federal awards which is not included in the accompanying schedule of expenditures of federal awards for the year ended June 30, 2020. Our audit described below did not include the operations of the Nogales Housing Authority because the component unit engaged its own separate audit in accordance with Uniform Guidance.

***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 the City'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'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 the major federal programs. However, our audit does not provide a legal determination of the City's compliance.

***Opinion on the Major Federal Program***

In our opinion, the City of Nogales, Arizona complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended June 30, 2020.

**Report on Internal Control Over Compliance**

Management of the City 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'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'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. 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.

Honorable Mayor and City Council  
City of Nogales, Arizona

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

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 Nogales, Arizona as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the City of Nogales, Arizona’s basic financial statements. Our report included references to other auditors. Other auditors audited the financial statements of the Nogales Housing Authority Enterprise Fund, as described in our report on the City’s financial statements. We issued our report thereon dated April 28, 2021, 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  
April 28, 2021

**CITY OF NOGALES, ARIZONA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2020**

**SECTION I – SUMMARY OF AUDITORS’ RESULTS**

***Financial Statements***

Type of auditor’s report issued: *Unmodified*

Internal control over financial reporting:

- Material weakness(es) identified?        X   yes               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?               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 Numbers</u>	<u>Name of Federal Program or Cluster</u>
14.228	Community Development Block Grant
21.019	Coronavirus Relief Fund (CARES)

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 NOGALES, ARIZONA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
YEAR ENDED JUNE 30, 2020**

**SECTION II – FINANCIAL STATEMENT FINDINGS**

**2020-001: Material Audit Adjustments**

**Material Weakness in Internal Controls over Financial Reporting**

**Repeat Finding:** Yes

**Condition:** During the course of performing the audit, we identified material audit adjustments that were proposed and subsequently recorded to properly state account balances and activity of the City.

**Context:** We proposed and the City subsequently recorded adjustments to: 1) convert the fund financial statements from the modified accrual basis of accounting to the accrual basis of accounting for the government-wide financial statements. 2) adjust investments and related income to properly record the change in fair market value, 3) properly record debt and trustee activity during the year, and 4) to adjust the pension and other postemployment benefits (OPEB), liability, deferred outflows and inflows of resources and the pension and OPEB expense.

**Criteria:** Internal controls would dictate that an adequate review process be put into place to prevent a material misstatement from going undetected and uncorrected.

**Effect:** Audit adjustments were proposed and subsequently approved and recorded by the City to correct account balances and activity. The lack of proper controls over year-end closing procedures could result in a material misstatement going undetected and uncorrected.

**Cause:** The City experienced turnover in a management position within the finance department. As a result of turnover, certain functions were delayed and duties were reassigned, resulting in a delay in the preparation of other postemployment benefits actuarial stud and related adjustments that were proposed following completion of the other postemployment benefit actuarial and pension and other postemployment benefit allocations.

**Recommendation:** We recommend the City continue to evaluate its internal control processes to determine if additional internal control procedures should be implemented to identify year-end closing adjustments. The City has recently hired a new Finance Director and the City should utilize the City consultant to assist with the transition of duties to the Finance Director as well as develop procedures with the Finance Director for year-end close-out that can be used as a checklist in closing out June 30, 2021.

**Response:** The City concurs with this recommendation.

**Contact Person:** Mr. John Kissinger, Deputy City Manager

**CITY OF NOGALES, ARIZONA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
YEAR ENDED JUNE 30, 2020**

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

No findings reported.

**CITY OF NOGALES, ARIZONA**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2020**

Grantor Agency	Federal CFDA Number	Pass-Through Grantor's Number	Expenditures	Passed Through to Subrecipients
U.S. Department of Housing & Urban Development				
Passed through Arizona Department of Housing				
Community Development Block Grant	14.228	109-19	\$ 372,407	\$ -
Community Development Block Grant	14.228	117-19	<u>1,186,514</u>	<u>-</u>
Total U.S. Department of Housing & Urban Development			\$ 1,558,921	-
U.S. Department of Interior				
Water Conservation Field Services	15.530	Direct	18,824	-
U.S. Department of Justice				
Immigration and Customs Enforcement	16.Unknown	Direct	8,165	-
Bulletproof Vest Partnership Program	16.607	Direct	<u>4,121</u>	<u>-</u>
Total U.S. Department of Justice			<u>12,286</u>	-
U.S. Department of Transportation				
Passed through Governors Office of Highway Safety				
Highway Safety Cluster				
State and Community Highway Safety	20.600	2020-PTS-038	3,546	-
State and Community Highway Safety	20.600	2019-PTS-031	5,159	-
State and Community Highway Safety	20.600	2019-OP-012	<u>4,386</u>	<u>-</u>
Total CFDA Number 20.600			13,091	-
National Priority Safety Programs	20.616	19-405D026	1,815	-
National Priority Safety Programs	20.616	19-405D025	<u>2,617</u>	<u>-</u>
Total CFDA Number 20.616			<u>4,432</u>	<u>-</u>
Highway Safety Cluster Total (20.600 and 20.616)			<u>17,523</u>	<u>-</u>
Total U.S. Department of Transportation			<u>17,523</u>	-
U.S. Department of Treasury				
Passed through Arizona Governor's Office				
Coronavirus Relief Fund (CARES)	21.019	ERMT-20-062	2,307,956	-
Executive Office of the President				
Passed through City of Tucson				
High Intensity Drug Trafficking Area (HIDTA)	95.001	G19SA0007A	70,406	-
High Intensity Drug Trafficking Area (HIDTA)	95.001	G18SA0007A	<u>60,218</u>	<u>-</u>
Total Executive Office of the President			130,624	-
U.S. Department of Homeland Security				
Passed through State of Arizona				
Homeland Security Grant Program	97.067	190426-01	81,640	-
Homeland Security Grant Program	97.067	180431-01	<u>554,375</u>	<u>-</u>
Total U.S. Department of Homeland Security			<u>636,015</u>	-
Total Federal Awards			<u>\$ 4,682,149</u>	<u>\$ -</u>

See accompanying Notes to Schedule of Expenditures of Federal Awards.

**CITY OF NOGALES, ARIZONA**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2020**

**NOTE 1 GENERAL**

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards of the City of Nogales, Arizona. The City's reporting entity is defined in Note 1 to the City's basic financial statements for the year ended June 30, 2020. All federal awards received directly from federal agencies are included in the schedule, with the exception of \$649,681 for Public and Indian Housing (CFDA No. 14.850), \$926,150 for Housing Choice Vouchers (CFDA No. 14.871), and \$42,686 for Public Housing Capital Fund Program (CFDA No. 14.872); these programs were audited by other auditors and are included in a separate single audit reporting package issued by other auditors. The information in this schedule is presented in accordance with the requirements of the Uniform Guidance. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

**NOTE 2 BASIS OF ACCOUNTING**

The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting, which is described in Note 1 to the City's basic financial statements for the year ended June 30, 2020. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements*, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**NOTE 3 INDIRECT COST**

The City did not elect the 10 percent de minimus indirect cost rate.