

**CITY OF NOGALES, ARIZONA
SINGLE AUDIT ACT REPORTS
YEAR ENDED JUNE 30, 2021**



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**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, 2021, 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 13, 2022. 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 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) as a basis for designing 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'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 certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2021-001 to 2021-003 that we consider to be material weaknesses.

Honorable Mayor and City Council
City of Nogales, Arizona

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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 financial statements. 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2021-003.

City of Nogales, Arizona's Response to Finding

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 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 13, 2022



**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 the City's major federal programs for the year ended June 30, 2021. The City'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 Enterprise Fund, which expended \$2,092,023 in federal awards which is not included in the accompanying schedule of expenditures of federal awards for the year ended June 30, 2021. 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 each of 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 each major federal program. 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 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, 2021.

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, 2021, and the related notes to the financial statements, which collectively comprise the City of Nogales, Arizona's basic financial statements. We issued our report thereon dated April 13, 2022, which contained unmodified opinions on those financial statements. Our report included a reference to other auditors. 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 13, 2022

**CITY OF NOGALES, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2021**

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? X yes 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>Federal Assistance Listing Numbers</u>	<u>Name of Federal Program or Cluster</u>
97.067	Homeland Security Grant Program

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, 2021**

SECTION II – FINANCIAL STATEMENT FINDINGS

2021-001: Preparation of the Financial Statements

Type of Finding: Material Weakness in Internal Controls over Financial Reporting

Condition: The City contracted with the auditors to draft the financial statements based on the records and schedules provided to the auditors. As part of drafting the financial statements, we proposed adjustments to convert the fund financial statements to the government-wide financial statements, as well as draft footnote disclosures.

Criteria or specific requirement: Internal controls would dictate that management have internal controls designed that would allow City management to draft the financial statements and related disclosures to prevent a material misstatement from going undetected and uncorrected.

Effect: Although management performed a review of the draft financial statements and has assumed full responsibility for the preparation of the financial statements, the lack of formal procedures to prepare the required footnote disclosures and record the conversion entries from the fund level financial statements to the government-wide financial statements, could result in a material misstatement going undetected and uncorrected.

Cause: The City experienced turnover in a management position within the finance department. Although the key management positions were in place for most of the fiscal year, certain financial statement adjustments and disclosures required additional time to learn and execute from City management.

Repeat Finding: No

Recommendation: We recommend the City continue to evaluate its internal control processes and procedures to determine if additional internal control procedures and close-out procedures should be implemented to allow the City to prepare the footnote disclosures and schedules and adequately prepare the reconciliation of the fund level financial statements to the government-wide financial statements.

Views of Responsible Officials: 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, 2021**

SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

2021-002: Material Audit Adjustments

Type of Finding: Material Weakness in Internal Controls over Financial Reporting

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.

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, 4) adjust the pension and other postemployment benefits (OPEB), liability, deferred outflows and inflows of resources and the pension and OPEB expense; and 5) record various correcting entries in the statement of net position/balance sheet and the statement of revenues, expenditures/expenses and changes in fund balance/net position.

Criteria or Specific Requirement: 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. Although the management position was hired near fiscal year end, certain year-end close procedures and reconciliations of account balances were not completed to detect material misstatements.

Repeat Finding: Yes, See 2020-001

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. City management should develop procedures with the Finance Director for year-end close-out that can be used as a checklist in closing out June 30, 2022 that are designed to identify material adjustments that are required.

Views of Responsible Officials: 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, 2021**

SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

2021-003: Timeliness of Financial Reporting

Type of Finding: Material Weakness in Internal Controls over Financial Reporting and Material Noncompliance

Condition: The June 30, 2021 audit was not completed by February 28, 2022 in accordance with the City's continuing bond disclosure requirements.

Criteria or Specific Requirement: Continuing bond disclosure requirements.

Effect: Although the effect of noncompliance with the continuing bond disclosure requirements is not known, the lack of presenting audited financial statements within 8 months of fiscal year end, could result in a material noncompliance and does not provide timely financial information to those with a vested interest in the City's financial statements.

Cause: An actuarial study for the City's other postemployment benefits was not completed until March 2022 and a number of adjusting journal entries were necessary to properly record financial activity of the City, including debt payments, pension and other postemployment benefits, and City revenues and expenditures/expenses. The delay in the completion of the actuarial study of the City's single employer OPEB plan resulted in a delay of the City's financial statement audit, as well as the separately audited Nogales Housing Authority (audited by other auditors). The City's financial statements could not be prepared until the Nogales Housing Authority audit was completed.

Repeat Finding: No

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. City management should develop procedures and schedules that detail dates to have third party reports completed, reconciliations of significant account balances and year-end close-out adjustments that can be used as a checklist in closing out June 30, 2022 financial statements.

Views of Responsible Officials: 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, 2021**

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Our audit did not disclose any matters required to be reported in accordance with 2 CFR 200.516(a).

CITY OF NOGALES, ARIZONA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2021

Federal Grantor, Pass Through Grantor/Program or Cluster	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Total Federal Expenditures	Passed Through to Subrecipients
U.S. Department of Housing & Urban Development Passed through Arizona Department of Housing Community Development Block Grant	14.228	None	\$ 14,000	\$ -
U.S. Department of Interior Water Conservation Field Services	15.530	Direct	81,176	-
U.S. Department of Justice Immigration and Customs Enforcement	16.Unknown	Direct	17,836	-
Bulletproof Vest Partnership Program	16.607	Direct	2,932	-
COPS Hiring Program	16.710	Direct	67,745	-
Total U.S. Department of Justice			<u>88,513</u>	<u>-</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	363	-
State and Community Highway Safety	20.600	2021-PTS-039	10,732	-
State and Community Highway Safety	20.600	2021-OP-013	<u>5,195</u>	-
Total CFDA Number 20.600			16,290	-
National Priority Safety Programs	20.616	2020-405d-026	2,117	-
National Priority Safety Programs	20.616	2021-405d-026	<u>2,018</u>	-
Total CFDA Number 20.616			4,135	-
Highway Safety Cluster Total (20.600 and 20.616)			<u>20,425</u>	<u>-</u>
Total U.S. Department of Transportation			<u>20,425</u>	<u>-</u>
Environmental Protection Agency Passed through North American Development Bank Congressionally Mandated Projects	66.202	TAA20-13	107,375	-
Executive Office of the President Passed through City of Tucson				
High Intensity Drug Trafficking Area (HIDTA)	95.001	G19SA0007A	53,625	-
High Intensity Drug Trafficking Area (HIDTA)	95.001	G20SA0007A	<u>66,439</u>	-
Total Executive Office of the President			120,064	-
U.S. Department of Homeland Security Passed through State of Arizona				
Homeland Security Grant Program	97.067	190426-01	524,390	-
Homeland Security Grant Program	97.067	180431-02	181,071	-
Homeland Security Grant Program	97.067	200430-02	<u>58,971</u>	-
Total U.S. Department of Homeland Security			<u>764,432</u>	<u>-</u>
Total Expenditures of Federal Awards			<u>\$ 1,195,985</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, 2021

NOTE 1 GENERAL

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the City of Nogales, Arizona (City) under programs of the federal government for the year ended June 30, 2021. The City's reporting entity is defined in Note 1 to the City's basic financial statements for the year ended June 30, 2021. All federal awards received directly from federal agencies are included in the schedule, with the exception of \$633,725 for Public and Indian Housing (Federal Assistance Listing No. 14.850), \$95,232 for COVID-19 Public Housing CARES Act Funding (Federal Assistance Listing No. 14.850), \$907,347 for Housing Choice Vouchers (Federal Assistance Listing No. 14.871), and \$455,719 for Public Housing Capital Fund Program (Federal Assistance Listing 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 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.

NOTE 2 BASIS OF ACCOUNTING

Expenditures reported on the Schedule are reported on 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, 2021. Such expenditures are recognized following the cost principles contained in the Uniform Guidance for all awards. Under these principles, 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 as covered in 2 CFR 200.414.

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