

City of Douglas

Douglas, Arizona

Single Audit and Independent Auditors' Reports

For the Year Ended June 30, 2024



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City of Douglas
Single Audit Reports
For the Year Ended June 30, 2024

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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 Auditors' Report

To the Honorable Mayor and Members of the City Council
of the City of Douglas
Douglas, 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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Douglas, Arizona (the "City"), as of and for the year ended June 30, 2024, 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 11, 2025. Our report includes references to other auditors who audited the financial statements of the Douglas Community Housing Corporation (Rancho La Perilla Apartments), as described in our report on the City's basic financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting and compliance and other matters that are reported on separately by those auditors.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the basic financial statements of the of the City, 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 basic 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 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 have not been 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 certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2024-001, 2024-002 and 2024-003 that we consider to be significant deficiencies.

To the Honorable Mayor and Members of City Council
of the City of Douglas
Douglas, Arizona
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Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's basic 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City's Responses to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the other 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.

The PwC Group, LLP

Phoenix, Arizona
April 11, 2025



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

Independent Auditors' Report

To the Honorable Mayor and Members of City Council
of the City of Douglas
Douglas, Arizona

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited City of Douglas, Arizona's (the "City") compliance with the types of compliance requirements identified as subject to audit 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, 2024. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

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, 2024.

Basis for Opinion on Each Major Federal Program

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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the City's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the City's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and the Uniform Guidance, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the City's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- obtain an understanding of the City's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the City's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

To the Honorable Mayor and Members of City Council
of the City of Douglas
Douglas, Arizona
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Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City, as of and for the year ended June 30, 2024, and the related notes to the basic financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated April 11, 2025, which contained unmodified opinions on those financial statements. Our report includes references to other auditors who audited the financial statements the Douglas Community Housing Corporation (Rancho La Perilla Apartments), as described in our report on the City's basic 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, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the 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 basic financial statements and certain other 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.

The PwC Group, LLP

Phoenix, Arizona
April 11, 2025

City of Douglas
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2024

Federal Grantor/Pass - Through Grantor/Program Title/Cluster Title	Assistance Listing Number	Grant Identification Number	Federal Expenditures
<u>U.S. Department of Housing and Urban Development:</u>			
<i>Direct Programs:</i>			
CDBG - Entitlement/Special Purpose Grants Cluster:			
Community Development Block Grant	14.218	B-19-MC-04-0516	\$ 24,354
Community Development Block Grant	14.218	B-20-MC-04-0516	342
Community Development Block Grant	14.218	B-21-MC-04-0516	24,214
Total CDBG - Entitlement/Special Purpose Grants Cluster			48,910
Total U.S. Department of Housing and Urban Development			48,910
<u>U.S. Department of Justice:</u>			
<i>Direct Programs:</i>			
Federal Bureau of Investigations Ops Grant	16.U01	N/A	1,354
US Customs Over Time (ICE) Southbound	16.U02	N/A	10,281
DEA Grant	16.U03	N/A	114
Total U.S. Department of Justice			11,749
<u>U.S. Department of Transportation:</u>			
<i>Passed through the Arizona Department of Transportation:</i>			
Formula Grants for Rural Areas	20.509	ADOT GRT-22-0008839-T	509,051
Total 20.509			509,051
Highway Safety Cluster:			
<i>Passed through Passed through the Arizona Governor's Office of Highway Safety:</i>			
State and Community Highway Safety Program	20.600	2023-PTS-019	469
State and Community Highway Safety Program	20.600	2024-PTS-019	20,288
Total 20.600			20,757
National Priority Safety Programs	20.616	2023-405B-003	3,242
National Priority Safety Programs	20.616	2023-405D-011	3,698
National Priority Safety Programs	20.616	2024-405B-003	24,185
National Priority Safety Programs	20.616	2024-405D-011	20,362
Total 20.616			51,487
Total Highway Safety Cluster			72,244
Total U.S. Department of Transportation			581,295
<u>U.S. Department of Treasury:</u>			
<i>Passed through Arizona Governor's Office:</i>			
Coronavirus State and Local Fiscal Recovery Fund	21.027	N/A	554,968
Total 21.027			554,968
Total U.S. Department of Treasury			554,968
<u>Federal Communications Commission:</u>			
<i>Direct Programs:</i>			
Universal Service Fund - Schools and Libraries	32.004	N/A	13,136
Total Federal Communications Commission			13,136

City of Douglas
Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended June 30, 2024

Federal Grantor/Pass - Through Grantor/Program Title	Assistance Listing Number	Grant Identification Number	Federal Expenditures
<u>National Endowment for the Humanities:</u>			
<i>Passed through the Arizona State Library:</i>			
Grants to States Program	45.310	2022-0340-W3	5,438
Total National Endowment for the Humanities			5,438
<u>U.S. Environmental Protection Agency:</u>			
<i>Direct Programs:</i>			
Congressionally Mandated Projects	66.202	AZ2250 SGA 2017-03-6	340,738
Total U.S. Environmental Protection Agency			340,738
<u>U.S. Department of Health and Human Services:</u>			
<i>Passed through the Southeastern Arizona Governments Organization:</i>			
Social Services Block Grant	93.667	125-20	26,520
Total U.S. Department of Health and Human Services			26,520
<u>Executive Office of the President:</u>			
<i>Direct Programs:</i>			
High Intensity Drug Trafficking Areas Program	95.001	GS22SA0007A	17,131
High Intensity Drug Trafficking Areas Program	95.001	GS23SA0007A	7,859
Total 95.001			24,990
Total Executive Office of the President			24,990
<u>U.S. Department of Homeland Security:</u>			
<i>Passed through the Arizona Department of Homeland Security:</i>			
Homeland Security Grant Program	97.067	200413-02	802
Homeland Security Grant Program	97.067	210421-01	277,445
Homeland Security Grant Program	97.067	230421-01	90,652
Total 97.067			368,899
Total U.S. Department of Homeland Security			368,899
Total Expenditures of Federal Awards			\$ 1,976,643

City of Douglas
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2024

Note 1 – Reporting Entity

The financial reporting entity consists of the primary government, City of Douglas (the “City”), organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete.

The City Council acts as the governing body and is able to impose its will on the following organizations, establishing financial accountability:

- Douglas Housing Authority

The City Council appoints the governing body which means they are able to impose its will on the following organization, is financially dependent on the City, and meets the financial benefits and burden criteria for financial reporting:

- Douglas Public Facility Municipal Property Corporation

The following entity is a discretely presented component unit in the City’s basic financial statements but federal awards from federal agencies are not included in the Schedule of Expenditures of Federal Awards because they are a separate legal entity. The audit of these federal awards under Uniform Guidance is conducted by other auditors:

- Douglas Community Housing Corporation (Rancho La Perilla Apartments)

Note 2 – Basis of Accounting

The various grant programs have been recorded within the general fund, special revenue, and enterprise funds of the City. The City utilizes the modified accrual basis of accounting for the general fund and special revenue funds and accrual basis of accounting for the enterprise funds. The accompanying Schedule of Expenditures of Federal Awards (Schedule) is presented in accordance with the 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). Therefore, some amounts presented in the schedule may differ from amounts presented in, or used in, the preparation of the City’s basic financial statements.

Note 3 – Schedule of Expenditures of Federal Awards

The accompanying Schedule presents the activity of all federal financial assistance programs of the City, excluding the Douglas Community Housing Corporation (Rancho La Perilla) which received \$3,911,814 in federal awards which are not included in the accompanying Schedule. Federal financial assistance received directly from federal agencies as well as federal financial assistance passed through the State of Arizona and Southeastern Arizona Governments Organization are included in the Schedule. The Schedule was prepared from only the accounts of various grant programs and, therefore, does not present the financial position, change in net position or fund balance, or results of operations and cash flows of the City.

Note 4 – Indirect Cost Rate

The City has not elected to use the 15-percent de minimis indirect rate as allowed under the Uniform Guidance.

Note 5 – Subrecipients

The City did not provide any amounts to subrecipients during the fiscal year ended June 30, 2024.

City of Douglas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2024

Section I – Summary of Auditors’ Results

Financial Statements

Types of auditors’ report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	2024-001, 2024-002 2024-003
Noncompliance material to the financial statements noted?	No

Federal Awards

Internal control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	None reported
Type of auditors’ 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)?	None reported

Identification of major programs:

Assistance Listing Number(s)	Name of Federal Program or Cluster	Federal Expenditures
21.027	Coronavirus State and Local Fiscal Recovery Fund	\$ 554,968
	Total Expenditures of All Major Federal Programs	\$ 554,968
	Total Expenditures of Federal Awards	\$ 1,976,643
	Percentage of Total Expenditures of Federal Awards	28.08%

Dollar threshold used to distinguish between type A and type B program:	\$750,000
Auditee qualified as low-risk auditee in accordance with 2 CFR 200.520?	Yes

City of Douglas
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2024

Section II – Financial Statement Findings

A. Current Year Findings – Financial Statement Audit

Finding 2024-001 Improve Internal Controls Over Financial Reporting

Criteria:

Management is responsible for the preparation and fair presentation, as well as the accuracy of its financial statements, including disclosures in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. As part of satisfying that responsibility, staff should possess that skills, knowledge, and experience necessary to complete year-end close and diligently employ that knowledge, skill, and experience to produce reliable and accurate financial information.

Generally accepted auditing standards defined internal control as a process – affected by the Members of City Council, management, and other personnel – designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Reliability of financial reporting
- Effectiveness and efficiency of operations, and
- Compliance with applicable laws and regulations.

The Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) established the following framework that stress the need for policies and procedures to promote effective internal control for an entity:

Control Environment – Establish structures, reporting lines, authorities and responsibilities.

Risk Assessment – Select and develop control activities that mitigate risks.

Control Activities – Deploy control activities through policies and procedures.

Information and Communication – Communicate internal control information internally.

Monitoring – Evaluations are used to determine if controls are present and functioning.

An overall purpose of internal control over financial reporting is to foster the preparation of reliable financial statements and that reliable financial statements must be materially accurate.

Condition:

During the audit, we found the following conditions that resulted in financially significant audit adjustments to the financial statements:

Accuracy in External Financial Reporting

The year-end closing process was not thorough and did not ensure that account balances were reconciled and accurate in advance of the audit. This required a significant number of adjusting journal entries to correct the final financial statements. It appears these errors were primarily caused by the trial balance being prepared from data that was not always complete, contained errors and appropriate year-end reconciliations had not been performed. Some of the more significant entries identified and posted follow:

- Adjustment to correct pension/OPEB (Approximately \$7.8 million).

City of Douglas
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2024

Section II – Financial Statement Findings (Continued)

A. Current Year Findings – Financial Statement Audit (Continued)

Finding 2024-001 Improve Internal Controls Over Financial Reporting (Continued)

Condition (Continued):

Accuracy in External Financial Reporting (Continued)

- Adjustment to correct retention payable (Approximately \$240 thousand).
- Adjustment to correct capital assets (Approximately \$186 thousand).
- Adjustment to correct debt (Approximately \$7.8 million).
- Adjustment to record enterprise leases (Approximately \$1.0 million).
- Adjustment to record GASB 87 lease receivable (Approximately \$594 thousand).
- Adjustment to adjust compensated absences (Approximately \$588 thousand).
- Adjustment to reclassify cash deficits (Approximately \$344 thousand).

Bank Reconciliation

The City's monthly bank reconciliation process was not properly completed during the period of the audit. During our review of the bank reconciliation process at year-end field work in November 2024, we found that the City had still not reconciled the bank accounts at June 2024. The bank reconciliations are not being performed in a timely manner.

Municipal Property Corporation Golf Course Operations

The golf course operations were transferred from the City to a legally separate Municipal Property Corporation (MPC) in a prior fiscal year. The MPC is reported as a blended component unit within the City's financial statements. The year-end closing process for the MPC was not thorough and did not ensure that account balances were reconciled and accurate in advance of the audit requiring journal entries to reconcile the MPC's general ledger to the City's general ledger. Journal entries were proposed and subsequently approved by management to report the MPC operations in the City's basic financial statements in accordance with accounting principles generally accepted in the United States of America and to correct errors in the general ledger.

Context:

Various financial statement accounts were not accurate and were either under or overstated by a financially significant amount after the audit began and the books were closed requiring management to provide a significant number of adjusting entries to correct the final financial statements. Misstatements in financial statements can rise to a material amount when aggregated and / or when they can reasonably be expected to influence the decisions taken based on those financial statements and exceed a tolerable level.

Reconciliations and adjustments to year end balances that either are not recorded or are posted after the preparation of fiscal year end reports decreases the reliability and usefulness of the reports. In addition, not following formal policies and procedures regarding internal control over individual transaction cycles could lead to inconsistency in processing transactions and also increase the risk that errors will not be detected and corrected in a timely manner.

City of Douglas
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2024

Section II – Financial Statement Findings (Continued)

A. Current Year Findings – Financial Statement Audit (Continued)

Finding 2024-001 Improve Internal Controls Over Financial Reporting (Continued)

Effect:

Due to limited staffing levels faced by the City during the audit period ended June 30 2024, internal controls were either lacking, were not designed properly, and mitigating controls were not sufficient to effectively identify misstatements due from error.

In addition, the City did not have in place during our audit period a systematic method for ensuring that timely and complete year end closing procedures were in operation before presenting the trial balance to auditors, resulting in a number of journal entries made to correct or to reclassify balances in financial statements that should normally be captured through the closing process. Those adjustments have been reported and posted by the City.

The City also does not have standard year-end closing procedures which could reduce the risk that there are accounting errors recorded and go undetected in the City’s general ledger.

Repeat Finding:

Yes. See finding 2023-001.

Recommendation:

We recommend that the City put in place procedures in order to reduce the amount of journal entries needed and errors found after the closing process and reduce the risk of errors in the preparation of the City’s Annual Comprehensive Financial Report. The City should contemplate if there are sufficient resources available to prepare a complete set of financial statements and to provide a secondary management review process in order to detect errors prior to delivery for the audit. Additional personnel should be considered to enhance the City’s internal control over the financial reporting and within each transaction cycle to ensure transactions are thoroughly evaluated, reviewed and recorded in order to facilitate the accurate and complete year-end closing of the general ledger. We suggest management establish effective review policies and procedures, including, but not limited to, the following functions: review the adequacy of financial statement disclosures by completing a disclosure checklist; apply analytical procedures to the draft financial statements; and perform other procedures considered necessary by management.

View of Responsible Official and Planned Corrective Action Plan:

The City agrees with the auditors’ finding that enhancing internal controls and reducing the volume of post-closing journal entries are important steps toward improving the accuracy and efficiency of the year-end process. While an accounting supervisor position was funded last year with the intent to support the audit and related financial activities, the individual in this role was unable to participate in this year’s audit cycle due to ongoing training and succession planning efforts within the department. As a result, FY25 will be the first year this position will be fully engaged in audit preparation and year-end closing activities, which we expect will significantly strengthen our internal review processes. We are committed to implementing the suggested review procedures, including the use of disclosure checklists, analytical reviews, and other internal controls, to ensure a more complete and accurate financial reporting process moving forward.

City of Douglas
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2024

Section II – Financial Statement Findings (Continued)

A. Current Year Findings – Financial Statement Audit (Continued)

Finding 2024-002 Delay in Financial Reporting

Criteria:

Management is responsible for providing timely and accurate financial information. Since the City has expended over \$750,000 of expenditures of federal awards, Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Award* (Uniform Guidance), states the City is required to submit the Data Collection Form and the reporting package to the Federal Audit Clearinghouse and the State Controller’s Office, which include the Basic Financial Statements of the City, within the earlier of 30 days after receipt of auditor’s report, or nine month after the end of the audit period.

Condition:

The City has experienced significant delays in the preparation and issuance of the 2024 basic financial statements and its Single Audit required under Uniform Guidance.

Cause:

Due to changes in accounting staff and significant unforeseen workload impacts the Finance Department had difficulty handling the day-to-day operations and perform year-end closing procedures and the required external reporting functions simultaneously in order to provide timely financial statements.

Effect:

Delays in processing year-end closing procedures caused the financial statements release to be delayed. In addition, the City is neither in compliance with Uniform Guidance nor is it meeting its current demands for external financial reporting.

Identification as a Repeat Finding, If Applicable:

No.

Recommendation:

The Finance Department should look at increasing the amount of experienced accounting staff to help facilitate year-end closing processes and the preparation of its basic financial statements. Because the basic financial statements are the responsibility of the City, it is in its own best interest to closely monitor the accounting process to ensure that financial position and operating results are accurately and timely reported.

The following steps could be used to avoid future delays:

- Assign additional qualified accounting personnel to help process complex transactions;
- Identify critical due dates and develop a listing of assignment, including department coordinated items, based on available resources to meet those due dates;
- Hold periodic meetings to monitor the progress of assignments and responsibilities; and
- Conduct management review of financial statements and audit schedules prior to presenting them to the auditors.

City of Douglas
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2024

Section II – Financial Statement Findings (Continued)

A. Current Year Findings – Financial Statement Audit (Continued)

Finding 2024-002 Delay in Financial Reporting (Continued)

View of Responsible Official and Planned Corrective Action Plan:

The City agrees with the auditors’ finding; we acknowledge the importance of strengthening our year-end closing and financial reporting processes and are actively working to enhance our internal capacity, including the full implementation of the accounting supervisor role in FY25, improved planning and coordination, and increased oversight to ensure timely and accurate reporting—furthermore, the City has taken proactive steps in this endeavor by developing a department-wide calendar outlining key deadlines and tasks, and with the accounting supervisor now fully on board, we will have the capacity to adhere to these timelines and responsibilities in a timely and consistent manner.

Finding 2024-003 Internal Control Over Preparation of the Schedule of Expenditures of Federal Awards

Criteria:

Title 2 - Grants and Agreements. Subtitle A - Office of Management and Budget Guidance for Grants and Agreements. Chapter II - Office of Management and Budget Guidance. Part 200 - Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards. Subpart D - Post Federal Award Requirements. Standards for Financial and Program Management. §200.303 Internal controls (2 CFR 200.303):

The non-Federal entity must:

- (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control Integrated Framework”, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Title 2 - Grants and Agreements. Subtitle A - Office of Management and Budget Guidance for Grants and Agreements. Chapter II - Office of Management and Budget Guidance. Part 200 - Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards. Subpart F - Audit Requirements. §200.510 Financial statements (2 CFR 200.510):

- (a) *Schedule of expenditures of Federal awards (the “Schedule”)*. The auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements which must include the total Federal awards expended as determined in accordance with §200.502 [Basis for determining Federal awards expended.] While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple Federal award years, the auditee may list the amount of Federal awards expended for each Federal award year separately. At a minimum, the schedule must:
 - (1) Provide total Federal awards expended for each individual Federal program and the Assistance Listings Number or other identifying number when the Assistance Listings information is not available. For a cluster of programs also provide the total for the cluster.
 - (2) Include the total amount provided to subrecipients from each Federal program.

City of Douglas
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2024

Section II – Financial Statement Findings (Continued)

A. Current Year Findings – Financial Statement Audit (Continued)

Finding 2024-003 Internal Control Over Preparation of the Schedule of Expenditures of Federal Awards (Continued)

Condition:

Prior to submission of the Schedule to the auditor, the City needs to ensure that the information is complete and accurate. During our testing of the Schedule, we noted the following errors:

- Formula Grants for Rural Areas Program (20.509) expenditures were overstated by \$395,502.
- Homeland Security Grant Program, State and Community Highway Safety Program, National Priority Safety Program, and High Intensity Drug Trafficking Areas are not properly reconciled to the total expenditures and grant numbers listed the Schedule do not match the reimbursement claims or grant agreements.
- The Schedule includes both State and Federally funded grants without a breakdown of which grant includes current year federal expenditures.

The errors were subsequently corrected by the auditor prior to performing the major program determination.

Cause:

The City's finance department currently lack a system of adequate communication and oversight controls to ensure that the Schedule provided to the auditor is complete and accurate.

Effect:

There is an increased risk for material errors that may exist in the Schedule, which may not be prevented or detected on a timely basis.

Identification as a Repeat Finding, If Applicable:

No.

Recommendation:

The City's finance department should continue to evaluate its existing process and controls related to its ability to properly account for, report, and timely submit complete and accurate federal award information to financial accounting system, which affords their ability to timely compile and produce a final Schedule pursuant to the Uniform Guidance.

City of Douglas
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2024

Section II – Financial Statement Findings (Continued)

A. Current Year Findings – Financial Statement Audit (Continued)

View of Responsible Official and Planned Corrective Action Plan:

The City agrees with the auditors’ finding regarding the City’s grant management and SEFA preparation. The City recognizes the importance of implementing a more systematic and centralized approach to managing grants to ensure compliance, accuracy, and efficiency in reporting. To address this, we are actively exploring options to either acquire dedicated grant management software or develop a more robust internal system for tracking grant activity across departments. In addition, the City will prioritize training opportunities for relevant department staff to strengthen our understanding of federal grant requirements and improve the accuracy and completeness of the SEFA preparation process. These efforts reflect our commitment to improving internal controls and ensuring the City is well-prepared for future audits.

B. Prior Year Findings – Financial Statement Findings

Finding 2023-001 Improve Internal Controls Over Financial Reporting

Criteria:

Management is responsible for the preparation and fair presentation, as well as the accuracy of its financial statements, including disclosures in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. As part of satisfying that responsibility, staff should possess that skills, knowledge, and experience necessary to complete year-end close and diligently employ that knowledge, skill, and experience to produce reliable and accurate financial information.

Generally accepted auditing standards defined internal control as a process – affected by the Members of City Council, management, and other personnel – designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Reliability of financial reporting
- Effectiveness and efficiency of operations, and
- Compliance with applicable laws and regulations.

The Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) established the following framework that stress the need for policies and procedures to promote effective internal control for an entity:

Control Environment – Establish structures, reporting lines, authorities and responsibilities.

Risk Assessment – Select and develop control activities that mitigate risks.

Control Activities – Deploy control activities through policies and procedures.

Information and Communication – Communicate internal control information internally.

Monitoring – Evaluations are used to determine if controls are present and functioning.

An overall purpose of internal control over financial reporting is to foster the preparation of reliable financial statements and that reliable financial statements must be materially accurate.

City of Douglas
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2024

Section II – Financial Statement Findings (Continued)

B. Prior Year Findings – Financial Statement Findings (Continued)

Finding 2023-001 Improve Internal Controls Over Financial Reporting (Continued)

Condition:

During the audit, we found the following conditions that resulted in financially significant audit adjustments to the financial statements:

Accuracy in External Financial Reporting

The year-end closing process was not thorough and did not ensure that account balances were reconciled and accurate in advance of the audit. This required a significant number of adjusting journal entries to correct the final financial statements. It appears these errors were primarily caused by the trial balance being prepared from data that was not always complete, contained errors and appropriate year-end reconciliations had not been performed. Some of the more significant entries identified and posted follow:

- Adjustment to correct restricted cash (Approximately \$496 thousand).
- Adjustment to correct pension/OPEB (Approximately \$6.1 million).
- Adjustment to correct accounts payable (Approximately \$407 thousand).
- Adjustment to correct insurance claims payable (Approximately \$100 thousand).
- Adjustment to correct retention payable (Approximately \$240 thousand).
- Adjustment to record capital assets (Approximately \$2.7 million).
- Adjustment to record GASB 87 lease receivable (Approximately \$1.2 million).
- Adjustment to record wages payable (Approximately \$391 thousand).
- Adjustment to record compensated absences (Approximately \$897 thousand).

Bank Reconciliation

The City's monthly bank reconciliation process was not properly completed during the period of the audit. During our review of the bank reconciliation process at year-end field work in November 2023, we found that the City had still not reconciled the bank accounts for June 2023. The bank reconciliations are not being performed in a timely manner.

Municipal Property Corporation Golf Course Operations

The golf course operations were transferred from the City to a legally separate Municipal Property Corporation (MPC) in a prior fiscal year. The MPC is reported as a blended component unit within the City's financial statements. The year-end closing process for the MPC was not thorough and did not ensure that account balances were reconciled and accurate in advance of the audit requiring journal entries to reconcile the MPC's general ledger to the City's general ledger. Journal entries were proposed and subsequently approved by management to report the MPC operations in the City's basic financial statements in accordance with generally accepted accounting principles and to correct errors in the general ledger.

City of Douglas
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2024

Section II – Financial Statement Findings (Continued)

B. Prior Year Findings – Financial Statement Findings (Continued)

Finding 2023-001 Improve Internal Controls Over Financial Reporting (Continued)

Context:

Various financial statement accounts were not accurate and were either under or overstated by a financially significant amount after the audit began and the books were closed requiring management to provide a significant number of adjusting entries to correct the final financial statements. Misstatements in financial statements can rise to a material amount when aggregated and / or when they can reasonably be expected to influence the decisions taken based on those financial statements and exceed a tolerable level.

Reconciliations and adjustments to year end balances that either are not recorded or are posted after the preparation of fiscal year end reports decreases the reliability and usefulness of the reports. In addition, not following formal policies and procedures regarding internal control over individual transaction cycles could lead to inconsistency in processing transactions and also increase the risk that errors will not be detected and corrected in a timely manner.

Effect:

Due to limited staffing levels faced by the City during the audit period ended June 30 2023, internal controls were either lacking, were not designed properly, and mitigating controls were not sufficient to effectively identify misstatements due from error.

In addition, the City did not have in place during our audit period a systematic method for ensuring that timely and complete year end closing procedures were in operation before presenting the trial balance to auditors, resulting in a number of journal entries made to correct or to reclassify balances in financial statements that should normally be captured through the closing process. Those adjustments have been reported and posted by the City.

The City also does not have standard year-end closing procedures which could reduce the risk that there are accounting errors recorded and go undetected in the City's general ledger.

Repeat Finding:

Yes. See finding 2022-001.

Recommendation:

We recommend that the City put in place procedures in order to reduce the amount of journal entries needed and errors found after the closing process and reduce the risk of errors in the preparation of the City's Annual Comprehensive Financial Report. The City should contemplate if there are sufficient resources available to prepare a complete set of financial statements and to provide a secondary management review process in order to detect errors prior to delivery for the audit. Additional personnel should be considered to enhance the City's internal control over the financial reporting and within each transaction cycle to ensure transactions are thoroughly evaluated, reviewed and recorded in order to facilitate the accurate and complete year-end closing of the general ledger. We suggest management establish effective review policies and procedures, including, but not limited to, the following functions: review the adequacy of financial statement disclosures by completing a disclosure checklist; apply analytical procedures to the draft financial statements; and perform other procedures considered necessary by management.

City of Douglas
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2024

Section II – Financial Statement Findings (Continued)

B. Prior Year Findings – Financial Statement Findings (Continued)

Finding 2023-001 Improve Internal Controls Over Financial Reporting (Continued)

View of Responsible Official and Planned Corrective Action Plan:

The City will create a department wide annual calendar of activities that outlines all finance related annual tasks with specific deadlines. This calendar will include the planning and execution of year end audit activities, financial reporting, annual external reporting submission, among others. Additionally, the City will continue to work with an outside subject matter expert in order to establish and improve finance department related activities, including but not limited to the establishment and staff training of bank reconciliation procedures. The Finance Department will be requesting an additional position for a Senior Staff Accountant to assist the reconciliation of the general ledger and all other accounts, in addition to assisting with the annual audit and all other activities of the annual calendar. For the timely reconciliation of bank accounts, the City engaged a consultant to complete a full bank reconciliation through June 30, 2023. Additionally, the City contracted with Springbrook Software to start using their bank reconciliation module starting in July 2023. The City is confident it will complete bank reconciliation process in a timely basis moving forward.

Status:

Finding has not been resolved. See repeat finding at 2024-001.

City of Douglas
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2024

Section III – Federal Awards Finding and Questioned Costs

A. Current Year Findings and Questioned Costs – Major Federal Award Program Audit

No findings or questioned costs were noted on the City’s major federal programs for the year ended June 30, 2024.

B. Prior Year Findings and Questioned Costs – Major Federal Award Program Audit

No findings or questioned costs were noted on the City’s major federal programs for the year ended June 30, 2023.