

BUCKSKIN SANITARY DISTRICT
SINGLE AUDIT ACT REPORT
FOR THE YEAR ENDED JUNE 30, 2018

BUCKSKIN SANITARY DISTRICT

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HINTONBURDICK
CPAs & ADVISORS

**Independent Auditor's 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**

Board of Directors
Buckskin Sanitary District
Parker, 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 Buckskin Sanitary District, as of and for the year ended June 30, 2018 and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated September 7, 2018.

Internal Control over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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 were not identified. However, as described in the accompanying schedule of findings and recommendations, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the following deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness.

2017-001 Accounting Adjustments not Initially Identified by the District's Internal Control

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. We consider the deficiency described in the accompany schedule of findings and recommendations to be a significant deficiency.

2017-002 Segregation of Duties

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District'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 that are required to be reported under *Government Auditing Standard*.

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 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.


HintonBurdick, PLLC
Flagstaff, Arizona
September 7, 2018





**Independent Auditors' Report on Compliance for Each Major Program
And On Internal Control over Compliance Required by
the Uniform Guidance**

Board of Directors
Buckskin Sanitary District
Parker, Arizona

Report on Compliance for Each Major Federal Program

We have audited Buckskin Sanitary District, Arizona's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Buckskin Sanitary District, Arizona's major federal programs for the year ended June 30, 2018. Buckskin Sanitary District, Arizona's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Buckskin Sanitary District, Arizona's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Buckskin Sanitary District, Arizona's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Buckskin Sanitary District, Arizona's compliance.

Opinion on Each Major Federal Program

In our opinion, Buckskin Sanitary District, Arizona complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs for the year ended June 30, 2018.

Report on Internal Control Over Compliance

Management of the Buckskin Sanitary District, Arizona is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Buckskin Sanitary District, Arizona's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Buckskin Sanitary District, Arizona's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or 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.

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

We have audited the financial statements of Buckskin Sanitary District, Arizona as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Buckskin Sanitary District, Arizona's basic financial statements. We issued our report thereon dated September 7, 2018, 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.

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.

HintonBurdick, PLLC

HintonBurdick, PLLC

Flagstaff, Arizona

September 7, 2018



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BUCKSKIN SANITARY DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2017

Section I - Summary of Auditors' Results

Financial Statements

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

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

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal Control over major programs:

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

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? yes no

Identification of major programs.

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.770	Water and Waste Disposal Loans and Grants - Colonia

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

Auditee qualified as low-risk auditee? yes no

BUCKSKIN SANITARY DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2017

Section II - Financial Statement Findings

Material Weaknesses

2017-001 Accounting Adjustments not Initially Identified by the District's Internal Control

Criteria: Auditing standards indicate that the identification by the auditor of accounting adjustments that were not initially identified by the District's internal controls may be a material weakness in the District's internal controls.

Condition: We proposed material accounting adjustments to correct items that were not initially identified by the District's internal controls. See the list of audit adjustments provided to management.

Cause: Internal controls over year-end adjustments were not properly designed and implemented to identify and correct material accounting adjustments prior to the annual audit.

Effect: The financial statements were materially misstated prior to revisions made through the audit process.

Recommendation: Management should review and understand the adjustments proposed by the auditor for the fiscal period. The District should continue to improve its internal controls to a level where the controls will identify and correct these items prior to the annual audit.

Significant Deficiencies:

2017-002 Segregation of Duties

Criteria: A good system of internal accounting controls includes proper segregation of duties to reduce the likelihood that misappropriation of assets or fraudulent financial reporting could occur and not be detected.

Condition: The District has a lack of segregation of duties in cash disbursements and cash receipts. Within cash disbursements, the same individual who reconciles the bank statement, including checks cleared, also has access to printing checks. In addition, the same individual who reconciles the bank statement also has access to cash receipting and clearing NSF checks.

Cause: Limited number of staff makes it difficult to properly segregate all duties at all times. This District's internal controls may not be properly designed and implemented to address segregation of duty issues.

BUCKSKIN SANITARY DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2017

Section II - Financial Statement Findings, Continued

Effect: Inadequate segregation of duties could adversely affect the District's ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely manner by employees in the normal course of performing their assigned functions. Opportunity exists for fraudulent activity.

Recommendation: Management and those charged with governance should make the decision whether to accept the degree of risk associated with these conditions because of cost or other considerations. The District should consider reassigning duties to provide a stronger internal control structure with the number of staff currently employed. Mitigating controls can also be designed and implemented to reduce the risks associated with insufficient segregation. HintonBurdick would be happy to advise the District on potential modifications that can be made to the internal control design and implementation.

COMPLIANCE AND OTHER MATTERS:

Compliance:

No matters noted.

Other Matters:

No matters noted.

Section III - Federal Award Findings and Questioned Costs

No matters noted.

BUCKSKIN SANITARY DISTRICT
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017

<u>Federal Grantor/Pass-Through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Passed Through to Subrecipients</u>	<u>Total Federal Expenditures</u>
U.S. Department of Agriculture				
Direct Program:				
Water and Waste Disposal Loans and Grants - Colonia	10.770		\$ -	\$ 2,816,953
Total Expenditure of Federal Awards			<u>\$ -</u>	<u>\$ 2,816,953</u>

The accompanying notes are an integral part of this schedule.

BUCKSKIN SANITARY DISTRICT
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017

Reporting Entity:

The accompanying schedule of expenditures of federal awards (schedule) presents all activity or expenditure or all federal award programs of the Buckskin Sanitary District (District) for the year ended June 30, 2018. The District's reporting entity is defined in note 1 of the basic financial statements. All expenditure of federal awards received directly from federal agencies as well as federal awards passed through other government agencies are included in the schedule.

Basis of Accounting:

This accompanying schedule has been prepared on the accrual basis of accounting. The information in this 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).

Relationship to the Basic Financial Statements:

Expenditures of federal awards have been reported in the following funds. Expenditures in the proprietary funds have been capitalized and reported as capital assets:

Proprietary fund:

Capital asset additions	\$ 2,816,953
	<u>\$ 2,816,953</u>

Indirect Cost Rate:

The District did not elect to use the 10% de minimis indirect cost rate for fiscal year 2018.

Federal Loans and Loan Guarantee Programs Outstanding:

The District received and expended a federal loan under CFDA # 10.760 for \$1,830,000 during the fiscal year 2017 and the full amount remains due as of June 30, 2018. The District has other federal loans outstanding, however, none of the other federal loans outstanding appears to have continuing compliance requirements. Further information on these loans can be obtained by reviewing the District audited financial statements for the fiscal year.

Subrecipients:

The District did not have any subrecipients for the fiscal year 2018.