

**PHOENIX-MESA GATEWAY
AIRPORT AUTHORITY**

**SINGLE AUDIT ACT REPORTS FOR THE
FISCAL YEAR ENDED JUNE 30, 2017**

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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**

Board of Directors
Phoenix-Mesa Gateway Airport Authority
Mesa, 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 business-type activities of Phoenix-Mesa Gateway Airport Authority (PMGAA), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise PMGAA's basic financial statements, and have issued our report thereon dated September 28, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered PMGAA'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of PMGAA's internal control. Accordingly, we do not express an opinion on the effectiveness of PMGAA'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 PMGAA'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. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2017-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether PMGAA's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PMGAA's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of PMGAA's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering PMGAA's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Phoenix, Arizona
September 28, 2017



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

Board of Directors
Phoenix-Mesa Gateway Airport Authority
Mesa, Arizona

Report on Compliance for Each Major Federal Program

We have audited Phoenix-Mesa Gateway Airport Authority (PMGAA)'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 PMGAA's major federal programs for the year ended June 30, 2017. PMGAA's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of PMGAA'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 PMGAA'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 unmodified opinions on compliance for major federal programs. However, our audit does not provide a legal determination of PMGAA's compliance.

Opinion on Each Major Federal Program

In our opinion, PMGAA complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control Over Compliance

Management of PMGAA 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 PMGAA'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 PMGAA's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2017-002, which we consider to be a significant deficiency.

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

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

We have audited the financial statements of the business-type activities of PMGAA as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise PMGAA's basic financial statements. We issued our report thereon dated September 28, 2017, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



CliftonLarsonAllen LLP

Phoenix, Arizona
September 28, 2017

**PHOENIX-MESA GATEWAY AIRPORT AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FISCAL YEAR ENDED JUNE 30, 2017**

SECTION I – SUMMARY OF AUDITORS’ RESULTS

Financial Statements

Type of auditor’s report issued: *Unmodified*

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal Control over major programs:

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

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

Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance? _____ yes X no

Identification of major program:

CFDA Number(s)
20.106

Name of Federal Program or Cluster
Airport Improvement Program

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

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

**PHOENIX-MESA GATEWAY AIRPORT AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FISCAL YEAR ENDED JUNE 30, 2017**

SECTION II—FINANCIAL STATEMENT FINDINGS

2017-001: Payroll Internal Controls: Timecard Approval

Significant Deficiency

Condition: PMGAA requires hourly employees to have timesheets approved by a direct supervisor prior to the processing of payroll. We noted an employee's timesheet was not approved by a direct supervisor prior to processing payroll.

Context: One of twenty-two employees tested.

Criteria: Internal controls would dictate that PMGAA have a system of internal controls that require timesheets be approved by an employee's direct supervisor prior to processing payroll. Additionally, controls should be implemented to review all timesheets prior to payroll processing to identify any unapproved timesheets.

Effect: An opportunity exists for an employee to be paid incorrect wages based on hours worked.

Cause: The individual tested only had one direct supervisor responsible for reviewing and approving the timesheet. In the event the direct supervisor was not available, a suitable back-up reviewer was not assigned.

Recommendation: We recommend management review its current controls over the review and approval of hourly employee timesheets, as well as implement a review process of the timesheets prior to processing payroll. Additionally, management should consider assigning a suitable secondary approver in the event the employee's direct supervisor is unavailable prior to payroll being processed.

View of Responsible Official: PMGAA management concurs with this recommendation. Management will assign secondary approvers that include the verification of approved timesheets prior to processing payroll.

Contact Person: Chuck Odom, Chief Financial Officer

**PHOENIX-MESA GATEWAY AIRPORT AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FISCAL YEAR ENDED JUNE 30, 2017**

SECTION III—FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

U.S. Department of Transportation

Direct Award

Airport Improvement Program

CFDA Number: 20.106

Award Period: August 2016 – August 2020

Finding: 2017-002 – Suspension and Debarment

Significant Deficiency

Condition: The Authority did not perform a check or obtain certification from an awarded vendor that the vendor was not suspended or debarred.

Context: For one of the two procurement contracts tested, the Authority had not performed a check to ensure that the vendor who was awarded the contract was not suspended or debarred.

Criteria: Internal controls should be designed and implemented to comply with Uniform Grant Guidance 2 CFR Part 200.212 which states “Nonfederal entities and contractors are subject to the nonprocurement debarment and suspension regulations implementing Executive Orders 12549 and 12689, 2 CFR part 180. These regulations restrict awards, subawards, and contracts with certain parties that are debarred, suspended, or otherwise excluded from or ineligible for participation in federal assistance programs or activities.”

Effect: Although a matter of noncompliance was not noted, the lack of controls over suspension and debarment could result in a matter of noncompliance going undetected and uncorrected.

Cause: Management oversight.

Recommendation: We recommend that suspension and debarment checks be performed and documented prior to awarding any grant-funded procurement contracts.

View of Responsible Official: PMGAA management concurs with this recommendation. Management discovered that the error was due to a belief by the project manager that a suspension/debarment check was not required for a professional services contract. The project manager has been informed of the Uniform Grant Guidance requirements and the Procurement Officer has noted this instance and addressed the error in PMGAA’s procedures going forward.

Contact Person: Chuck Odom, Chief Financial Officer

SECTION IV—SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No prior findings.

**PHOENIX-MESA GATEWAY AIRPORT AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2017**

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Contract Number	Expenditures
U.S. Department of Transportation			
Direct Grants			
Airport Improvement Program	20.106	AIP3-04-0078-038	\$ 6,934,474
U.S. Department of Homeland Security			
Direct Grant			
Law Enforcement Officer Reimbursement Program	97.090	HSTS02-16-H-SLR629	<u>83,675</u>
Total Federal Awards			<u><u>\$ 7,018,149</u></u>

See accompanying Notes to the Schedule of Expenditures of Federal Awards.

**PHOENIX-MESA GATEWAY AIRPORT AUTHORITY
NOTES TO SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 1 GENERAL

The accompanying schedule of expenditures of federal awards presents the activity of all federal awards of Phoenix-Mesa Gateway Airport Authority. PMGAA's reporting entity is defined in Note 1.A to the basic financial statements for the year ended June 30, 2017. All federal awards received directly from federal agencies are included in the schedule.

NOTE 2 BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards is presented using the accrual basis of accounting, which is described in Note 1 to PMGAA's basic financial statements for the year ended June 30, 2017.

NOTE 3 INDIRECT COST RATE

PMGAA did not elect the 10 percent de minimus indirect cost rate as covered in 2CFR 200.414.