Gila County

Single Audit Report

Year Ended June 30, 2018

A Report to the Arizona Legislature

Lindsey A. Perry
Auditor General

ARIZONA AuditorGeneral
Making a Positive Difference

The Arizona Office of the Auditor General's mission is to provide independent and impartial information and specific recommendations to improve the operations of State and local government entities. To this end, the Office provides financial audits and accounting services to the State and political subdivisions, investigates possible misuse of public monies, and conducts performance audits and special reviews of school districts, State agencies, and the programs they administer.

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Independent auditors' report on internal control over financial reporting and on compliance and other matters based on an audit of basic financial statements performed in accordance with *Government Auditing Standards*

Members of the Arizona State Legislature

The Board of Supervisors of
Gila County, Arizona

We have audited, in accordance with U.S. generally accepted auditing standards 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 aggregate remaining fund information of Gila County as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated May 27, 2020.

Internal control over financial reporting

In planning and performing our audit of the financial statements, we considered the County'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 basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County'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 have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we did identify certain deficiencies in internal control over financial reporting 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 County's basic financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2018-01 through 2018-05 and 2018-07 to be material weaknesses.

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 deficiencies described in the accompanying schedule of findings and questioned costs as item 2018-06 to be a significant deficiency.

Compliance and other matters

As part of obtaining reasonable assurance about whether the County'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 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 instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

County response to findings

The County's responses to the findings identified in our audit are presented in its corrective action plan at the end of this report. The County's responses were not subjected to the auditing procedures applied in the audit of the basic 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 County'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 County's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Lindsey Perry, CPA, CFE
Auditor General

May 27, 2020

LINDSEY A. PERRY
AUDITOR GENERAL

ARIZONA
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

Independent auditors' report on compliance for each major federal program and report on internal control over compliance; and report on schedule of expenditures of federal awards required by the Uniform Guidance

Members of the Arizona State Legislature

The Board of Supervisors of
Gila County, Arizona

Report on compliance for each major federal program

We have audited Gila County's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018. The County'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 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 County'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 U.S. generally accepted auditing standards; 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 County'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 qualified and unmodified opinions on compliance for the major federal programs. However, our audit does not provide a legal determination of the County's compliance.

Basis for qualified opinion on the Child Support Enforcement program

As described in the accompanying schedule of findings and questioned costs, the County did not comply with requirements regarding the Child Support Enforcement (93.563) program's allowable costs/cost principles and reporting as described in item 2018-103. Compliance with such requirements is necessary, in our opinion, for the County to comply with the requirements applicable to that program.

Qualified opinion on the Child Support Enforcement program

In our opinion, except for the noncompliance described in the basis for qualified opinion paragraph, the County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Child Support Enforcement (93.563) program for the year ended June 30, 2018.

Unmodified opinion on each of the other major federal programs

In our opinion, the County 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 identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2018.

Other matters

The results of our auditing procedures disclosed other instances of noncompliance that are required to be reported in accordance with the Uniform Guidance and that are described in the accompanying schedule of findings and questioned costs as items 2018-101, 2018-102, and 2018-104. Our opinion on each major federal program is not modified with respect to these matters.

Report on internal control over compliance

The County's management 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 County'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 County's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph 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. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2018-101 and 2018-103 to be material weaknesses.

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2018-102 and 2018-104 to be significant deficiencies.

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.

County response to findings

The County's responses to the findings identified in our audit are presented in its corrective action plan at the end of this report. The County's responses were not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on them.

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 aggregate remaining fund information of Gila County as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the County's basic financial statements. We issued our report thereon dated May 27, 2020, that contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming our opinions on the financial statements that collectively comprise the County's 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 the County's 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 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 U.S. generally accepted auditing standards. 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

Lindsey Perry, CPA, CFE
Auditor General

August 6, 2020

Summary of auditors’ results

Financial statements

Type of auditors’ report issued on whether the financial statements audited were prepared in accordance with generally accepted accounting principles	**Unmodified**
Internal control over financial reporting	
Material weaknesses identified?	**Yes**
Significant deficiencies identified?	**Yes**
Noncompliance material to the financial statements noted?	**No**

Federal awards

Internal control over major programs	
Material weaknesses identified?	**Yes**
Significant deficiencies identified?	**Yes**

Type of auditors’ report issued on compliance for major programs: Unmodified for all major programs except for the Child Support Enforcement (93.563) program which was qualified.

Any audit findings disclosed that are required to be reported in accordance with 2 CFR §200.516(a)?	**Yes**

Identification of major programs

CFDA number	Name of federal program or cluster
10.665	Forest Service Schools and Roads Cluster
14.871	Housing Vouchers Cluster
84.366	Mathematics and Science Partnerships
93.563	Child Support Enforcement

Dollar threshold used to distinguish between Type A and Type B programs	$750,000
Auditee qualified as low-risk auditee?	No

Other matters

Auditee's summary schedule of prior audit findings required to be reported in accordance with 2 CFR §200.516(a)?	Yes

Financial statement findings

2018-01

The County awarded $153,142 to various organizations without requiring them to provide documentation that the monies were used to support economic development that benefited the public, resulting in an elevated risk of misuse of County monies

Condition and context—During fiscal year 2018, the County did not follow its written policies and procedures for providing economic development monies to nonprofit and governmental entities when the Board of Supervisors awarded $153,142 of Constituent Funds discretionary monies to community organizations for economic development. Specifically, contrary to County policies and procedures:

- The County did not prepare an intergovernmental agreement, memorandum of understanding, or contract enumerating specific services or activities for which the monies should be used that it and the receiving parties could sign.
- A Board member inappropriately provided an advance of $2,000 to a local for-profit business using a purchasing card. Although the Board member explained that the advance was to make monies available for local nonprofit senior center members' food purchases, the County did not ensure the monies were advanced properly. Therefore, instead of the monies going to the nonprofit senior center to purchase food, the monies went to a for-profit grocery store. The County's policies and procedures specify that monies may be provided only to nonprofit agencies, cities, towns, or other governmental agencies, so advancing them to the for-profit business was inappropriate.

Furthermore, although the County had written policies and procedures for providing monies for economic development, those procedures did not include adequate pre-award and follow-up steps for the County to ensure its monies were spent to provide authorized services and activities that benefited the public.

Criteria—The County should improve and follow its Board of Supervisors Community Agency and Economic Development Funding Policy BOS-FIN-016 and related procedures to help ensure that it complies with the Arizona Constitution, Art. IX, Sec. 7, which bans gifts or loans of public monies to associations or corporations.

Effect—The County awarded $153,142 for economic development from its Constituent Funds discretionary spending monies to various organizations without requiring support showing that the monies would be and were used for supporting economic development that benefited the public, resulting in an elevated risk of misuse of County monies.

Cause—The County did not follow its policies and procedures over awarding economic development monies and failed to require awarded organizations to certify that monies would be and were used for intended and authorized purposes.

Recommendations—To help ensure County monies awarded for economic development are used for the intended and authorized services and activities and are constitutional (i.e., not gifts or loans of public monies), the County should follow its existing policies and procedures. In addition, the County should strengthen its existing procedures to further define criteria and guidelines as follows:

- Include detailed guidelines and requirements that all award recipients must meet to qualify for economic development award monies. For example, the County's policies should describe acceptable award uses, and the County should consider creating an award application where entities would be required to describe their intended uses, such as service and activity goals, expected outcomes, and performance measures, and to provide sufficiently detailed budgets indicating how and when the requested monies will be used.

- Ensure a committee evaluates all award requests before making award decisions, and award decisions are approved during the County's Board of Supervisors meetings so the public is aware of the entities to which awards are being allocated.

- Require awarded entities to report and certify how monies were spent. This report and certification should be required periodically or at least once the specified and approved time frame for expending the monies has occurred.

- Require awarded entities to return any unexpended monies.

The County's responsible officials' views and planned corrective action are in its corrective action plan included at the end of this report.

This finding is similar to prior-year finding 2017-01.

2018-02

The County paid for $6,285 of supervisors' travel expenditures without following County policy, resulting in an elevated risk of misuse of County monies

Condition and context—During fiscal year 2018, the County paid $6,285 in travel expenditures on behalf of its 3 supervisors despite not always having travel expense reports, receipts, or other documentation to support the travel purpose, the appropriateness of the expenditures, and/or any exceptions provided to the traveler as required by its travel policy and procedures. We reviewed 257 purchase card transactions made by the 3 supervisors and found the following:

The County did not require its District 2 and District 3 supervisors to provide supporting documentation for hotel room upgrades for 1 trip totaling $550. We identified $200 and $350 in hotel room upgrade charges within the District 2 and District 3 supervisors' purchase card travel expenditures, respectively. The County's travel policy and procedures requires employees to request the lowest available rate, and the supervisors did not document why they needed an exception to the County's travel policy and procedures within their travel expense reports as required.

Additionally, the County paid for $5,735 in purchase card travel expenditures for the District 1 Supervisor despite the Supervisor not having completed necessary travel expense reports to document the purposes of travel. Further, for $5,521 of these District 1 Supervisor's purchase card travel expenditures, the District 1 Supervisor did not provide adequate receipts or other documentation to support their appropriateness as required by the County's travel policy. Specifically:

- **County overpaid cash advances it provided to the District I Supervisor and did not require her to reconcile and account for cash advances—**The County incorrectly calculated the amounts of cash advances based on the per diem rates for lodging expenses instead of the rates for meals and incidentals, resulting in excess cash advances totaling $722. In total, we identified $2,174 in per-diem cash advances for which the County had not accounted for by reconciling with receipts that the Supervisor should have provided. County travel policy and procedures required that the traveler provide receipts to support the use of cash advances and any monies not supported be returned to the County. Providing the advances in this manner may have income tax consequences, including a requirement to treat the advances as compensation. The County had not requested reimbursement for any of these cash advances, including the $722 excess.

- **County did not have any record of, and prior County managers either did not have any recollection of approval or did not document approval for exceptions to the County travel policy for the District 1 Supervisor—**We identified $3,383 in travel expenditures that were in violation of the County's travel policy; there was no documented exception or support that they were an appropriate use of public monies. Specifically:

    - $3,169 in first-class flight purchases for the Supervisor and the Supervisor's spouse who was not a County employee. The County was unable to provide documentation that lower-fare seats were unavailable or, the County Manager approved an exception to the travel policy to allow first-class travel, as its travel policy required. Additionally, the County was unable to provide support that the spouse's flights were an appropriate use of public monies.

    - $214 in travel insurance payments. The County was unable to provide documentation that the County Manager approved an exception to allow the Supervisor, prior to her travel, to purchase travel insurance. The County's travel policy specifically prohibited payment for travel insurance.

We reported similar concerns regarding the District 1 Supervisor's travel in the prior year.[1] After these concerns were brought to County management's attention, the County Manager approved in writing specific travel policy exceptions on June 6, 2019 and revised them on July 31 2019, for the District 1 Supervisor. Such exceptions include allowing the Supervisor to:

- Fly first class for all air travel.

- Bring a travel companion on County business at the County's expense. The companion may also travel first class for all air travel.

- Take cash advances of $500 prior to travel on County business to be used for gratuities and other de minimis travel expenses such as valet parking. Cash advances should be supported with receipts or other documents to support the travel advance made, and any monies advanced not expended shall be returned to the County.

- Purchase travel insurance.

Criteria—The County should follow its travel policy and procedures for all travel expenditures, including those for all members of the Board of Supervisors, to help ensure it complies with the Arizona Constitution, Art. IX, Sec. 7, which bans gifts or loans of public monies to individuals.

Effect—The County paid for $6,285 of the 3 supervisors' travel expenditures without following the County's travel policy and procedures, resulting in an elevated risk of misuse of County monies.

[1] Arizona Auditor General. (2019). Gila County Single Audit Report Year Ended June 30, 2017 (p. 10). Phoenix: Arizona Auditor General.

Cause—The County failed to follow its travel policy and procedures.

Recommendations—To help ensure travel expenditures are appropriate and constitutional (i.e., not gifts or loans of public monies), the County should not pay for any travel expenditures that do not have the necessary travel expense reports, receipts, and other supporting documentation as required by its travel policy and procedures. Also, the County should formally approve and document any exceptions to its travel policy and procedures and ensure they do not place the County at an elevated risk of misuse of County monies. Further, the County should work with its legal counsel to determine whether any cash advances it provided to the District 1 Supervisor should be reclassified as compensation.

The County's responsible officials' views and planned corrective action are in its corrective action plan included at the end of this report.

This finding is similar to prior-year finding 2017-02.

2018-03

The County's financial statement preparation process delayed their issuance and did not prevent or detect significant misstatements, which increase the risk that those relying on the reported financial information could be misled

Condition and context—The County did not accurately compile and thoroughly review its financial statements. As a result, the County's initially prepared financial statements contained errors that required correction, and the County issued its Annual Financial Report almost 2 years after fiscal year-end, 14 months later than State law requires. Also, it has not yet issued its Annual Expenditure Limitation Report (AELR) that relies on information from the Annual Financial Report and was due 9 months after fiscal year-end. The significant misstatements and misclassifications we identified were corrected by the County and included:

- General Fund misstatement: $403,567 overstatement of intergovernmental revenues.
- Landfill Fund misstatements: $247,831 overstatement of accounts payable and professional service expenses, $110,498 overstatement of landfill fees revenues, and $77,504 overstatement of liabilities and expenses estimated for landfill closure and postclosure costs.
- Landfill Fund misclassification: $247,381 of construction in progress misclassified as improvements other than buildings.
- Public Works Fund (other governmental funds) misstatement: $50,000 understatement of intergovernmental revenues.

Criteria—The County should prepare its financial statements in accordance with U.S. generally accepted accounting principles (GAAP). Accurate financial statements provide valuable information to those charged with governance, management, and other financial statement users to make important decisions about the County's financial operations. Further, State law requires the County to issue its audited Annual Financial Report and AELR within 9 months after fiscal year-end. (Arizona Revised Statutes §41-1279.07(C))

Effect—There is an elevated risk that the County's financial statements could contain significant misstatements and mislead those relying on the information. Also, the County did not provide timely financial information to its Board of Supervisors and others who rely on it to make important decisions about the County's operations.

Cause—The County did not have comprehensive policies and procedures or sufficiently trained staff needed to prepare accurate, complete, and timely financial statements in accordance with GAAP. In addition, the County did not perform detailed supervisory reviews to detect and correct misstatements in its financial statements.

Recommendations—To help ensure that the County's financial statements are accurate, prepared in accordance with GAAP, and issued in a timely manner, and do not mislead those relying on the information, the County should:

- Develop and implement written comprehensive procedures for preparing its financial statements, including instructions for closing and compiling data from the County's accounting system, preparing common year-end financial statements adjustments, obtaining information not readily available from the accounting system but necessary for financial statement preparation, and performing a detailed supervisory review of the draft financial statements, supporting schedules, and note disclosures.
- Dedicate appropriate resources, assign employees specific responsibilities, and establish completion dates.
- Require an employee who is independent of the financial statements' preparation and knowledgeable of GAAP reporting requirements to review the financial statements and related note disclosures. This review should ensure that the financial statements are accurate and complete, properly supported, and presented in accordance with GAAP.

The County's responsible officials' views and planned corrective action are in its corrective action plan included at the end of this report.

This finding is similar to prior-year finding 2017-03.

2018-04

The County lacked adequate controls over its nearly $35.8 million of capital assets

Condition and context—The County has not conducted a full physical inventory of its machinery and equipment since 2009 to update its records to ensure the records were accurate and complete and machinery and equipment was properly reported in its financial statements. Also, the County did not have a sufficient process to track its construction in progress when multiple projects were included within a single contract to ensure its construction in progress was properly reported in its financial statements.

Criteria—The County should have effective internal controls over capital assets that are sufficient to control, safeguard, and report its nearly $35.8 million of capital assets, which comprise 42 percent of the County's total assets.

Effect—The County's capital assets were exposed to potential theft, loss, and misuse, and items may have been inaccurately reported in the financial statements.

Cause—The County's policies and procedures were not detailed enough to provide its employees with sufficient guidance so that they could adequately control, safeguard, and report capital assets, including tracking construction in progress when multiple projects were included within a single contract and requiring a regularly conducted complete physical inventory.

Recommendations—To help ensure the County's capital assets are safeguarded against theft, loss, and misuse and accurately reported in the financial statements, the County should:

- Develop and implement detailed capital asset policies and procedures to help appropriately trained employees to properly control, safeguard, and report capital assets, including construction in progress, and depreciation. The written procedures should include processes for reconciling current-year capital expenditures to current-year capital additions; reconciling current-year capital asset balances to prior-year capital asset balances; and tracking construction expenditures by project, including tracking when the construction projects are to be completed, reclassified, and depreciated.

- Perform a full physical inventory at least once every 2 years, maintaining the inventory documentation and reconciling the inventory results to the capital asset records to ensure they are accurate and complete.

The County's responsible officials' views and planned corrective action are in its corrective action plan included at the end of this report.

This finding is similar to prior-year finding 2017-04.

2018-05

The County Treasurer loaned $6.5 million of the investment pool's public monies without registering warrants, as required by State laws

Condition and context—During fiscal year 2018, the County Treasurer did not properly register warrants as debt securities when it loaned $6.5 million of the County Treasurer's investment pool's public monies to pay warrants that 6 school and 3 fire districts issued. During the year, those districts' investment pool account balances sometimes lacked enough monies to pay issued warrants, and they did not have an available line of credit to borrow from. Therefore, the County Treasurer loaned those districts a total of $6.5 million during the year, and at June 30, 2018, those districts' balances owed to the investment pool including interest totaled $1.1 million. The investment pool's balance at year-end totaled $78 million and included the County's monies as well as monies from several other County local governments, including other school and special taxing districts.

Criteria—State laws allow counties to enter into line-of-credit agreements with financial institutions to pay warrants presented by outside governmental entities when those entities do not have sufficient monies to pay those warrants. If those entities' available lines of credit, if any, have been exhausted, State laws authorize county treasurers to loan the County's and other governmental entities' public monies they hold to pay those entities' insufficiently funded warrants, provided the treasurers register the warrants. Registering a warrant renders it to be a debt security investment of a county with a stated interest rate. State laws allow county treasures to charge the entity issuing the insufficiently funded warrants up to 10 percent interest on the warrant amounts once the warrants are registered. (Arizona Revised Statutes §35-323(A)(7))

Effect—The County Treasurer loaned pool monies without first registering warrants, as is required by State laws.

Cause—The County did not renew its line of credit agreement with the County's servicing bank, which provided separate revolving lines of credit for the school and special taxing districts. The agreement expired on June 30, 2017, and was not renewed until July 1, 2018. Without a line of credit to borrow from, the County

Treasurer needed to borrow monies from other investment pool participants to pay the school and special taxing districts' warrants because those districts did not have sufficient monies available to pay the warrants when they issued them. The County Treasurer chose not to register the warrants because she thought it would be difficult and did not have policies and procedures in place for registering warrants when the school and fire districts lacked sufficient monies and had no line of credit or had exhausted their existing line of credit. Also, the County's management knew the County Treasurer chose not to register the insufficiently funded warrants and took no action to ensure the County complied with State laws.

Recommendations—To help ensure that the County Treasurer operates under its authority provided by State laws, the County should ensure it renews its line-of-credit agreement, and the County Treasurer should:

- Follow State laws and register warrants as debt securities when loaning public monies.
- Establish policies and procedures for registering warrants when credit lines are either exhausted or not available before loaning investment pool monies to pay those warrants.

The County's responsible officials' views and planned corrective action are in its corrective action plan included at the end of this report.

2018-06

Managing risk

Condition and context—The County's process for managing and documenting its risks did not include an overall risk-assessment process that included identifying, analyzing, and responding to the County-wide information technology (IT) risks, such as potential harm from unauthorized access, use, disclosure, disruption, modification, or destruction of IT data and systems. Also, it did not include identifying, classifying, and inventorying sensitive information that might need stronger access and security controls and evaluating and determining the business functions and IT systems that would need to be restored quickly if the County were impacted by disasters or other system interruptions.

Criteria—Effectively managing risk at the County includes an entity-wide risk-assessment process that involves members of the County's administration and IT management to determine the risks the County faces as it seeks to achieve its objectives to not only report accurate financial information and protect its IT systems and data but to also carry out its overall mission and service objectives. The process should provide the basis for developing appropriate responses based on identified risk tolerances and specific potential risks to which the County might be subjected. To help ensure the County's objectives can be met, an annual risk assessment should include considering IT risks. For each identified risk, the County should analyze the identified risk and develop a plan to respond within the context of the County's defined objectives and risk tolerances. The process of managing risks should also address the risk of unauthorized access and use, modification, or loss of sensitive information and the risk of losing the continuity of business operations in the event of a disaster or system interruption.

Effect—Without correcting these deficiencies, the County's administration and IT management may put the County's operations and IT systems and data at unintended and unnecessary risk.

Cause—The County relied on an informal risk-assessment process and had not documented a County-wide risk assessment that included IT security, including applicable policies and procedures.

Recommendations—The County should identify, analyze, and reduce risks to help prevent undesirable incidents and outcomes that could impact business functions and IT systems and data. It also should plan for where to allocate resources and where to implement critical controls. To help ensure it has effective entity-wide policies and procedures to achieve these objectives, the County should follow guidance from a credible industry source, such as the National Institute of Standards and Technology. Responsible administrative officials and management over finance, IT, and other entity functions should be asked for input in the County's process for managing risk. The County should conduct the following as part of its process for managing risk:

- Perform an annual entity-wide IT risk-assessment process that includes evaluating and documenting risks and safeguards. Such risks may include inappropriate access that would affect financial data, system changes that could adversely impact or disrupt system operations, and inadequate or outdated system security.
- Evaluate and manage the risks of holding sensitive information by identifying, classifying, and inventorying the information the County holds to assess where stronger access and security controls may be needed to protect data in accordance with State statutes and federal regulations.
- Evaluate and determine the critical organization functions and IT systems that would need to be restored quickly given the potential impact disasters or other IT system interruptions could have on the County's operations, such as public safety and payroll and accounting, and determine how to prioritize and plan for recovery.

The County's responsible officials' views and planned corrective action are in its corrective action plan included at the end of this report.

This finding is similar to prior-year finding 2017-05.

2018-07

Information technology (IT) controls—access, configuration and change management, security, and contingency planning

Condition and context—The County's control procedures were not sufficiently designed, documented, and implemented to respond to risks associated with its IT systems and data. The County lacked adequate procedures over the following:

- **Restricting access to its IT systems and data—**Procedures did not consistently help prevent or detect unauthorized or inappropriate access.
- **Configuring systems securely and managing system changes—**Procedures did not ensure all IT system changes were adequately managed and configuration settings maintained.
- **Securing systems and data—**IT security policies and procedures lacked controls to prevent unauthorized or inappropriate access or use, manipulation, damage, or loss.
- **Updating a contingency plan—**Plan lacked steps necessary for restoring operations in the event of a disaster or other system interruption.

Criteria—The County should have effective internal controls to protect its IT systems and help ensure the integrity and accuracy of the data it maintains.

- **Logical and physical access controls—**Help to ensure systems and data are accessed by users who have a need, systems and data access granted is appropriate, key systems and data access is monitored and reviewed, and physical access to its system infrastructure is protected.
- **Well-defined documented configuration management process—**Ensures the County's IT system configurations are documented and that changes to the systems are identified, documented, evaluated for security implications, tested, and approved prior to implementation. This helps limit the possibility of an adverse impact on the system's security or operation. Separating responsibilities is an important control for system changes; the same person who has authority to make system changes should not put the change into production. If those responsibilities cannot be separated, a post-implementation review should be performed to ensure the change was implemented as designed and approved.
- **IT security internal control policies and procedures—**Help prevent, detect, and respond to instances of unauthorized or inappropriate access or use, manipulation, damage, or loss to its IT systems and data.
- **Comprehensive, documented, and tested contingency plan—**Provides the preparation necessary to place the plan in operation and helps to ensure business operations continue and systems and data can be recovered in the event of a disaster, system or equipment failure, or other interruption.

Effect—There is an increased risk that the County may not adequately protect its IT systems and data, which could result in unauthorized or inappropriate access and/or the loss of confidentiality or integrity of systems and data. It also increases the County's risk of not being able to effectively continue daily operations and completely and accurately recover vital IT systems and data in the event of a disaster or system interruption.

Cause—The County was in the process of developing and implementing policies and procedures.

Recommendations—To help ensure the County has effective policies and procedures over its IT systems and data, the County should follow guidance from a credible industry source, such as the National Institute of Standards and Technology. To help achieve these control objectives, the County should develop, document, and implement control procedures in each IT control area described below:

Access

- Assign and periodically review employee user access ensuring appropriateness and compatibility with job responsibilities.
- Remove terminated employees' access to IT systems and data.
- Review all other account access to ensure it remains appropriate and necessary.
- Evaluate the use and appropriateness of accounts shared by 2 or more users and manage the credentials for such accounts.
- Enhance authentication requirements for IT systems.
- Protect IT systems and data with session time-outs after defined period of inactivity.
- Review data center physical access periodically to determine appropriateness.

Configuration and change management

- Establish and follow a documented change management process.
- Review proposed changes for appropriateness, justification, and security impact.
- Document changes, testing procedures and results, change approvals, and post-change review.
- Document a plan to roll back changes in the event of a negative impact to IT systems.
- Test changes prior to implementation.
- Perform a post-implementation review to ensure the change was implemented as approved.
- Maintain configurations for all system services, assets, and infrastructure; manage configuration changes; and monitor the system for unauthorized or unintended configuration changes.

Security

- Perform proactive key user and system activity logging and log monitoring, particularly for users with administrative access privileges.
- Prepare and implement a security-incident-response plan clearly stating how to report and handle such incidents.
- Provide all employees ongoing training on IT security risks and their responsibilities to ensure systems and data are protected.
- Improve the information security plan to protect the integrity of the financial reporting systems and data.
- Develop, document, and follow a process for awarding and subsequent monitoring of IT vendor contracts.

Contingency planning

- Update the contingency plan and ensure it includes all critical elements to restore critical operations, including being prepared to move critical operations to a separate alternative site if necessary.
- Test the contingency plan.
- Train staff responsible for implementing the contingency plan.
- Securely maintain backups of systems and data.

The County's responsible officials' views and planned corrective action are in its corrective action plan included at the end of this report.

This finding is similar to prior-year findings 2017-06.

Federal award findings and questioned costs

2018-101

CFDA number and name: Not Applicable
Questioned costs: N/A

Condition and context—The County did not accurately compile and thoroughly review its schedule of expenditures of federal awards (SEFA). As a result, the County's initially prepared SEFA contained errors that required correction. Specifically, the County misstated 10 of 29 federal programs by $852,965 and understated total federal award expenditures by $47,943. In addition, the County did not always report the correct program name and pass-through entity identifying information. The County corrected the significant misstatements we identified. Further, the County did not submit its Single Audit Report to the federal audit clearinghouse until August 2020, which was 17 months later than the federal reporting deadline.

Criteria—Federal regulations require the County to maintain effective internal controls to identify in its accounts all federal awards received and expended, prepare an accurate and complete SEFA that reports its federal award expenditures, and submit its Single Audit Report to the federal audit clearinghouse no later than 9 months after fiscal year-end. (2 Code of Federal Regulations (CFR) §§200.302, 200.510, and 200.512)

Effect—The County risks misleading those who rely on reported expenditures and wasting public monies because a misstated SEFA could result in auditors unnecessarily auditing incorrect federal award programs or programs that were not from federal monies. Also, submitting the Single Audit Report late prevents federal agencies from having current information to effectively monitor their programs and could delay corrective actions taken by the County. This finding was not a result of internal control deficiencies of individual federal programs and, accordingly, did not have a direct and material effect on the reporting requirements over the County's major federal programs.

Cause—The County did not have effective policies and procedures in place to identify federal awards in its records and accounting system so that it could prepare an accurate, complete, and timely SEFA and to thoroughly review its SEFA for accuracy and completeness.

Recommendation—To help ensure that the County's SEFA is accurate, complete, and timely, the County should develop and implement policies and procedures to separately identify in its accounting system each federal award the County receives and expends and establish a comprehensive review process to help ensure that the SEFA is accurate and complete and complies with Uniform Guidance requirements. Further, the County should improve its financial reporting process so that it can submit its Single Audit Report to the federal audit clearinghouse no later than 9 months after fiscal year-end.

The County's responsible officials' views and planned corrective action are in its corrective action plan included at the end of this report.

This finding is similar to prior-year finding 2017-101.

2018-102

Cluster name:	**Forest Service Schools and Roads Cluster**
CFDA number and name:	10.665 **Schools and Roads—Grants to States**
Award number and years:	N/A, October 1, 2017 through September 30, 2018
Federal agency:	**Department of Agriculture**
Compliance requirement:	Cash management
Questioned costs:	None

Condition and context—The County did not distribute $248,085 of program monies to public schools until 41 days after it received the federal award monies. Also, the County did not distribute program monies of $25,000 and $27,565 to its public works department to be used for roads until 86 and 162 days, respectively, after it received the federal award monies.

Criteria—Federal regulations require the County to take efforts to minimize the time elapsed between the receipt of federal award monies and their distribution or expenditure for program purposes. In addition, the County must maintain effective internal control over its federal award to provide reasonable assurance that it is managing the award in compliance with federal statutes, regulations, and the award terms and conditions. (2 CFR §§200.305(b) and 200.303)

Effect—The County risks not meeting school districts' operational needs or not providing its citizens with the appropriate amount of road services if it does not distribute program monies in a timely manner.

Cause—The County lacked a process to ensure the Board of Supervisors approved the distribution of federal award monies in a timely manner. In addition, the County lacked proper communication and oversight to ensure the distributions for roads were transferred to the public works department in a timely manner after Board of Supervisors approval.

Recommendation—To help ensure that the County effectively manages federal award monies to avoid having idle cash balances and meets the needs of school districts and its citizens, the County's management should ensure the Board of Supervisors approves the federal award allocation to schools and roads prior to actual receipt of the awarded federal monies. Once federal award monies are received, the County should disburse the monies based on the approved allocation as soon as possible.

The County's responsible officials' views and planned corrective action are in its corrective action plan included at the end of this report.

This finding is similar to prior-year finding 2017-110.

2018-103

CFDA number and name:	93.563 **Child Support Enforcement**
Award number and years:	DI16-002156, October 1, 2015 through September 30, 2020
Federal agency:	**Department of Health and Human Services**
Pass-through grantor:	Arizona Department of Economic Security (ADES)
Compliance requirement:	Allowable costs/cost principles and reporting
Questioned costs:	$58,273

Condition and context—The County requested and received excess reimbursement for indirect costs of $58,273 because it made errors on its reimbursement requests, and it applied an incorrect indirect cost rate. Specifically, the County incorrectly included nonpayroll costs in its calculation to determine the indirect costs on its expenditure reimbursement requests for 6 of 12 months. Also, the County applied an overstated 35.3 percent indirect cost rate to the direct costs it claimed for reimbursement. To determine that overstated rate, the County incorrectly included payroll costs that it also claimed as the program's direct payroll costs, duplicating the reimbursement of those costs. Finally, the County did not retain support for its indirect costs charged to this program because it did not include them in the program's accounting records.

Criteria—Federal regulations require the County to establish and maintain effective internal control over its federal award that provides reasonable assurance that it is managing the award in compliance with federal statutes, regulations, and the award's terms and conditions. Further, the County's indirect cost plan proposal should not include direct costs and must be approved in advance by ADES. Also, the County must identify in its accounting records the source and application of federally funded activities, including indirect costs. (2 CFR §200, Appendix V; 45 CFR §§75.302 (b)(3) and 75.303)

Effect—The County requested and received reimbursement of excess federal monies for which it is not entitled and may be required to return them and risks requesting and receiving excess federal monies in the future if the County does not implement recommendations.

Cause—The County lacked policies and procedures for preparing and reviewing reimbursement requests and for ensuring program expenditures were properly recorded in its accounting records. Also, the County did not appropriately review its indirect cost plan prepared by outside consultants.

Recommendation—To help ensure the County does not receive reimbursement of federal monies it is not entitled to, it should:

- Develop and implement policies and procedures for preparing, reviewing, and approving reimbursement requests prior to their submission to the grantor to verify that expenditures are supported by and reconciled to the grant program accounting records and include the correct indirect cost base.
- Prepare or ensure a consultant prepares an indirect cost plan proposal that is accurate and complete and complies with federal requirements, including only indirect costs, and is approved by ADES before indirect costs can be claimed for reimbursement.
- Establish clear policies and procedures when using a consultant to prepare an indirect cost plan proposal, including providing information to and communicating with, overseeing, and monitoring the consultant and performing a detailed review of the consultant's plan.
- Establish procedures to record and maintain appropriate indirect costs charged to the program in the accounting records.

The County's responsible officials' views and planned corrective action are in its corrective action plan included at the end of this report.

This finding is similar to prior-year finding 2017-106.

2018-104

CFDA number and name: 14.871 **Section 8 Housing Choice Vouchers**
Award number and years: AZ045, July 1, 2017 through June 30, 2018
Federal agency: **Department of Housing and Urban Development (HUD)**
Compliance requirement: Reporting
Questioned costs: None

Condition and context—The County did not submit its annual Financial Data Schedules to HUD within 9 months after fiscal year-end. The Financial Data Schedules are used to provide financial information to HUD to help monitor and interpret the financial condition and health of public housing projects and programs.

Criteria—Federal regulations require the County to submit annual Financial Data Schedules to HUD no later than 9 months after the fiscal year-end. In addition, the County must establish and maintain effective internal control over its federal award that provides reasonable assurance that the County is managing the award in compliance with federal statutes, regulations, and the award terms and conditions. (24 CFR §5.801; 2 CFR §200.303)

Effect—The County is at risk of being designated as a substandard or troubled housing authority and may receive sanctions that include constraints on the use of monies and be subject to additional HUD regulations and assessments.

Cause—The County did not become aware until June 2019 that it needed to prepare its annual Financial Data Schedules and engage auditors to certify them to meet the required time frame because the County's Housing Department had a new fiscal manager and followed the same procedures as the previous fiscal manager.

Recommendation—To help ensure that the County meets HUD's financial reporting requirements and receives the housing assistance it needs, the County should:

- Submit its annual Financial Data Schedules to HUD within 9 months after fiscal year-end.
- Develop and implement policies and procedures for preparing its Financial Data Schedules and submitting them to HUD.
- Ensure that it engages auditors annually to perform the necessary services on the schedules to ensure they are submitted to HUD within the required time frame.

The County's responsible officials' views and planned corrective action are in its corrective action plan included at the end of this report.

This finding is similar to prior-year finding 2017-105.

COUNTY SECTION

Gila County
Schedule of expenditures of federal awards
Year ended June 30, 2018

Federal agency/CFDA number	Federal program name	Cluster title	Pass-through grantor	Pass-through grantor's numbers	Program expenditures	Amount provided to subrecipients
Department of Agriculture						
10 551	Supplemental Nutrition Assistance Program	SNAP Cluster	Arizona Community Action Association	None	$ 3,199	
10 561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	SNAP Cluster	Arizona Community Action Association	None	11,166	
10 561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	SNAP Cluster	Arizona Department of Health Services	ADHS16-106556	192,237	$ 98,500
	Total SNAP Cluster				206,602	98,500
10 557	WIC Special Supplemental Nutrition Program for Women, Infants, and Children		Arizona Department of Health Services	ADHS14-053062	275,608	
10 565	Commodity Supplemental Food Program	Food Distribution Cluster	Arizona Department of Health Services	ADHS17-123851	3,277	
10 665	Schools and Roads—Grants to States	Forest Service Schools and Roads Cluster			1,383,923	
10 704	Law Enforcement Agreements				62,189	
10 923	Emergency Watershed Protection Program				225,075	
	Total Department of Agriculture				2,156,674	98,500
Department of Housing and Urban Development						
14 228	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii		Arizona Department of Housing	130-17 123-18	178,114	
14 871	Section 8 Housing Choice Vouchers	Housing Voucher Cluster			410,423	
	Total Department of Housing and Urban Development				588,537	
Department of Justice						
16 575	Crime Victim Assistance		Arizona Department of Public Safety	2015-333 2018-242	64,208	
16 576	Crime Victim Compensation		Arizona Criminal Justice Commission	VC-18-052	14,942	
16 738	Edward Byrne Memorial Justice Assistance Grant Program		Arizona Criminal Justice Commission	DC-18-004 DC-18-023	146,372	
	Total Department of Justice				225,522	
Department of Transportation						
20 600	State and Community Highway Safety	Highway Safety Cluster	Governor's Office of Highway Safety	2018-AL-013	4,782	
Department of Energy						
81 042	Weatherization Assistance for Low-Income Persons		Arizona Department of Housing	207-17	15,959	
Department of Education						
84 002	Adult Education-Basic Grants to States		Arizona Department of Education	18FAEBE-813181-01A 18FAEIEL-813181-01A 18FAEIET-813181-01A 18FAEAPL-813181-01A	118,330	
84 027	Special Education—Grants to States	Special Education Cluster (IDEA)	Arizona Department of Education	18FESSCG-813181-55B 18FESCBG-811207-09A	10,363	
84 366	Mathematics and Science Partnerships		Arizona Department of Education	17FSDSP-713181-10C	276,161	
	Total Department of Education				404,854	

See accompanying notes to schedule.

Gila County
Schedule of expenditures of federal awards
Year ended June 30, 2018

Federal agency/CFDA number	Federal program name	Cluster title	Pass-through grantor	Pass-through grantor's numbers	Program expenditures	Amount provided to subrecipients
Department of Health and Human Services						
93 069	Public Health Emergency Preparedness		Arizona Department of Health Services	ADHS17-133182	200,419	
93 136	Injury Prevention and Control Research and State and Community Based Programs		Arizona Department of Health Services	ADHS16-110815	95,535	
93 268	Immunization Cooperative Agreements		Arizona Department of Health Services	ADHS13-041539 ADHS18-177678	125,961	
93 558	Temporary Assistance for Needy Families	TANF Cluster	Arizona Department of Economic Security	ADES15-089113	138,220	
93 563	Child Support Enforcement		Arizona Department of Economic Security	DI16-002156 DI18-002174 DI18-002151	656,721	
93 568	Low-Income Home Energy Assistance		Arizona Department of Economic Security	ADES15-089113	138,425	
93 568	Low-Income Home Energy Assistance		Arizona Department of Housing	2017-17	108,354	
	Total 93.568				246,779	
93 569	Community Services Block Grant		Arizona Department of Economic Security	ADES15-089113	171,772	
93 597	Grants to States for Access & Visitation Programs		Arizona Department of Economic Security	DI16-002146	7,088	
93 917	HIV Care Formula Grants		Arizona Department of Health Services	ADHS13-04096 ADHS18-193949	200,671	
93 940	HIV Prevention Activities-Health Services Block Grant		Arizona Department of Health Services	ADHS18-188825	2,230	
93 991	Preventive Health and Health Services Block Grant		Arizona Department of Health Services	ADHS16-098369	48,840	
93 994	Maternal and Child Health Services Block Grant to the States		Arizona Department of Health Services	ADHS16-098369	89,840	
	Total Department of Health and Human Services				1,984,076	
Department of Homeland Security						
97 042	Emergency Management Performance Grants		Arizona Department of Emergency and Military Affairs	EMW-2015-EP-0048	134,279	
	Total expenditures of federal awards				$ 5,514,683	$ 98,500

See accompanying notes to schedule.

Gila County
Notes to schedule of expenditures of federal awards
Year ended June 30, 2018

Note 1 - Basis of presentation

The accompanying schedule of expenditures of federal awards includes Gila County's federal grant activity for the year ended June 30, 2018. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Note 2 - Summary of significant accounting policies

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

Note 3 - Catalog of Federal Domestic Assistance (CFDA) numbers

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2018 *Catalog of Federal Domestic Assistance.*

Note 4 - Indirect cost rate

The County did not elect to use the 10 percent de minimis indirect cost rate as covered in 2 CFR §200.414.

COUNTY RESPONSE

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August 5, 2020

Lindsey Perry,
Auditor General
2910 N. 44th St., Ste. 410
Phoenix, Arizona 85018

Dear Ms. Perry,

We have prepared the accompanying Corrective Action Plan as required by the standards applicable to financial audits contained in *Government Auditing Standards* and by U.S. Office of Management and Uniform Guidance. Specifically, for each financial reporting finding we are providing you with the corrective action planned and for each federal award finding we are providing you with the names of the contact persons responsible for corrective action, the corrective action planned, and the anticipated completion date that is included in the Schedule of Findings and Questioned Costs.

Sincerely,

Mary Jane Springer
Finance Director

Gila County
Corrective Action Plan
Year Ended June 30, 2018

Financial Statement Findings

2018-01

The County should improve its policies and procedures to ensure monies awarded for economic development are used for the intended and authorized services and activities and are constitutional.

Contact: Mary Jane Springer, Finance Director
Anticipated Completion Date: March 31, 2021

Corrective Action Plan: To help ensure that the County provides funding for economic development activities that are used for the intended purposes and that are constitutional the County will revise its policy and procedures. In addition, each request will be reviewed by the County Manager and Finance Director to ensure the policy and procedures are followed and the required documentation is included. Each agreement executed by the County and requesting party will require that the funds will be utilized as intended and any unexpended funds will be returned to the County.

2018-02

The County should follow its travel policy and procedures for all travel expenditures, including those for all members of the Board of Supervisors, to help ensure it complies with the Arizona Constitution, Art. IX, Sec. 7, which bans gifts or loans of public monies to individuals.
Contact: Mary Jane Springer, Finance Director
Anticipated Completion Date: June 30, 2020

Corrective Action: The Finance Department has implemented additional training to Departments on the travel policy and the required forms and documentation required for approved travel expenses. Staff will verify that correct per diem rates are used and when necessary, get advanced approval and document any additional per diem expenses necessary to provide accommodations for the traveler and/or approved companion. Room upgrades that include the cost of meals as a cost savings measure to minimize per diem will be reviewed and approved in advance on a case by case basis as an exception to the travel policy. Certain travel exceptions noted in the finding were reviewed by the County Manager and approved on June 6, 2019. The County Manager will review travel expenditures for the County Supervisors and approve future exceptions as necessary to aid them in fulfillment of their constitutional responsibilities representing Gila County.

2018-03

The County should improve its policies and procedures to accurately compile, record, and report financial information in its annual financial report and issue its report in a timely manner.

Contact: Mary Jane Springer, Finance Director
Anticipated Completion Date: March 31, 2021

Corrective Action Plan: To help ensure that the County's financial statements and note disclosures are accurate, complete, follow GAAP, and are issued in time to meet the Single Audit reporting requirements the County will develop and implement comprehensive written policies and procedures, dedicate appropriate staff who are assigned specific responsibilities independent of the person preparing the financial statements to review the statements and related note disclosures. County is working with Arizona AG office and outside consultant to expedite completion of past due financial statements and single audit. Gila County Finance Department had tremendous turnover over the past few years however, as of October 2018 is fully staffed with qualified individuals to perform these functions. New financial policies were adopted by the Board of Supervisors on November 20, 2018. Gila County expects to be current with the financial audits March 31, 2021.

2018-04

The County needs to improve controls over its capital assets

Contact: Mary Jane Springer, Finance Director
Completion Date: December 31, 2019

Corrective Action Plan: To help ensure the County's capital assets are safeguarded against theft and misuse and accurately reported, the County will develop and implement capital asset procedures for properly classifying and disposing of capital assets and for performing a physical inventory at least every 2 years. Physical inventory was completed in 2017 by an outside consulting firm, staff is currently conducting physical inventory and reconciling the physical inventory report to the existing capital asset listing; anticipated completion December 2020. Physical inventory and reconciliation will be completed by March 31, 2021. New capital asset policy was adopted by the Board of Supervisors on November 20, 2018. Training on new capital asset policy and proper procedures for disposal for all departments completed December 2018. On-going training will be conducted as necessary.

2018-05

The County Treasurer loaned its investment pool's public monies without first registering warrants, as is required by State laws.

Contact: Mary Jane Springer, Finance Director
Completion December 31, 2020

Corrective Action Plan: To help ensure that the County Treasurer operates under its authority provided by State laws, the County will ensure it renews its line of credit agreement, and the County Treasurer will follow State laws and register warrants as debt securities when loaning public monies. In addition, the Treasurer will establish policies and procedures for registering warrants when credit lines are either exhausted or not available before loaning investment pool monies to pay those warrants.

2018-06

The County should improve process for managing its risk-assessment to include information technology security by identifying, analyzing, and responding to the County-wide information technology (IT) risks, such as potential harm from unauthorized access, use, disclosure, disruption, modification, or destruction of IT data and systems.

Contact: Mary Jane Springer, Finance Director
Anticipated Completion Date: June 30, 2020

Corrective Action Plan: To help improve its risk-analysis for information and technology security the County IT Department developed a new Security Risk Assessment policy BOS-IT-003 that was adopted by the Board of Supervisors on June 25, 2019. IT will provide appropriate training on the policy requirements and will assist in identification and classification of sensitive information and how to safeguard information with proper controls. IT will develop additional procedures to perform an IT risk-assessment processes. Recently the IT Department has been able to hire additional personnel including staff dedicated to identify and conduct risk-analysis and implement security measures to address unauthorized access, use, disclosure, disruption, and destruction of IT data and systems. Redundant back up systems to protect data and quickly restore operations in the event of any disruption was completed in January 2020.

2018-07

The County should improve Information technology (IT) controls – access, configuration and change management, security, and contingency planning

Contact: Mary Jane Springer, Finance Director
Anticipated Completion Date: June 30, 2020

Corrective Action Plan: To help prevent and detect unauthorized access or use, manipulation, damage, or loss to its IT resources, the County will develop effective logical access policies and procedures over its IT resources. The new IT policies and procedures BOS-IT-002 Access Control and BOS-IT-004 Contingency Planning were adopted by the Board of Supervisors on June 25, 2019. The County will train staff on the policies and procedures and perform periodic reviews of employee user accounts to help ensure appropriate access to network systems are compatible with current job responsibilities. To help ensure county operations continue in the event of a disaster, system or equipment failure, or other interruption, the County will establish a remote data recovery site and exercise its contingency planning procedures at least annually and identify potential system improvements. Data recovery site will be set up by January 2020 and contingency planning procedure testing will be completed by June 30, 2020. Vulnerability scans and penetration testing will be conducted at least annually and evaluate the impact disasters or other system interruptions could have on critical IT resources.
Based on the audit recommendations from FY2018 the following recommendations were implemented:
Access – Security software, quarterly manual reviews, and physical security access has been implemented since February 2019 to prevent unauthorized access so systems, files, and equipment.
Configuration and change management - Control procedures for I.T. staff implemented (August 2019) Implemented format review impacts related to security appropriateness and justification. Utilizes software snapshots taken for rollback if required. System changes are implemented in test environments where applicable and end users report results to IT Administrators. Post implementation review is performed by IT Administrators and end users and any deviations identified and corrected. IT Administrators maintain configurations for all system services, assets, and infrastructure; manage configuration changes; and monitor the system for unauthorized or unintended configuration changes.
Security - Software monitoring and review (implemented Feb 2019). Security incident response reports and root cause analysis implemented, and documentation retained by IT Department. On-going periodic internal testing employee response with phishing email and education on suspicious email detection.
Contingency planning - In process of implementing a live offsite VM replicated environment and documenting Disaster Recovery plan anticipated completion December 2020. Offsite back up installed and reporting successful backup jobs using reporting software – completed December 2019.

Federal Award Findings and Questioned Costs

2018-101

CFDA No.: NOT APPLICABLE
Contact: Mary Jane Springer, Finance Director
Anticipated Completion Date: March 31, 2021

Corrective Action Plan: To help ensure that the County prepares the SEFA in compliance with Uniform Guidance, 2 Code of Federal Regulations (CFR) §200.510. The County will develop and implement policies and procedures identify in its accounting system all federal awards the County receives and disburses and establish a review process to help ensure that the SEFA is accurate and complete. Further, the County will improve its financial reporting process so that it can submit its single audit reporting package to the federal clearinghouse no later than 9 months after fiscal year-end in accordance with 2 CFR §200.512.

2018-102

CFDA No.: 10.665 – Schools and Roads—Grants to States
Contact: Mary Jane Springer, Finance Director
Anticipated Completion Date: June 30, 2020

Corrective Action Plan: In accordance with 2 CFR §200.305(b), and §200.303 The County will ensure the Board of Supervisors approves the program allocations prior to receiving program monies. Additionally, the County will minimize the time elapsing between the transfer of funds and disbursement by the recipient.

2018-103

CFDA No.: 93.563 Child Support Enforcement
Contact: Mary Jane Springer, Finance Director
Anticipated Completion Date: June 30, 2020

Corrective Action Plan – Child Support Enforcement: To help ensure that the County complies with 2 CFR §200, appendix V the County will establish clear policies and procedures that provides reasonable assurance that the County is managing the federal award in compliance with federal statutes and ensures the County is collecting and retaining supporting documentation, organizational charts, and signed certifications. The County will also oversee, review, and monitor the consultant responsible for preparing the Indirect Cost Plan to ensure the County is entitled to receive the appropriate indirect costs for the Child Support Enforcement program. The County will review reimbursement requests to ensure the correct indirect cost rate percentage is accurate.

2018-104

CFDA No.: 14.871 Section 8 Housing Choice Vouchers
Contact: Mary Jane Springer, Finance Director
Anticipated Completion Date: March 31, 2021

Corrective Action Plan – To help ensure that the County meets HUD's financial reporting requirements, the County's Community Services Fiscal Manager will implement policies and procedures for preparing the Financial Data Schedules and submit them to the County's Finance Department and to HUD. The County's Finance Director will engage the auditors annually to perform necessary audit services on the schedules to ensure they are submitted to HUD within the required time frame.

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August 3, 2020

Lindsey Perry
Auditor General
2910 North 44th Street
Suite 410
Phoenix, AZ 85018

Dear Ms. Perry:

We have prepared the accompanying schedule of prior audit findings as required by 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.* Specifically, we are reporting the status of audit findings included in the prior audit's schedule of findings and questioned costs. This schedule also includes the status of audit findings reported in the prior audit's summary schedule of prior audit findings that were not corrected.

Sincerely,

Mary Jane Springer
Finance Director

Status of Financial Statement Findings

The County should improve its policies and procedures to ensure monies awarded for economic development are used for the intended and authorized services and activities and are constitutional.
Finding No.: 2017-01
Status: Not Corrected

In FY2019 the county is requiring all entities receiving economic development awards to execute an agreement that states the purpose of the funding and a stipulation in the agreement requires the recipient to return any unused portion not expended for the specific purpose. The requests for funding come to the Finance Director and County Manager for review prior to award and the funding is budgeted in the annual budget process. The policy will be reviewed and revised to ensure full compliance when awarding economic development funds completion by March 31, 2021.

The County should follow its travel policy and require necessary travel expense reports, receipts and other documentation including any supporting documentation for exceptions to the travel policy to ensure expenditures are appropriate and constitutional.
Finding No.: 2017-02
Status: Not Corrected

The Finance Department has implemented additional training to Departments on the travel policy and the required forms and documentation required for approved travel expenses. Exceptions to the travel policy are reviewed and approved by the County Manager. Travel exceptions noted in the finding were reviewed by the County Manager and approved on June 6, 2019. The County Manager will review travel expenditures for the County Supervisors and approve future exceptions as necessary to aid them in fulfillment of their constitutional responsibilities representing Gila County. Completion by June 30, 2020.

The County should improve its policies and procedures to accurately compile, record, and report financial information in its annual financial report and issue its report in a timely manner.
Finding No.: 2017-03, 2016-01, 2015-01, 2014-01, 2013-001
Status: Not Corrected

County is working with Arizona AG office and outside consultant to expedite completion of past due financial statements and single audit and anticipating being current with the FY2020 audit by March 31, 2021. As of November 20, 2018, the department was fully-staffed and new policies were adopted by the Gila County Board of Supervisors as follows:

Policy #	Regarding	Adopted
BOS-FIN-101	CALENDAR OF EVENTS	11-20-2018
BOS-FIN-102	CHART OF ACCOUNTS	11-20-2018
BOS-FIN-103	BUDGET	11-20-2018
BOS-FIN-104	ACCOUNTING RECORDS	11-20-2018
BOS-FIN-105	FUND BALANCE	11-20-2018

BOS-FIN-106	FINANCIAL REPORTING	11-20-2018
BOS-FIN-107	AUDIT REQUIREMENTS	11-20-2018
BOS-FIN-108	CASH	11-20-2018
BOS-FIN-109	INVESTMENTS	11-20-2018
BOS-FIN-110	SUPPLIES INVENTORY	11-20-2018
BOS-FIN-111	CAPITAL ASSETS	11-20-2018
BOS-FIN-112	TRAVEL	11-20-2018
BOS-FIN-113	PROCUREMENT	11-20-2018
BOS-FIN-114	CREDIT CARD	11-20-2018

The County needs to improve controls over its capital assets.
Finding No.: 2017-04, 2016-02, 2015-02, 2014-02, 2013-001
Status: Partially Corrected

Physical inventory was completed in 2017 by an outside consulting firm, staff is reconciling the physical inventory report to the capital asset listing to ensure records in financial software system are properly recorded. New capital asset policy (BOS-FIN-111) was adopted by the Board of Supervisors on November 20, 2018.

The County should improve its policies and procedures to ensure its departments accurately record revenues and safeguard cash receipts
Finding No.: 2016-03, 2015-03, 2014-03, 2013-001
Status: Not Corrected

New Cash policy (BOS-FIN-108) adopted by the Board of Supervisors on November 20, 2018.

The County should improve process for managing its risk-assessment to include information technology security by identifying, analyzing, and responding to the County-wide information technology (IT) risks, such as potential harm from unauthorized access, use disclosure, disruption, modification, or destruction of IT data systems.
Finding No.: 2017-05, 2016-04, 2016-06, 2015-07, 2014-08
Status: Not Corrected

To help improve its risk-analysis for information and technology security the County IT Department developed a new Security Risk Assessment policy BOS-IT-003 that was adopted by the Board of Supervisors on June 25, 2019. IT will provide appropriate training on the policy requirements and will assist in identification and classification of sensitive information and how to safeguard information with proper controls. IT will develop additional procedures to perform an IT risk-assessment processes to be completed by June 30, 2020.

The County should improve Information Technology (IT) controls – access, configuration and change management, security, and contingency planning.
Finding No.: 2017-06, 2016-05, 2016-06, 2016-04, 2015-06, 2015-07, 2014-07, 2014-08
Status: Not Corrected

To help prevent and detect unauthorized access or use, manipulation, damage, or loss to its IT resources, the County will develop effective logical access policies and procedures over its IT resources. The new IT policies and procedures BOS-IT-002 Access Control and BOS-IT-004 Contingency Planning were adopted by the Board of Supervisors on June 25, 2019. The County will train staff on the policies and procedures and perform periodic reviews of employee user accounts to help ensure appropriate access to network systems are compatible with current job responsibilities. To help ensure county operations continue in the event of a disaster, system or equipment failure, or other interruption, the County will establish a remote data recovery site and exercise its contingency planning procedures at least annually and identify potential system improvements. Data recovery site will be set up by January 2020 and contingency planning procedure testing will be completed by June 30, 2020. Vulnerability scans and penetration testing will be conducted at least annually and evaluate the impact disasters or other system interruptions could have on critical IT resources. IT will develop a configuration/change management policy and associated procedures by the June 30, 2020.

The County should comply with laws governing preparation of budgets.
Finding No.: 2015-05, 2014-06
Status: Not Corrected

To help ensure compliance with state laws, the County will develop policies and procedures that require the preparation of budgets for departments administered by all elected and appointed county officers. Budget policy was adopted by the Board of Supervisors on November 20, 2018.

The County should comply with laws governing conflict of interest.
Finding No.: 2017-07, 2016-07, 2015-04
Status: Not Corrected

To help ensure compliance with state laws, the County will develop procedures to verify all public officers prepare and file financial disclosure statements with the Secretary of State annually and retain a copy of employee conflict-of-interest forms for a period of 3 years. The County will review and compile a list of all declared conflicts to ensure potential conflicts are identified and affected public officials or staff is made aware of potential conflicts, so they would properly abstain from participating in awarding County monies to a known conflict. The list of declared conflicts will be compiled annually by staff and provided to appropriate personnel responsible for identifying the conflicts before any action is taken. Completion September 30, 2018.

The County should comply with laws governing contributions to pension plans
Finding No.: 2016-08

Status: Corrected

The County should comply with laws governing transfers of monies between budgeted line items.
Finding No.: 2017-08
Status: Not Corrected

To help ensure compliance with state laws, the Finance staff will annually prepare a listing of all transfers to be presented to the Board of Supervisors for approval. The Finance Department prepared and presented a listing of transfers for FY2017, FY2018, and FY2019 to the Board of Supervisors on June 25, 2019 which were approved.

The County should comply with laws requiring all public deposits to be collateralized.
Finding No.: 2017-09
Status: Not Corrected

To help ensure compliance with laws governing all public deposits to be collateralized the County will revise the existing cash policy, establish procedures and train departments who manage County bank accounts to monitor all bank accounts to ensure that all public deposits are either reported to the Arizona State Treasurer and included in the Arizona Statewide Collateral Pool or deposited with a qualified escrow agent so that they are insured and, if necessary, properly collateralized. Anticipated policy revision 12/31/2020.

Status of Federal Award Findings and Questioned Costs

CFDA No.: NOT APPLICABLE
Finding No.: 2017-101, 2016-101, 2015-101, 2014-101, 2013-002, 2013-004, 2013-003, 2012-19, 2012-15, 2011-19, 2010-21
Status: Not Corrected

Corrective Action Plan: To help ensure that the County prepares the SEFA in compliance with Uniform Guidance, 2 Code of Federal Regulations (CFR) §200.510. The County will develop and implement policies and procedures identify in its accounting system all federal awards the County receives and disburses and establish a review process to help ensure that the SEFA is accurate and complete. Further, the County will improve its financial reporting process so that it can submit its single audit reporting package to the federal clearinghouse no later than 9 months after fiscal year-end in accordance with 2 CFR §200.512. Anticipated date to be current with audit March 2021.

CFDA No.: 14.871 Section 8 Housing Choice Vouchers
Finding No.: 2017-102
Status: Partially Corrected

Corrective Action Plan – To help ensure that the County complies with its Administrative Plan and does not provide federal housing assistance to those who are not qualified, it should develop and implement quality control document check policies to ensure the forms are accurately prepared if a live-in aide is essential for the care for the eligible tenant. Program supervisors will follow procedures that include obtaining a written verification that demonstrates that a live-in aide is essential for the care for the eligible tenant, retaining this documentation in the tenant file, and performing and reporting annual family composition reexaminations. In addition, the County Community Services Fiscal Manager will follow established policies and procedures for obtaining third-party income verifications. Anticipated completion 12/31/2019.

CFDA No.: 14.871 Section 8 Housing Choice Vouchers
Finding No.: 2017-103
Status: Corrected

CFDA No.: 14.871 Section 8 Housing Choice Vouchers
Finding No.: 2017-104, 2013-008
Status: Corrected

CFDA No.: 14.871 Section 8 Housing Choice Vouchers
Finding No.: 2017-105
Status: Not Corrected

Corrective Action Plan – The annual financial data schedules were filed timely with HUD however the audit and certification of the financial data schedules have not been completed for FY2017, FY2018, and FY2019. To help ensure that the County meets HUD's financial reporting requirements, the County's Finance Director will engage the auditors annually to perform necessary services on the schedules to ensure they are audited and certified through HUD within the required time frame. Anticipated completion for FY2017 & FY2018 audit and certification June 30, 2020.

CFDA No.: 93.563 Child Support Enforcement
Finding No.: 2017-106, 2016-102, 2015-102, 2014-102
Status: Not Corrected

Corrective Action Plan – Child Support Enforcement: To help ensure that the County complies with 2 CFR §200, appendix V the County will establish clear policies and procedures that provides reasonable assurance that the County is managing the federal award in compliance with federal statutes and ensures the County is collecting and retaining supporting documentation, organizational charts, and signed certifications. The County will also oversee, review, and monitor the consultant responsible for preparing the Indirect Cost Plan to ensure the County is entitled to receive the appropriate indirect costs for the Child Support Enforcement program.

CFDA No.: 93.563 Child Support Enforcement
Finding No.: 2017-107, 2016-103, 2015-103, 2014-103
Status: Corrected

CFDA No.: 93.563 Child Support Enforcement
Finding No: 2016-104, 2015-105, 2014-105, 2013-005, 2012-20, 2011-21, 2010-24, 2009-16, 08-19, 07-21, 06-20, 05-21, 04-21, 03-101
Status: Not Corrected

Corrective Action Plan – Child Support Enforcement: To help ensure that the County complies with 2 CFR §200.302 and 2 CFR §200.303, the County will establish clear policies and procedures that provides reasonable assurance that the County is managing the federal award in compliance with federal statutes. The County hired a Grants Administrator to work with departments to ensure all aspects of the grant follows Federal statutes, regulations and the terms and conditions of the award and that timely submittal of CPES reports occur for each grant program. The County has implemented a change in the chart of accounts structure so that expenditures and reimbursements by a third party can be easily tracked in the accounting system, completion 12/31/2018.

CFDA No.: 93.563 Child Support Enforcement
Finding No: 2015-104, 2014-104, 2013-006
Status: Not Corrected

Corrective Action Plan – Child Support Enforcement: To help ensure that the County employees payroll costs to the program are supported by timesheets, in 2018 the Finance Department implemented e-timesheets for all county departments to ensure timely and accurate reporting of hours worked. Finance Department hired a grants administrator in 2018 who will provide appropriate guidance, training, and program oversight to departments to ensure that financial results are accurate, current and complete, completion 12/31/2018.

CFDA No.: 93.069 Public Health Emergency Preparedness
Finding No.: 2017-108
Status: Not Corrected

Corrective Action Plan – To help ensure that the County sufficiently matches the federal award with nonfederal sources to support the program's goals, the County will develop and implement procedures for documenting its matching contributions during the award period. The County will also restructure its accounting system's account code structure to separately identify program expenditures that are reimbursed by the pass-through grantor.

CFDA No.: 93.069 Public Health Emergency Preparedness
Finding No.: 2017-109
Status: Not Corrected

Corrective Action Plan – To help ensure that it complies with 2 CFR §180.300 and §200.303 the program's requirements for suspension and debarment and managing the federal award in compliance with federal statutes, regulations and award terms and conditions, the County will establish written policies and procedures to verify that vendors have not been suspended or debarred prior to making payments and awarding contracts. The verification will be accomplished by obtaining vendor certifications with all contracts or adding clauses or conditions to contracts awards that are expected to equal or exceed $25,000. Documentation of the verification will be maintained in the procurement file.

CFDA No.: 10.665 – Schools and Roads—Grants to States
Finding No.: 2016-105, 2015-107
Status: Corrected

CFDA No.: 10.665 – Schools and Roads—Grants to States
Finding No.: 2017-110, 2016-106, 2015-106, 2014-106, 2013-007
Status: Not Corrected

Corrective Action Plan: In accordance with 2 CFR §200.305(b), and §200.303 The County will ensure the Board of Supervisors approves the program allocations prior to receiving program monies. Additionally, the County will minimize the time elapsing between the transfer of funds and disbursement by the recipient.

ARIZONA
Auditor General
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