

Santa Cruz County

Single Audit Report

Year Ended June 30, 2022



A Report to the Arizona Legislature

Lindsey A. Perry
Auditor General





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Annual Comprehensive Financial Report



LINDSEY A. PERRY
AUDITOR GENERAL

ARIZONA
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

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
Santa Cruz 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 U.S. Comptroller General, the financial statements of the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of Santa Cruz County as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 26, 2023.

Report on 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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the County's basic financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2022-01, 2022-02, 2022-03, 2022-04, and 2022-05 that we consider to be significant deficiencies.

Report on 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and that are described in the accompanying schedule of findings and questioned costs as items 2022-01 and 2022-02.

County response to findings

Government Auditing Standards requires the auditor to perform limited procedures on the County's responses to the findings identified in our audit that are presented in its corrective action plan at the end of this report. The County is responsible for preparing a corrective action plan to address each finding. The County's responses and corrective action plan were not subjected to the other 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 A. Perry

Lindsey A. Perry, CPA, CFE
Auditor General

September 26, 2023



LINDSEY A. PERRY
AUDITOR GENERAL

ARIZONA
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

**Independent auditors' report on compliance for each major federal program;
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
Santa Cruz County, Arizona

Report on compliance for each major federal program

Qualified and unmodified opinions

We have audited Santa Cruz County's compliance with the types of compliance requirements identified as subject to audit 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, 2022. The County's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Qualified opinions on WIOA Cluster and COVID-19 - Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)

In our opinion, except for the noncompliance described in the basis for qualified and unmodified opinions section of our report, the County complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the WIOA Cluster and the COVID-19 - Epidemiology and Laboratory Capacity for Infectious Diseases (ELC) program for the year ended June 30, 2022.

Unmodified opinion on COVID-19 - Coronavirus State and Local Fiscal Recovery Funds

In our opinion, the County complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the COVID-19 - Coronavirus State and Local Fiscal Recovery Funds program identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2022.

Basis for qualified and unmodified opinions

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 U.S. Comptroller General, and the audit requirement of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform

Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the auditors' responsibilities for the audit of compliance section of our report.

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

Matters giving rise to qualified opinions on WIOA Cluster and COVID-19 - Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)

As described in the accompanying schedule of findings and questioned costs, the County did not comply with requirements regarding the WIOA Cluster for earmarking as described in item 2022-101 and the COVID-19 - Epidemiology and Laboratory Capacity for Infectious Diseases (ELC) program for activities allowed or unallowed, allowable costs/cost principles, cash management, and reporting as described in item 2022-102. Compliance with such requirements is necessary, in our opinion, for the County to comply with the requirements applicable to these programs.

Management's responsibilities for compliance

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

Auditors' responsibilities for the audit of compliance

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

In performing an audit in accordance with U.S. generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the County's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.

- Obtain an understanding of the County's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over compliance. Accordingly, we express no such opinion.

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

Other matters

The results of our auditing procedures disclosed an instance of noncompliance that is required to be reported in accordance with the Uniform Guidance and that is described in the accompanying schedule of findings and questioned costs as item 2022-103. Our opinion on each major federal program is not modified with respect to this matter.

Report on internal control over compliance

Our consideration of internal control over compliance was for the limited purpose described in the auditors' responsibilities for the audit of compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

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 2022-101 and 2022-102 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 that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

County response to findings

Government Auditing Standards requires the auditor to perform limited procedures on the County's responses to the noncompliance and internal control over compliance findings that are presented in its corrective action plan at the end of this report. The County is responsible for preparing a corrective action

plan to address each finding. The County's responses and corrective action plan were not subjected to the other 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 County's governmental activities, business-type activities, each major fund, and aggregate remaining fund information as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the County's basic financial statements. We issued our report thereon dated September 26, 2023, that contained unmodified opinions on those financial statements. Our audit was performed 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 A. Perry

Lindsey A. Perry, CPA, CFE
Auditor General

September 26, 2023



SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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?	No
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?	None reported

Type of auditors' report issued on compliance for major programs

Qualified for the WIOA Cluster and COVID-19 - Epidemiology and Laboratory Capacity for Infectious Diseases (ELC) program and unmodified for the COVID-19 - Coronavirus State and Local Fiscal Recovery Funds program.

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

Assistance Listings number	Name of federal program or cluster
17.258/17.259/17.278	WIOA Cluster
21.027	COVID-19 - Coronavirus State and Local Fiscal Recovery Funds
93.323	COVID-19 - Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)

Dollar threshold used to distinguish between Type A and Type B programs	\$750,000
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Auditee qualified as low-risk auditee?	Yes
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Financial statement findings

2022-01

The County failed to provide key financial information to auditors timely and issued its *Annual Comprehensive Financial Report (ACFR)* late, resulting in untimely financial information to decision-makers

Condition—Contrary to State law, the County issued its ACFR for the year ended June 30, 2022, 15 months after fiscal year-end, 6 months later than required. Specifically, the County’s Finance Department failed to provide key financial information, such as complete financial statements, associated note disclosures, and supporting schedules, to auditors by established deadlines agreed upon at the beginning of the audit. The information was provided to auditors past the target dates.

Effect—The County’s Finance Department 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. Additionally, because the County had not issued timely financial statements, its *Annual Expenditure Limitation Report (AELR)*, which relies on information from the financial statements and was due 9 months after fiscal year-end, will also be issued late.

Cause—The County’s Finance Department, which was responsible for preparing its ACFR with the assistance of an outsourced third party, reported that it needed additional time and resources to gather, evaluate, and review information reported in the County’s financial statements, including information related to the implementation of Governmental Accounting Standards Board Statement No. 87, *Leases*, to ensure the financial statements were accurate and presented in accordance with generally accepted accounting principles before providing them for audit. Similarly, other County departments, such as Information Technology, Treasurer’s Office, and Assessor’s Office, did not provide key financial information to us in a timely manner, and additional time was needed to evaluate the issues described in finding 2022-02 for the Assessor’s Office.

Criteria—State law requires the County to issue its audited financial statements and AELR within 9 months after fiscal year-end, or by March 31, 2023, for the June 30, 2022, financial statements and AELR (Arizona Revised Statutes §41-1279.07[C]).

Recommendations—The County should:

1. Provide key financial information to us by the agreed-upon deadlines established at the beginning of the audit to ensure timely issuance of its audited financial statements.
2. Allocate or acquire sufficient resources to compile its ACFR in a timely manner.

The County’s corrective action plan at the end of this report includes the views and planned corrective action of its responsible officials. We are not required to audit and have not audited these responses and planned corrective actions and therefore provide no assurances as to their accuracy.

2022-02

The County Assessor's Office did not follow State property-valuation laws and guidelines for some properties we reviewed and did not have an oversight process, which contributed to inaccurate valuations and may have allowed the former County Assessor to allegedly engage in bribery schemes to alter property values in exchange for providing reduced property taxes and other benefits to a property owner also allegedly involved in the schemes

Condition—The County Assessor's Office (Office) did not follow State laws and guidelines regarding property valuations, did not maintain required documentation for property-valuation adjustments for some properties we reviewed, and did not have an oversight process for its property valuations. Our review of the Office's property-valuation process for 42 properties, including certain properties we selected to test because they were identified in the former County Assessor's and alleged co-conspirators' indictments, found the following internal control weaknesses for 24 of the 42 properties reviewed (see Effect section below for information on the indictments):

- For all 11 agricultural properties we reviewed, the Office could not demonstrate it complied with State law requiring it to use the income approach for valuing the properties.¹ The Office used an estimate that was several years old to value agricultural grazing land at \$20 per acre as the full cash value; however, the Office had not retained documentation supporting the estimate's underlying basis and how it complied with State law. Further, the Office had not evaluated whether the estimate remained valid to use or required adjustments. Upon our notifying the Office of these issues, the Office prepared and provided an income approach estimate of \$21 per acre using net rental income from its agricultural property lease data that may have complied with State law.¹
- For 11 of the 15 commercial properties we reviewed, including 2 that pertained to the indictments, the Office did not collect and retain property characteristics data, as required by industry standards, to support property-valuation adjustments it made, including increases or decreases in the property's value and its cost data or classification.² Most of these adjustments had the effect of reducing the property's valuation, thereby reducing the property tax associated with the property. For example, some classification changes were made to reduce the properties' assessed valuations due to external impairments, referred to as economic obsolescence factors, which results in the property valuation as a percentage value lower than its previously assessed value.³
- For 1 of the 15 commercial properties described above, which consisted of a cement slab that was mentioned in the indictments, the former County Assessor allegedly decreased this property's value from \$2 million to \$1.4 million after the property owner submitted an appeal in 2018 for its valuation to be reassessed. Additionally, County records stated the property owner subsequently added improvements to this same property such that its market value increased over 121 percent. However, the Office did not establish a limited property value based on the modifications to the property, as required by State law.⁴
- For 2 vacant land properties we reviewed that were sold in an auction, the Office did not prepare and retain documentation to support the valuation approach used was consistent with Arizona Department of Revenue (ADOR) guidance and may have under or overvalued the properties. We found that 58 additional land parcels, for a total of 60 land parcels, were purchased by the property owner in the same transaction, and none had documentation supporting their valuation.
- Finally, contrary to federal internal control standards, the Office did not have any oversight mechanisms in place to review and ensure the accuracy and appropriateness of its property valuations.

Effect—The Office’s internal control weaknesses, including the lack of oversight of its property-valuation processes contributed to properties we reviewed being valued incorrectly and may have allowed the former County Assessor to allegedly engage in bribery schemes, in which he allegedly co-conspired with a property owner and another individual in the community for personal gain, without these activities being prevented or detected in a timely manner. Specifically, during fiscal year 2022, the former County Assessor, who was in office until April 2020, was charged with a felony for allegedly accepting \$20,000 in cash payments and other benefits, such as free use of a 17-acre ranch, as bribes to manipulate property valuations to benefit a property owner who was indicted, along with another individual, for allegedly co-conspiring in the bribery schemes with the former County Assessor.⁵

The County levied and collected property taxes totaling \$18.7 million during fiscal year 2022, comprising almost half of the fiscal year’s total general revenues on the Statement of Activities. Our review of the County Assessor’s Office’s property-valuation process revealed that, although the alleged bribery schemes may have affected specific properties and property owners, they did not appear to be pervasive to the County’s total property tax revenues. However, ultimately, during fiscal year 2022, the County may have levied and received less property tax revenues than it was entitled to, which means the County would have less monies available for serving its residents.

Cause—The Office lacked policies and procedures specifying the documentation required to be maintained to support its property valuations as well as the necessary approvals. Specifically, the Office did not have written policies and procedures to require documentation supporting property valuations, valuation adjustments, and revaluations, including the consideration of factors that may result in property value gains or losses such as modifications by construction, destruction, or demolition. Further, the Office did not have policies and procedures requiring oversight and approvals of its property valuations, valuation adjustments, and revaluations to ensure they were appropriate.

Criteria—State law specifies certain requirements related to property valuation, including that agricultural properties are to be valued using the income approach without any allowances for urban or market influences (A.R.S. §42-13101) and that ADOR has the responsibility to exercise general supervision over county assessors’ administration of the State’s property tax laws to ensure all property within the State is uniformly valued for property tax purposes (A.R.S. §42-13002). As such, ADOR forms and guidelines specify the property-valuation approaches county assessors shall use when performing property valuations. Further, the assessing officers’ and appraisers’ technical standards provide guidance on various topics related to property valuations, including mass appraisals, that certified professionals involved in property valuations are required to follow.⁶ Finally, developing and implementing written policies and procedures over the County’s property-valuation process, including overseeing the process and monitoring adherence to the County’s policies and procedures, that are based on internal control standards such as the *Standards for Internal Control in the Federal Government*, are an integral part of preventing or detecting fraud and errors and are essential components in internal control for achieving the County’s and Office’s financial reporting and compliance objectives related to property taxes.⁷

Recommendations—The Office should:

1. Develop and implement written policies and procedures to align its property-valuation process with State laws, ADOR guidance, and assessing officers’ and appraisers’ technical standards, including the use of the income approach for valuing agricultural properties and revaluing properties when required.
2. Prepare and retain documentation to support property valuations, valuation adjustments, and revaluations for all property assessed and require oversight, review, and approval of such documentation and the valuations, valuation adjustments, and revaluations prior to recording them in the Office’s system.

3. Develop guidance to consistently apply and support economic obsolescence factors that result in a loss in property value, such as the deterioration of a neighborhood, and obtain documentation for and analyze these factors consistently when valuing property.
4. Work with ADOR to compile, analyze, and validate data for the estimates it uses to value agricultural property within the County.

The County's corrective action plan at the end of this report includes the views and planned corrective action of its responsible officials. We are not required to audit and have not audited these responses and planned corrective actions and therefore provide no assurances as to their accuracy.

¹ State law requires land used for agricultural purposes to be valued using the income approach without any allowances for urban or market influences (A.R.S. §42-13101). For property-valuation purposes, a property's *market value* or *full cash value* has the same meaning but cannot be used for valuing agricultural property. Instead, the income approach is prescribed and estimates the property's price equal to what a willing and prudent investor would pay to acquire the income a property is capable of earning over its economic life; therefore, agricultural property valuation is based on the net present value of the property's potential income stream. (Arizona Department of Revenue. [2011.] *Approaches to value* [pp. 1-2 and 18-21]. Retrieved 7/13/2023 from https://azdor.gov/sites/default/files/2023-03/PROPERTY_ApproachesToValue.pdf).

² International Association of Assessing Officers (IAAO). (2022). *Standard on Mass Appraisal of Real Property* (pp. 2-4). Retrieved 8/29/2023 from <https://www.iaao.org/media/standards/StandardOnMassAppraisal.pdf>.

³ Arizona Department of Revenue. (2011.) *Approaches to value* (pp. 12-18). Retrieved 7/13/2023 from https://azdor.gov/sites/default/files/2023-03/PROPERTY_ApproachesToValue.pdf.

⁴ Full cash value is generally considered market value. (Arizona Department of Revenue. [2011.] *Approaches to value* [pp. 1-2]. Retrieved 7/13/2023 from https://azdor.gov/sites/default/files/2023-03/PROPERTY_ApproachesToValue.pdf). Limited property value is the value used for assessing property taxes and is either equal to or less than full cash value. State law requires that the limited property value of property that has been modified by construction, destruction, or demolition since the preceding valuation year, such that the total value of the modification is equal to or greater than 15 percent of the full cash value, be established at a level or percentage of full cash value that is comparable to that of other properties of the same or a similar use or classification (A.R.S. §42-13302(A)).

⁵ Information—Felony, United States v. Fuentes, CR 22-00824-JCH-JR (D. Ariz. April 22, 2022), ECF No. 2, and Superseding Indictment, United States v. Flores, et al., CR 22-00820-JCH-JR (D. Ariz. April 13, 2023), ECF No. 87.

⁶ International Association of Assessing Officers (IAAO). (2022). *IAAO Technical Standards Executive Summaries* (pp. 2,4,6, and 8). Retrieved 7/13/2023 from https://www.iaao.org/media/standards/Technical_Standards_Summary.pdf.

⁷ U.S. Government Accountability Office. (2014). *Standards for internal control in the federal government*. Retrieved 7/13/2023 from <https://www.gao.gov/assets/670/665712.pdf>.

2022-03

The County's deficiencies in its process for managing and documenting its risks may put its operations and IT systems and data at unintended and unnecessary risk of potential harm

Condition—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 systems and data. 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.

Effect—The County's administration and IT management may put the County's operations and IT systems and data at unintended and unnecessary risk of potential harm.

Cause—The County's administration and IT management reported that they relied on informal processes and did not prioritize developing and implementing written policies and procedures due to employee turnover.

Criteria—Establishing a process for managing risk that follows a credible industry source, such as the National Institute of Standards and Technology, helps the County to effectively manage risk related to IT systems and data. Effectively managing risk includes an entity-wide risk-assessment process that involves members of the County’s administration and IT management. An effective risk-assessment process helps the County determine the risks it faces as the County 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. Additionally, an effective risk-management process provides the County the basis for developing appropriate responses based on identified risk tolerances and specific potential risks to which it might be subjected. To help ensure the County’s objectives can be met, an effective annual risk assessment considers and identifies IT risk in the County’s operating environment, analyzes and prioritizes each identified risk, and develops a plan to respond to each risk within the context of the County’s defined objectives and risk tolerances. Finally, effectively managing risk includes the County’s process for identifying, classifying, and inventorying sensitive information that might need stronger access and security controls to address the risk of unauthorized access and use, modification, or loss of that sensitive information and the process of evaluating risk of losing the continuity of business operations in the event of a disaster or system interruption.

Recommendations—The County’s administration and IT management should:

1. Prioritize developing, documenting, and implementing written IT policies and procedures; developing a process to manage risks; and determining where to implement critical controls.
2. 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.
3. 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.
4. 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 organization’s operations, such as public safety and payroll and accounting, and determine how to prioritize and plan for recovery.

The County’s corrective action plan at the end of this report includes the views and planned corrective action of its responsible officials. We are not required to audit and have not audited these responses and planned corrective actions and therefore provide no assurances as to their accuracy.

This finding is similar to prior-year finding 2021-01 and was initially reported in fiscal year 2021.

2022-04

The County's control procedures over IT systems and data were not sufficient, which increases the risk that the County may not adequately protect those systems and data

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

- **Restricting access**—Procedures did not consistently help prevent or detect unauthorized or inappropriate access to its IT systems and data.
- **Managing system configurations and changes**—Procedures did not ensure configuration settings were securely maintained and all IT system changes were adequately managed.
- **Securing systems and data**—IT security policies and procedures lacked controls to prevent unauthorized or inappropriate access or use, manipulation, damage, or loss.
- **Ensuring operations continue**—Contingency plan should include steps necessary for restoring operations in the event of a disaster or other system 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's administration and IT management reported that they relied on informal processes and did not prioritize developing and implementing written policies and procedures due to employee turnover.

Criteria—Implementing effective internal controls that follow a credible industry source, such as the National Institute of Standards and Technology, help the County to protect its IT systems and ensure the integrity and accuracy of the data it maintains, as follows:

- **Restrict access through logical controls**—Helps to ensure systems and data are accessed by users who have a need, systems and data access granted is appropriate, and key systems and data access is monitored and reviewed.
- **Manage system configurations and changes through 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.
- **Secure systems and data through IT security internal control policies and procedures**—Helps prevent, detect, and respond to instances of unauthorized or inappropriate access or use, manipulation, damage, or loss to its IT systems and data.
- **Ensure operations continue through a 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.

Recommendations—The County should:

1. Make it a priority to develop and document comprehensive IT policies and procedures and develop a process to ensure the procedures are being consistently followed.

Restrict access—To restrict access to its IT systems and data, develop, document, and implement processes to:

2. Assign and periodically review employee user access ensuring appropriateness and compatibility with job responsibilities.
3. Remove terminated employees' access to IT systems and data.
4. Review all other account access to ensure it remains appropriate and necessary.
5. Enhance authentication requirements for IT systems.

Manage system configurations and changes—To configure IT systems securely and manage system changes, develop, document, and implement processes to:

6. Establish and follow a documented change-management process.
7. Review proposed changes for appropriateness, justification, and security impact.
8. Document changes, testing procedures and results, change approvals, and post-change review.
9. Develop and document a plan to roll back changes in the event of a negative impact to IT systems.
10. Test changes prior to implementation.
11. Separate responsibilities for the change-management process or, if impractical, perform a post-implementation review to ensure the change was implemented as approved.
12. Maintain configurations for all system services, assets, and infrastructure; manage configuration changes; and monitor the system for unauthorized or unintended configuration changes.

Secure systems and data—To secure IT systems and data, develop, document, and implement processes to:

13. Perform proactive key user and system activity logging and log monitoring, particularly for users with administrative access privileges.
14. Prepare and implement a security incident response plan clearly stating how to report and handle such incidents.
15. Provide all employees with ongoing training on IT security risks and their responsibilities to ensure systems and data are protected.

Ensure operations continue—To ensure operations continue, develop, document, and implement processes to:

16. Develop and implement a 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.
17. Test the contingency plan.
18. Train staff responsible for implementing the contingency plan.

The County's corrective action plan at the end of this report includes the views and planned corrective action of its responsible officials. We are not required to audit and have not audited these responses and planned corrective actions and therefore provide no assurances as to their accuracy.

This finding is similar to prior-year finding 2021-02 and was initially reported in fiscal year 2015.

2022-05

The County Superior Court lacked written agreements and monitoring procedures to ensure it received all the indigents' legal defense services for which it paid \$832,456 to 28 attorneys during the year, putting the County at risk of wasting public monies

Condition—The County Superior Court (Court) lacked written contractual agreements with the attorneys who provided indigents' legal defense services and did not require documentation of services billed for or conduct monitoring of the attorneys' performance. Specifically, through email communications, the Court established informal agreements with the 28 attorneys it selected to provide indigents' legal defense services, specifying only 1 allowed hourly billing rate of \$80 for the services provided during fiscal year 2022 but no required documentation to support their billed services, such as court hearings and meeting attendee names, dates and times, and sign-in logs, for the Court to verify the billings' accuracy. During the year, the 28 attorneys billed the Court, and it paid them a total of \$832,456 for indigents' legal defense services. Of this amount, 2 attorneys received \$219,900, or 26 percent.¹

Effect—The Court risks being overbilled and paying for services it does not receive or need or for poor quality services that may have taken longer than reasonable to perform. Specifically, the Court risks having wastefully paid some of the \$832,456 to the attorneys for indigents' legal defense services during the fiscal year.

Cause—The County did not have policies and procedures that required written contractual agreements and monitoring of professional services contracts and billings. Therefore, the Court's employees instead followed an informal process of hiring indigents' legal defense attorneys without contractual agreements that specified terms, such as the specific services the attorneys were to provide and what support they should provide when billing for services.

Criteria—Establish and implement effective written policies and procedures to guide the County's oversight of professional services contracting. These include requiring a written contract for the services and monitoring billings to ensure services were provided before approving payment. Such policies and procedures are an essential part of internal control standards, such as the *Standards for Internal Control in the Federal Government* issued by the Comptroller General of the United States. They are integral to preventing the waste of public monies and ensuring that the County receives the intended services and is not overbilled.²

Recommendations—The County should:

1. Develop and implement written policies and procedures for professional services contract oversight, including requiring a written contract agreement for the services and staff requirements for monitoring contract performance and subsequent billings. The written contract agreements should clearly specify items such as the scope of services to be provided to the County, including the service provider's compensation or fees for specific services and the billing arrangements; any expected performance criteria and deliverables and reporting to the County; whether the contract is subject to additional approval if it exceeds a certain total amount; and documentation and records that are required to be submitted to the County either with the billing or if requested.
2. Require the Court to follow the County's newly established policies and procedures for written contractual agreements. Ensure the Court establishes written contractual agreements that include specific terms for attorneys it selects to provide indigent legal defense services and monitor each attorney's performance and receipt of the intended services and associated billings, such as reviewing billing invoices against supporting documentation requested from the attorney or performing an analysis of the work performed from Court records.

The County's corrective action plan at the end of this report includes the views and planned corrective action of its responsible officials. We are not required to audit and have not audited these responses and planned corrective actions and therefore provide no assurances as to their accuracy.

This finding is similar to prior-year finding 2021-03 and was initially reported in fiscal year 2021.

¹ During the fiscal year 2021 audit, the County Attorney's Office and the County's Superior Court Administrator notified us that they were concerned that the County may not have received the services it paid for and could have been overbilled by at least 1 attorney who provided indigents' legal defense services. We reported that the Court paid that 1 attorney \$205,637, or 32 percent, of the total \$645,229 of indigents' legal defense services it paid for fiscal year 2021 (Arizona Auditor General. [2022] Santa Cruz County, June 30, 2021, *Single Audit Report*, Phoenix, AZ). For fiscal year 2022, we noted from the County's general ledger records the Court paid its 28 attorneys providing these services a total of \$832,456, of which it paid 2 attorneys \$219,900, or 26 percent, with the remaining 26 attorneys receiving a combined \$612,556, or 74 percent.

² U.S. Government Accountability Office (GAO). (2014). *Standards for internal control in the federal government*. Retrieved on 06/01/2023 from <https://www.gao.gov/assets/670/665712.pdf>.

Federal award findings and questioned costs

2022-101

Cluster name:

WIOA Cluster

Assistance Listings numbers and names:

17.258 **WIOA Adult Program**

17.259 **WIOA Youth Activities**

17.278 **WIOA Dislocated Worker Formula Grants**

Award number and years:

DI21-002288 A1, April 1, 2020 through June 30, 2023

Federal agency:

U.S. Department of Labor

Pass-through grantor:

Arizona Department of Economic Security

Compliance requirement:

Earmarking

Questioned costs:

\$114,224

Condition—Contrary to federal regulation, the County's Workforce Development Department (Department) failed to ensure that it spent the required 75 percent, or \$289,562, of WIOA Youth Activities monies earmarked to provide services to out-of-school youth from April 2020 through June 2022. Instead, the Department spent only 45 percent, or \$175,338, of the required 75 percent and spent the remaining 30 percent, or \$114,224, to provide services to in-school youth, which was an allowable activity for the program but did not meet the earmarking requirements.

Effect—County out-of-school youth did not receive the \$114,224 in services that the federal program intended.

Cause—The Department used a tracking mechanism to report its in-school youth and out-of-school youth spending throughout the fiscal year but did not have written policies and procedures requiring it to properly monitor and adjust its spending to provide in-school and out-of-school youth services to ensure earmarking requirements are met during the fiscal year and throughout the award period. Also, the Department reported that, due to the demographic constraints within the County, it did not have an effective strategy to recruit and retain qualified out-of-school youth who would benefit from the federal program services.

Criteria—Federal regulation requires the Department to earmark and spend no less than 75 percent of its WIOA Youth Activities monies on out-of-school youth services. Additionally, federal regulation also

requires the Department to monitor such expenditures and report them to the pass-through grantor monthly throughout the award period to ensure it is spending the monies in a timely manner to meet the earmarking requirement (20 CFR §681.410). Also, federal regulation requires establishing and maintaining effective internal control over federal awards that provides reasonable assurance that federal programs are being managed in compliance with all applicable laws, regulations, and award terms (2 CFR §200.303).

Recommendations—The Department should:

1. Spend no less than the required 75 percent of its WIOA Youth Activities monies to provide out-of-school youth services.
2. Develop written policies and procedures for its WIOA Youth Activities program to:
 - a. Work with the pass-through grantor or federal agency to develop an effective strategy to recruit and retain qualified out-of-school youth who will benefit from program services.
 - b. Monitor its out-of-school services spending throughout the fiscal year and award period.
 - c. Adjust spending to meet the earmarking requirement if out-of-school youth participation is lower than expected.

The County's corrective action plan at the end of this report includes the views and planned corrective action of its responsible officials. We are not required to audit and have not audited these responses and planned corrective actions and therefore provide no assurances as to their accuracy.

2022-102

Assistance Listings number and name:

93.323 **COVID-19 - Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)**

Award numbers and years:

IGA2021-036/CTR050658, July 1, 2020 through February 28, 2023; IGA2021-062/CTR058658, September 1, 2020 through May 31, 2024; CTR059269, May 1, 2021 through May 31, 2022; CTR057133, December 1, 2021 through May 1, 2022

Federal agency:

U.S. Department of Health and Human Services

Pass-through grantor:

Arizona Department of Health Services

Compliance requirements:

Activities allowed or unallowed, allowable costs/cost principles, cash management, and reporting

Questioned costs:

\$66,984

Condition—Contrary to the County's award terms with the Arizona Department of Health Services (ADHS), the County's Health Services Department (Department) requested and received reimbursement of federal program monies related to the County's Border Region Partnership award (award number CTR057133 for the period of December 1, 2021 through May 1, 2022) for services it did not provide and for which it was ineligible to be reimbursed. Specifically, the Department requested and received reimbursement totaling \$83,330 when its records reflected that it incurred only \$16,346 in program expenditures during the award period and during the fiscal year.

Effect—The Department received \$66,984 of federal program monies for which it did not provide services, such as vaccinations and related education services to the Arizona border region's residents. As a result, Arizona's border residents may not have received needed services that these monies could have provided. Further, the County may be required to repay these monies to ADHS.¹ We extended auditing procedures and determined that these questioned costs affected only the County's Border Region

Partnership award, representing approximately 8 percent of the County's total program expenditures of \$788,255 for fiscal year 2022.

Cause—County management reported that it misinterpreted the award's payments arrangements, which it believed to be made on a monthly fixed-price basis regardless of the number of service units the County provided and subsequently received reimbursement for \$83,330 during the award's 6-month term, rather than requesting and being paid for the actual number of service units provided. Additionally, the County lacked written policies and procedures for the Department to follow to record or prepare and maintain documentation supporting the number of service units the Department provided under the award.

Criteria—The County's Border Region Partnership award agreement with ADHS specified it was a cost-reimbursement award with a fixed price per service unit that required the County to be reimbursed based on the number of service units it provided. The monthly fixed price amount included in the award represented the maximum amount ADHS would pay the County for providing the services each month as long as the monthly reimbursement did not exceed that amount.² Also, federal regulation requires the County to establish and maintain effective internal control over federal awards that provides reasonable assurance that federal programs are being managed in compliance with all applicable laws, regulations, and award terms (2 CFR §200.303).

Recommendations—The County should:

1. Require the Department to request reimbursement of federal program monies for only those reasonable and allowable actual program costs it incurs that are funded on a cost-reimbursement basis.
2. Work with the pass-through grantor, ADHS, to repay award amounts the County received in excess of amounts it was eligible to receive.
3. Develop and implement written policies and procedures for recording the actual number of units of goods or services it provides when providing services under a federal award with fixed price per unit arrangements. These policies and procedures should include steps for departments to follow to document the support for costs when requesting reimbursement of federal program monies to help ensure that they request reimbursement for only actual costs incurred under federal programs.

The County's corrective action plan at the end of this report includes the views and planned corrective action of its responsible officials. We are not required to audit and have not audited these responses and planned corrective actions and therefore provide no assurances as to their accuracy.

¹ The County may be required to repay the federal government, or its pass-through grantor as in this case, for any federal monies the County received in excess of the amount to which a federal agency or pass-through grantor determines the County is entitled under the program's award terms (2 CFR §200.346).

² Arizona Department of Health Services. (2021.) *Intergovernmental Agreement Terms and Conditions, Contract No. CTR057133, Project title: Border Region Partnership with Santa Cruz County*, Sec. 1.8, 1.10, 2, and 5.2.2. Phoenix, AZ.

2022-103

Assistance Listings numbers and names: Not applicable
Questioned costs: Not applicable

Condition—Contrary to federal regulation, the County did not submit its June 30, 2022, *Single Audit Report* to the federal audit clearinghouse until September 2023, which was 6 months later than required.

Effect—The County submitting its *Single Audit Report* late prevents the federal government and other grantors of federal awards from having current information to effectively monitor their programs and could delay corrective actions that need to be taken by the County. Further, federal grantors may deny the County future federal awards or subject it to additional cash-monitoring requirements. 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 compliance requirements over the County's major federal programs.

Cause—The County failed to prepare its June 30, 2022, *Annual Comprehensive Financial Report* in a timely manner for the reasons we reported in finding 2022-01, which delayed the completion of the Single Audit.

Criteria—Federal regulation requires the County to submit its *Single Audit Report* to the federal audit clearinghouse no later than 9 months after the fiscal year-end, or by March 31, 2023, for the County's June 30, 2022, *Single Audit Report* (2 CFR §200.512).

Recommendations—The County should improve its financial reporting process, as noted in finding 2022-01, so that it can submit all future Single Audit Reports on or before the federally required submission deadline, which is no later than 9 months after fiscal year-end or by March 31 of the subsequent year.

The County's corrective action plan at the end of this report includes the views and planned corrective action of its responsible officials. We are not required to audit and have not audited these responses and planned corrective actions and therefore provide no assurances as to their accuracy.

COUNTY SECTION

SANTA CRUZ COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Period 7/1/2021 - 6/30/2022

Federal Awarding Agency/Program Title	Federal CFDA Number	Additional Award Identification (Optional)	Name of Funder Pass-Through Entity	Identifying Number Assigned By Funder Pass-Through Entity	Total Amount Provided to Sub-Recipients	Federal Expenditures	Federal Program Total	Cluster Name	Cluster Total
DEPARTMENT OF AGRICULTURE									
RURAL BUSINESS DEVELOPMENT GRANT	10.351					\$41,750	\$41,750	N/A	\$0
SCHOOLS AND ROADS - GRANTS TO STATES	10.665					\$287,841	\$287,841	FOREST SERVICE SCHOOLS AND ROADS CLUSTER	\$287,841
TOTAL DEPARTMENT OF AGRICULTURE						<u>\$329,591</u>			
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT									
COVID-19 COMMUNITY DEVELOPMENT BLOCK GRANTS/STATE'S PROGRAM AND NON-ENTITLEMENT GRANTS IN HAWAII	14.228	COVID-19	ARIZONA DEPARTMENT OF HOUSING	140-21		\$459,197	\$684,870	N/A	\$0
COMMUNITY DEVELOPMENT BLOCK GRANTS/STATE'S PROGRAM AND NON-ENTITLEMENT GRANTS IN HAWAII	14.228		ARIZONA DEPARTMENT OF HOUSING	121-20	\$225,673	\$225,673	\$684,870	N/A	\$0
TOTAL DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT					<u>\$225,673</u>	<u>\$684,870</u>			
DEPARTMENT OF JUSTICE									
DRUG COURT DISCRETIONARY GRANT PROGRAM	16.585					\$60,618	\$60,618	N/A	\$0
STATE CRIMINAL ALIEN ASSISTANCE PROGRAM	16.606					\$93,351	\$93,351	N/A	\$0
STOP SCHOOL VIOLENCE	16.839					\$189,178	\$189,178	N/A	\$0
TOTAL DEPARTMENT OF JUSTICE						<u>\$343,147</u>			
DEPARTMENT OF LABOR									
WIA ADULT PROGRAM	17.258		ARIZONA DEPARTMENT OF ECONOMIC SECURITY	DI21-002288 A1		\$258,351	\$258,351	WIOA CLUSTER	\$923,708
WIA YOUTH ACTIVITIES	17.259		ARIZONA DEPARTMENT OF ECONOMIC SECURITY	DI21-002288 A1		\$440,088	\$440,088	WIOA CLUSTER	\$923,708
H-1B JOB TRAINING GRANTS	17.268		PIMA COUNTY	CT-CR-21-361		\$33,706	\$33,706	N/A	\$0
WIA DISLOCATED WORKER FORMULA GRANTS	17.278		ARIZONA DEPARTMENT OF ECONOMIC SECURITY	DI21-002288 A1		\$225,269	\$225,269	WIOA CLUSTER	\$923,708
TOTAL DEPARTMENT OF LABOR						<u>\$957,414</u>			
DEPARTMENT OF TRANSPORTATION									
STATE AND COMMUNITY HIGHWAY SAFETY	20.600		ARIZONA GOVERNOR'S OFFICE OF HIGHWAY SAFETY	2022-AL-031 2022-PTS-059 2021-AL-029 2021-PTS-060 2021-09-019		\$30,739	\$30,739	HIGHWAY SAFETY CLUSTER	\$30,739
INTERAGENCY HAZARDOUS MATERIALS PUBLIC SECTOR TRAINING AND PLANNING GRANTS	20.703		ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY	693IK31940003HMPEP		\$40,871	\$40,871	N/A	\$0
TOTAL DEPARTMENT OF TRANSPORTATION						<u>\$71,610</u>			
DEPARTMENT OF TREASURY									
CORONAVIRUS STATE AND LOCAL FISCAL RECOVERY FUNDS	21.027	COVID-19	STATE OF ARIZONA OFFICE OF THE GOVERNOR	ISA-ARPA-COSC-042022-104		\$13,054	\$317,619	N/A	\$0
CORONAVIRUS STATE AND LOCAL FISCAL RECOVERY FUNDS	21.027	COVID-19				\$304,565	\$317,619	N/A	\$0
TOTAL DEPARTMENT OF TREASURY						<u>\$317,619</u>			
DEPARTMENT OF EDUCATION									
ADULT EDUCATION - BASIC GRANTS TO STATES	84.002		ARIZONA DEPARTMENT OF EDUCATION	22FPRLEC-213397-01A 22FEAEWF-213397-01 22FABASC-213397-01A 22FELCC-213397-01A 22FIETCO-213397-01A		\$148,899	\$148,899	N/A	\$0
TITLE I STATE AGENCY PROGRAM FOR NEGLECTED AND DELINQUENT CHILDREN AND YOUTH	84.013		ARIZONA DEPARTMENT OF EDUCATION	22FLCCL-213341-02A 21FLCCL-113341-02A		\$7,450	\$7,450	N/A	\$0
SPECIAL EDUCATION GRANTS TO STATES	84.027		ARIZONA DEPARTMENT OF EDUCATION	22FESCBG-210731-09A 21FESCBG-110731-09A 21FESCBG-110725-09A		\$1,014	\$1,047	SPECIAL EDUCATION CLUSTER (IDEA)	\$1,047
COVID-19 SPECIAL EDUCATION GRANTS TO STATES	84.027	COVID-19	ARIZONA DEPARTMENT OF EDUCATION	22FARPIB-210731-01A		\$33	\$1,047	SPECIAL EDUCATION CLUSTER (IDEA)	\$1,047
GAINING EARLY AWARENESS AND READINESS FOR UNDERGRADUATE PROGRAMS	84.334				\$49,327	\$696,749	\$696,749	N/A	\$0
EDUCATION STABILIZATION FUND	84.425	COVID-19, 84.425D	ARIZONA DEPARTMENT OF EDUCATION	20FERFNT-013341-01A		\$4,887	\$28,627	N/A	\$0
EDUCATION STABILIZATION FUND	84.425	COVID-19, 84.425U	ARIZONA DEPARTMENT OF EDUCATION	CTROS9763		\$23,740	\$28,627	N/A	\$0
TOTAL DEPARTMENT OF EDUCATION					<u>\$49,327</u>	<u>\$882,772</u>			
DELTA REGIONAL AUTHORITY or DENALI COMMISSION or ELECTION ASSISTANCE COMMISSION or JAPAN U.S. FRIENDSHIP COMMISSION									
2018 HAVA ELECTION SECURITY GRANTS	90.404		ARIZONA SECRETARY OF STATE	AZ18101001		\$329	\$329	N/A	\$0
TOTAL DELTA REGIONAL AUTHORITY or DENALI COMMISSION or ELECTION ASSISTANCE COMMISSION or JAPAN U.S. FRIENDSHIP COMMISSION						<u>\$329</u>			
DEPARTMENT OF HEALTH AND HUMAN SERVICES									
PUBLIC HEALTH EMERGENCY PREPAREDNESS	93.069		ARIZONA DEPARTMENT OF HEALTH SERVICES	ADHS17-133199 CTROS5219 (PO348019) CTROS3795-1 (PO244023)		\$246,952	\$246,952	N/A	\$0
FOOD AND DRUG ADMINISTRATION RESEARCH	93.103		ASSOCIATION OF FOOD AND DRUG OFFICIALS	G-T-1810-06398 G-MP-2105-09377		\$41,665	\$41,665	N/A	\$0
IMMUNIZATION COOPERATIVE AGREEMENTS	93.268	COVID-19	ARIZONA DEPARTMENT OF HEALTH SERVICES	ADHS18-177689 (AMENDMENT #6) CTRO37848 (PO342467) CTRO37848-1 (PO256138) ADHS18-177689 (AMENDMENT #6) CTRO37848-4 (PO322896) IGA2021-062	\$261,810	\$351,029	\$351,029	N/A	\$0
EPIDEMIOLOGY AND LABORATORY CAPACITY FOR INFECTIOUS DISEASES (ELC)	93.323	COVID-19	ARIZONA DEPARTMENT OF HEALTH SERVICES	IGA2021-036 CTROS8663 CTROS9269 CTROS7133 CTROS0658		\$788,255	\$788,255	N/A	\$0
PUBLIC HEALTH EMERGENCY RESPONSE: COOPERATIVE AGREEMENT FOR EMERGENCY RESPONSE: PUBLIC HEALTH CRISIS RESPONSE	93.354	COVID-19	ARIZONA DEPARTMENT OF HEALTH SERVICES	ADHS17-133199 (AMENDMENT #7 & #8)		\$8,060	\$8,060	N/A	\$0
CHILD SUPPORT ENFORCEMENT	93.563		ARIZONA DEPARTMENT OF ECONOMIC SECURITY	G1804A24004		\$98,979	\$98,979	N/A	\$0
SOCIAL SERVICES BLOCK GRANT	93.667		SOUTHEASTERN ARIZONA GOVERNMENTS ORGANIZATION	121-22		\$7,956	\$7,956	N/A	\$0
TOTAL DEPARTMENT OF HEALTH AND HUMAN SERVICES						<u>\$261,810</u>	<u>\$1,542,896</u>		

EXECUTIVE OFFICE OF THE PRESIDENT

				HT-20-2954						
				HT-21-2954						
				HT-20-2951						
				HT-21-2951						
				HT-22-2951						
HIGH INTENSITY DRUG TRAFFICKING AREAS PROGRAM	95.001		CITY OF TUCSON			\$450,347	\$450,347	N/A	\$0	
TOTAL EXECUTIVE OFFICE OF THE PRESIDENT							<u>\$450,347</u>			
DEPARTMENT OF HOMELAND SECURITY										
DISASTER GRANTS - PUBLIC ASSISTANCE (PRESIDENTIALLY DECLARED DISASTERS)	97.036	COVID-19	ARIZONA DEPARTMENT OF EMERGENCY AND MILITARY AFFAIRS	DR-4524-COVID-19		\$38,367	\$38,367	\$38,367	N/A	\$0
EMERGENCY MANAGEMENT PERFORMANCE GRANTS	97.042		ARIZONA DEPARTMENT OF EMERGENCY AND MILITARY AFFAIRS	EMF-2021-EP-00016-S01		\$101,607	\$101,607	N/A	\$0	
				200403-02						
				200431-01						
				210440-01						
HOMELAND SECURITY GRANT PROGRAM	97.067		ARIZONA DEPARTMENT OF HOMELAND SECURITY	200431-02		\$641,751	\$641,751	N/A	\$0	
TOTAL DEPARTMENT OF HOMELAND SECURITY							<u>\$38,367</u>	<u>\$781,725</u>		
TOTAL EXPENDITURE OF FEDERAL AWARDS							<u>\$575,177</u>	<u>\$6,362,320</u>		

Please Note:

Italicized award lines indicate pass-through funding

The accompanying Notes to the Schedule of Expenditures of Federal Awards are an integral part of the schedule.

SANTA CRUZ COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Period 7/1/2021 - 6/30/2022

Significant Accounting Policies Used in Preparing the SEFA

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.

10% De Minimis Cost Rate

The County elected to use the 10 percent de minimis indirect cost rate as covered in 2 CFR §200.414.

Basis of presentation

The accompanying schedule of expenditures of federal awards (schedule) includes Santa Cruz County's federal grant activity for the year ended June 30, 2022. 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.

Federal Assistance Listings number

The program titles and Federal Assistance Listings numbers were obtained from the federal or pass-through grantor or the 2022 Federal Assistance Listings.

COUNTY RESPONSE



ADMINISTRATIVE SERVICES
SANTA CRUZ COUNTY

Mauricio A. Chavez, CMPI
Director of Finance &
Administrative Services

September 26, 2023

Lindsey A. Perry
Arizona Auditor General
2910 N. 44th St., Ste. 410
Phoenix, AZ 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 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, for each finding, we are providing you with our responsible officials' views, the names of the contact people responsible for corrective action, the corrective action planned, and the anticipated completion date.

Sincerely,

A handwritten signature in blue ink, appearing to read "Mauricio A. Chavez".

Mauricio A. Chavez
Director of Finance & Administrative Services

Santa Cruz County
Corrective action plan
Year ended June 30, 2022

Financial statement findings

2022-01

The County failed to provide key financial information to auditors timely and issued its *Annual Comprehensive Financial Report (ACFR)* late, resulting in untimely financial information to decision-makers

Mauricio A. Chavez, Administrative Services Director

Anticipated completion date: March 31, 2024

The County's finance department staff will meet regularly to track and engage in the preparation of all required financial documentation to meet the ARL due dates. The County will work diligently with all departments to prepare and send key financial documentation to the auditors in a timely manner. The County will work with the third-party consultant to ensure all financial information is received and all new GASB requirements are reviewed and implemented.

2022-02

The County Assessor's office did not follow State property-valuation laws and guidelines for some properties we reviewed and did not have an oversight process, which contributed to inaccurate valuations and may have allowed the former County Assessor to allegedly engage in bribery schemes to alter property values in exchange for providing reduced property taxes and other benefits to a property owner also allegedly involved in the schemes

Pablo A. Ramos, County Assessor

Anticipated completion date: July 1, 2024

To ensure compliance with relevant regulations, the County Assessor has implemented policies and procedures to align the property-valuation process with the Arizona Revised Statutes Title 42, the articles of the Arizona Constitution about taxation, guidelines from the Arizona Department of Revenue (ADOR), and technical standards set by the International Association of Assessing Officers (IAAO). For agricultural properties, real properties, and personal properties, the County Assessor will utilize specific valuation methods tailored to each property type. Implement the re-appraisal with cap rates on agricultural land will be conducted annually including new and existing leases. The County Assessor will start to conduct monthly queries within the CAMA system to flag any variance of 15% change in value to trigger a review by a supervisor. The County Assessor's office will uphold the highest standards in property appraisals by reviewing field documentation, valuation adjustments, revaluations, review and approvals by the Assessor and Chief Assessor. Furthermore, the County Assessor will consistently gather and analyze relevant data regarding neighborhood conditions, vacancy rates, and any other economic obsolescence factors that may affect the property. The County Assessor's office maintains a strong partnership with ADOR, collaborating in data and information, enabling the collection of reliable and comprehensive data on agricultural properties. The County Assessor's office will schedule code of ethics training for staff with IAAO and ADOR.

Santa Cruz County

Corrective action plan

Year ended June 30, 2022

2022-03

The County's deficiencies in its process for managing and documenting its risks may put its operations and IT systems and data at unintended and unnecessary risk of potential harm

Juan Balderas, CIO

Anticipated completion date: October 31, 2023

The County has initiated actions that will improve the risk management of its IT Systems, in part, by identifying, classifying, and inventorying data that may need stronger access and security controls. Further, the County is in the process of developing written IT policies and procedures and commencing an annual entity-wide IT risk assessment.

2022-04

The County's control procedures over IT systems and data were not sufficient, which increases the risk that the County may not adequately protect those systems and data

Juan Balderas, CIO

Anticipated completion date: October 31, 2023

The County is taking the necessary steps to develop and document IT policies and procedures, in part, by engaging third-party vendors to assist and ensure policies and procedures are consistently followed.

2022-05

The County's Superior Court lacked written agreements and monitoring procedures to ensure it received all the indigents' legal defense services for which it paid \$832,456 to 28 attorneys during the year, putting the County at risk of wasting public monies

Paulina Lopez, Court Administrator

Anticipated completion date: June 9, 2023

The Santa Cruz County Superior Court developed and implemented policies and procedures for professional services contract oversight, including requiring a written contract for services. The policies and procedures include staff requirements for monitoring performance and subsequent billings.

Santa Cruz County
Corrective action plan
Year ended June 30, 2022

Federal award findings and questioned costs

2022-101

Assistance Listings number and program name: 17.258 WIOA Adult Program
17.259 WIOA Youth Activities
17.278 WIOA Dislocated Worker Formula Grants
Contact Person(s): Irasema Olvera, WIOA Director
Anticipated completion date: June 30, 2024

To assist the County, meet the WIOA 75% earmarking requirement for out-of-school youth program, the County will develop written policies and procedures for its WIOA Youth Activities program. The County will provide eligible out-of-school youth the opportunity of paid work experiences (WEX). The County will also work with the pass-through grantor to develop an effective strategy to recruit and retain eligible out-of-school youth. The County will monitor the out-of-school services spending throughout the fiscal year and award period.

2022-102

Assistance Listings number and program name: 93.323 COVID-19 Epidemiology and Laboratory
Capacity for Infectious Diseases
Contact Person(s): Jeff Terrell, Health & Human Services Director
Anticipated completion date: December 31, 2023

The County is in the final stages of implementing grant policies, which will cover reimbursement procedures for all departmental grants. The County will work with the pass-through grantor to repay the amounts the County received in excess. The County will work with the Health Department director and staff to review grant policies and procedures.

2022-103

Assistance Listings number and program name: Not applicable
Contact Person(s): Mauricio A. Chavez, Administrative Services Director
Anticipated completion date: March 31, 2024

The County's finance department staff will meet regularly to track and engage in the preparation of all required financial documentation are met by the ARL due dates. The County will work diligently with all departments to prepare and send key financial documentation to the auditors in a timely manner. The County will work with the third-party consultant to ensure all financial information is received and all new GASB requirements are reviewed and implemented.



ADMINISTRATIVE SERVICES
SANTA CRUZ COUNTY

Mauricio A. Chavez, CMPI
Director of Finance &
Administrative Services

September 26, 2023

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

Dear Ms. Perry:

We have prepared the accompanying summary 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,

A handwritten signature in blue ink, appearing to read "Mauricio A. Chavez".

Mauricio A. Chavez
Director of Finance & Administrative Services

Santa Cruz County
Summary schedule of prior audit findings
Year ended June 30, 2022

Status of financial statement findings

The County's deficiencies in its process for managing and documenting its risks may put its operations and IT systems and data at unintended and unnecessary risk of potential harm

Finding number: 2021-01 This finding initially occurred in fiscal year 2021.

Status: Not corrected

Santa Cruz County has begun developing Policies and Procedures that will govern its internal IT Systems controls, however due to key personnel leaving the organization, the Department was not able to complete them by the end of FY22, and are now planned to be implemented by October 31, 2023.

The County's control procedures over IT systems and data were not sufficient, which increases the risk that the County may not adequately protect those systems and data

Finding number: 2021-02 This finding initially occurred in fiscal year 2015.

Status: Partially corrected

The County has implemented logical access policies and procedures over its IT resources. Restricting access – the county has implemented MFA for any account with elevated privileges, along with logging and reporting software to notify when elevated privileges are used to make changes. While these logical improvements were made, the County continues to work on developing Change Control Processes, however due to the loss of key personnel we could not complete by the end of FY22; anticipated completion is October 31, 2023.

The County Superior Court lacked written agreements and monitoring procedures to ensure it received all the indigents' legal defense services for which it paid \$645,229 to 14 attorneys during the year, putting the County at risk of wasting public monies

Finding number: 2021-03 This finding initially occurred in fiscal year 2021.

Status: Not corrected

The Santa Cruz County Superior Court developed policies and procedures for professional services contract oversight, including requiring a written contract for the services. The policies and procedures are currently under review by the Attorney General's office. The written contract for indigent attorneys was approved on January 17, 2023 by the Board of Supervisors. Anticipated completion date is June 9, 2023.

