**ARIZONA**
**Auditor**General
*Making a Positive Difference*

**REPORT HIGHLIGHTS**
Annual Financial and Single Audit Reports
Year Ended June 30, 2017

# Cochise County

**CONCLUSION:** Cochise County is responsible for preparing its annual financial report and a federal expenditure schedule, maintaining effective internal controls, and being accountable for its use of public monies. Our Office is responsible for auditing the County's financial statements, schedule, and major federal programs annually. A summary of the County's financial statements and federal expenditure schedule is presented below.

Based on our audits, we issued opinions on the County's financial statements and federal expenditure schedule and issued reports on internal control and on compliance over financial reporting and major federal programs. The information in the County's fiscal year 2017 financial statements and schedule is reliable. Our Office identified internal control weaknesses over financial reporting and an internal control weakness and instance of noncompliance over federal programs. The most significant findings are summarized on the next page.

## Condensed financial information

**Statement of net position—**This statement reports all of the County's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Net position is reported in three major categories:

- **Net investment in capital assets—**shows the equity in land, buildings, equipment, and infrastructure.
- **Restricted—**shows the resources that must be used for restricted purposes as specified by donors and other external entities, such as the federal government.
- **Unrestricted—**shows the remaining net position balance after allocating the net investment in capital assets and restricted balances.

**Statement of activities—**This statement reports all revenues, expenses, and other changes in net position. Revenues include program revenues—those generated by or dedicated to a specific program—and general revenues, such as taxes. It also reports revenues and expenses as either governmental activities—primarily supported by taxes and grant monies—or business-type activities—primarily supported by user fees and charges. Net position decreased by almost $1.2 million, or 1.1 percent, in fiscal year 2017.

**Federal expenditure schedule—**During fiscal year 2017, the County expended nearly $9.2 million in federal awards. The County's federal award expenditures increased by $3.2 million, or 53 percent, compared to fiscal year 2016. This increase occurred primarily because the Housing Authority of Cochise County along with its federal programs were merged with the County during fiscal year 2017.

### Statement of net position
**As of June 30, 2017** (In thousands)

| | |
|---|---:|
| **Assets and deferred outflows** | |
| Current and other assets | $ 81,326 |
| Capital assets, net of depreciation | 135,479 |
| Deferred outflows of resources | 20,095 |
| **Total assets and deferred outflows** | **236,900** |
| **Liabilities and deferred inflows** | |
| Current liabilities | 6,483 |
| Noncurrent liabilities: | |
| Net pension liability | 99,224 |
| Other | 7,775 |
| Deferred inflows of resources | 10,168 |
| **Total liabilities and deferred inflows** | **123,650** |
| **Net position** | |
| Net investment in capital assets | 135,479 |
| Restricted | 13,874 |
| Unrestricted | (36,103) |
| **Total net position** | **$113,250** |

### Statement of activities
**Year ended June 30, 2017** (In thousands)

| | |
|---|---:|
| **Program revenues** | |
| Governmental activities | $ 33,211 |
| Business-type activities | 8,022 |
| **General revenues** | |
| Governmental activities | 56,084 |
| Business-type activities | 1,871 |
| **Total revenues** | **99,188** |
| **Expenses** | |
| Governmental activities | 90,589 |
| Business-type activities | 9,839 |
| **Total expenses** | **100,428** |
| Decrease in net position | (1,240) |
| Net position—beginning | 114,490 |
| **Net position—ending** | **$113,250** |

### Federal expenditure schedule
**Year ended June 30, 2017** (In thousands)

| | |
|---|---:|
| **Federal grantor agency** | |
| Department of Housing and Urban Development | $3,283 |
| Department of Interior | 2,223 |
| Department of Agriculture | 915 |
| Department of Health and Human Services | 873 |
| Department of Homeland Security | 868 |
| Other | 1,006 |
| **Total federal expenditures** | **$9,168** |

# Summary of audit findings and recommendations

For the financial statement audit, we found internal control weaknesses over the County's financial reporting related to its financial statement preparation and information technology (IT) resources. For the federal compliance audit, we tested three federal programs under the major program guidelines established by the Single Audit Act and found that the County did not issue its single audit reporting package by the March 31 deadline. Our single audit report includes a schedule of findings and questioned costs that contains further details to help the County correct the internal control weaknesses and instance of noncompliance. The most significant findings and recommendations are summarized below.

**County lacked adequate policies and procedures over preparing and reviewing its annual financial report**—The County should prepare its annual financial report that includes its financial statements and related note disclosures accurately and in a timely manner. However, the County did not have adequate policies and procedures over its financial statement preparation process to ensure that its financial statements and note disclosures were accurate and issued in time to meet the single audit reporting deadline.

## Recommendation

The County should develop and implement comprehensive written policies and procedures for preparing its annual financial report. These procedures should include instructions for compiling information and requiring a thorough review to help ensure that the annual financial report is accurate and complete and prepared in accordance with U.S. generally accepted accounting principles. In addition, the County should dedicate the appropriate resources, assign employees specific responsibilities, and establish completion dates for ensuring timely financial reporting.

**County should improve controls over IT resources**—The County's IT resources, which include its systems, network, infrastructure, and data, are vital to its daily operations. However, the County did not have adequate policies and procedures over its IT resources to effectively identify, analyze, and respond to risks and protect sensitive information; sufficiently manage access, including preventing, detecting, and responding to unauthorized or inappropriate access or use, manipulation, damage, or loss; and to track, document, and test changes to its IT resources. The County also lacked a comprehensive up-to-date contingency plan to provide for the continuity of operations in the event of a disaster, system or equipment failure, or other interruption.

## Recommendations

To help identify, analyze, and respond to risks and protect sensitive information; prevent, detect, and respond to unauthorized or inappropriate access or use, manipulation, damage, or loss to its IT resources; prevent and detect unauthorized, inappropriate, and unintended changes to its IT resources; and ensure county operations can continue in the event of a disaster, system or equipment failure, or other interruption, the County needs to develop and implement policies and procedures over its IT resources to ensure they address the following:

- **County-wide risk-assessment process**—The risk-assessment process should include the identification of risk scenarios, including the scenario's likelihood and magnitude; documentation and dissemination of results; review by appropriate personnel; and prioritization of risks identified for remediation.
- **Sensitive information**—Security measures should be developed to identify, classify, and inventory sensitive information and protect it.
- **User access**—A periodic, comprehensive review should be performed of all existing employee accounts to help ensure that network and system access granted is needed and compatible with employee job responsibilities.
- **Logging and log monitoring**—Key user activity should be logged and monitored, particularly for users with administrative access privileges and remote access.
- **Change management**—Changes made to IT resources should be logged and documented, tested, and a record should be retained of all change details.
- **Develop and implement a contingency plan**—A contingency plan should be developed and implemented and include essential business functions and associated contingency requirements.
- **IT standards and best practices**—IT policies and procedures should be reviewed against current IT standards and best practices, updated where needed, and implemented entity-wide, as appropriate.