

REPORT HIGHLIGHTS SINGLE AUDIT

Subject

Cochise County is responsible for preparing financial statements, maintaining strong internal controls, and demonstrating accountability for its use of public monies. As the auditors, our job is to determine whether the County has met its responsibilities.

Our Conclusion

The information in the financial statements is fairly stated in all material respects, and the financial statements can be relied upon. Generally, the County maintained adequate internal controls over financial reporting with two exceptions, see page 2. Also, the County maintained adequate internal controls over, and complied with, federal program requirements for four of the eight programs tested. However, for four of the federal programs tested, auditors found internal control weaknesses and noncompliance with program requirements, see page 3.



2007

Year Ended June 30, 2007

County's Condensed Financial Information

The County's government-wide financial statements provide readers with a broad overview of the County's finances in a manner similar to private-sector businesses. These statements report the financial activities of the overall government, except for fiduciary activities.

The tables to the right present a summarized version of the County's government-wide Statement of Net Assets and Statement of Activities reported in the current year financial statements.

The Statement of Net Assets presents information on the county assets and liabilities, with the difference between the two reported as net assets. The Statement of Activities presents information showing how net assets changed during the most recent fiscal year. As shown in the tables, net assets increased by more than \$15 million. This increase was primarily due to increases in investment in capital assets.

As required by Governmental Accounting Standards Board (GASB) Statement No. 34, beginning net assets were restated to include \$55 million in major general infrastructure assets acquired prior to July 1, 2002. These assets include major roadways and bridges that were constructed, purchased, or donated to the County, or that received substantial improvements subsequent to July 1, 1980. Infrastructure acquired after June 30, 2002, has previously been included in the net asset balance.

Statement of Net Assets June 30, 2007 (In thousands)

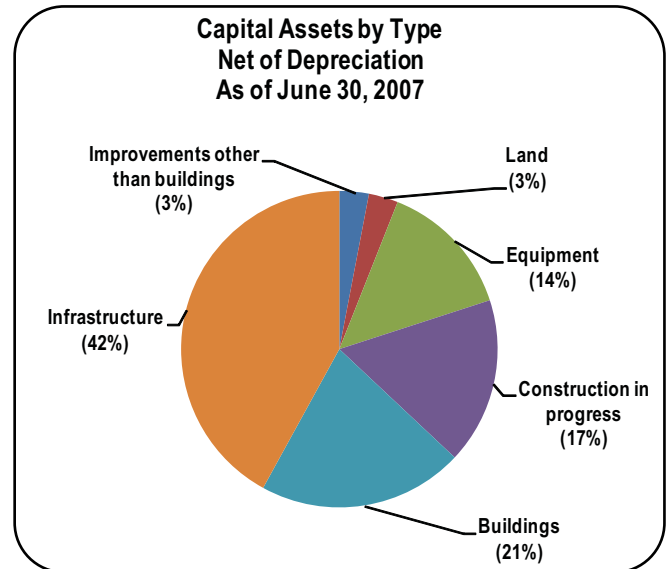
	Total Governmental and Business-type Activities
Current and other assets	\$ 83,195
Capital assets	<u>144,633</u>
Total assets	<u>227,828</u>
Current liabilities	13,517
Noncurrent liabilities	<u>15,922</u>
Total liabilities	<u>29,439</u>
Net assets:	
Invested in capital assets, net of related debt	135,172
Restricted net assets	25,965
Unrestricted net assets	<u>37,252</u>
Total net assets	<u>\$ 198,389</u>

Statement of Activities Year Ended June 30, 2007 (In thousands)

	Total Governmental and Business-type Activities
Program revenues:	
Governmental activities	\$ 48,078
Business-type activities	37,495
General revenues:	
Governmental activities	55,343
Business-type activities	<u>779</u>
Total revenues	<u>141,695</u>
Expenses:	
Governmental activities	92,269
Business-type activities	<u>34,084</u>
Total expenses	<u>126,353</u>
Change in net assets	15,342
Net assets—beginning, as restated	<u>183,047</u>
Net assets—ending	<u>\$ 198,389</u>

Infrastructure Added to Capital Assets

Cochise County has \$144,633,004 in capital assets net of depreciation, which represents 63.5 percent of its total governmental and business-type activities' assets. As explained on page 1, to implement GASB Statement No. 34 requirements effective in fiscal year 2007, the County restated its beginning net assets to add infrastructure acquired before July 1, 2002, including major roadways and bridges. After this restatement, infrastructure became the largest category of the County's capital assets, totaling over \$60 million, net of depreciation. The figure to the right presents the County's capital asset percentages by type.



Internal Control Weaknesses and Instances of Noncompliance

Financial Audit Findings

- The County needs to improve its control procedures over capital assets. Specifically, it should develop procedures to record, report, and monitor construction projects; implement procedures to complete a physical inventory every 2 years; develop procedures to ensure that disposals are properly approved; and implement procedures to reconcile capital assets listings to financial statement amounts.
- The County did not have adequate procedures to ensure it accurately reported financial information when implementing new accounting standards, such as GASB Statement No. 34 requirements to report infrastructure acquired from 1980 through 2002. To help ensure it accurately implements accounting standards in the future, the County should develop a process to identify best practices among governments, communicate regularly between departments that need to share financial information, and have a knowledgeable employee review the financial information compiled.

Other auditors audited portions of the County's financial statements and noted internal control weaknesses and noncompliance affecting the financial statements, as summarized below.

Ft. Huachuca Accommodation School District Fund

- Lack of adequate internal controls over preparation of financial statements.
- Cash reconciliations with the County Treasurer were not performed in a timely manner.
- Noncompliance with statutory budget requirements, resulting in unfavorable budget variances of over \$6 million.

Cochise Private Industry Council, Inc.

- Lack of expertise to prepare year-end adjustments to financial statements to ensure accurate financial reporting.
- Lack of adequate training and expertise to prepare the financial statements.
- Noncompliance with federal grant provisions and Single Audit Act reporting requirements.

Federal Award Findings

The County spent \$20.2 million of federal monies this past year for 57 programs. Auditors tested 8 federal programs under the requirements established by the Single Audit Act. Auditors found internal control weaknesses and instances of noncompliance with program requirements for 4 of the programs

tested. Other auditors audited the Lead-Based Paint Hazard Control in Privately Owned Housing program and the Workforce Investment Act (WIA) Cluster administered by the Housing Authority of Cochise County and Cochise Private Industry Council, Inc., respectively. The table below summarizes our audit findings reported by federal program.

Summary of Federal Award Findings June 30, 2007

Education Technology State Grants

- Federal cash management requirements were not always followed.
- Required monthly financial reports were not reconciled to the County's general ledger system.
- Subrecipients were not monitored to ensure they administered awards in compliance with federal requirements.

Immunization Grants

- Controls to ensure vaccines were safeguarded and accounted for were not adequate.

Programs audited by other auditors:

Lead-Based Paint Hazard Control in Privately Owned Housing

- Grant funds were requisitioned in advance of program expenditures.
- Housing Authority did not maintain proof of compliance with Davis-Bacon regulations.

WIA Cluster

- Financial information was not properly prepared and auditors had to make significant adjustments.
- Workers' compensation insurance was not maintained in compliance with the grant agreement.

The Single Audit Fact Sheet

- Ten weaknesses in financial reporting internal controls, three of which were material weaknesses.
- Eight weaknesses in federal compliance internal controls, three of which were material weaknesses.
- Five instances of noncompliance with federal compliance requirements, one of which was material noncompliance.
- Three instances of noncompliance resulted in potential questioned costs that were not practicable to determine.

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A copy of the full report
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Contact person for
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Cochise County

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Year Ended June 30, 2007