



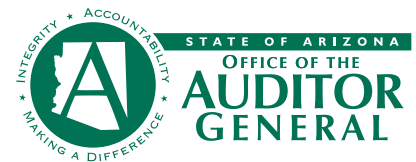
A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Single Audit

Coconino County

Year Ended June 30, 2014



Debra K. Davenport
Auditor General

The **Auditor General** is appointed by the Joint Legislative Audit Committee, a bipartisan committee composed of five senators and five representatives. Her mission is to provide independent and impartial information and specific recommendations to improve the operations of state and local government entities. To this end, she provides financial audits and accounting services to the State and political subdivisions, investigates possible misuse of public monies, and conducts performance audits of school districts, state agencies, and the programs they administer.



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Coconino County
Single Audit Reporting Package
Year Ended June 30, 2014

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Report Issued Separately

Comprehensive Annual Financial Report



DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
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
Coconino County, Arizona

We have audited, in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and aggregate remaining fund information of Coconino County as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated January 30, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the County's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the County's basic financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2014-01 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2014-02 and 2014-03 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's basic financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and that is described in the accompanying Schedule of Findings and Questioned Costs as item 2014-03.

Coconino County's Response to Findings

Coconino County's responses to the findings identified in our audit are presented on pages 22 through 23. The County's responses were not subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on them.

Purpose of this Report

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

Jay Zsorey, CPA
Financial Audit Director

January 30, 2015



DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
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 OMB Circular A-133

Members of the Arizona State Legislature

The Board of Supervisors of
Coconino County, Arizona

Report on Compliance for Each Major Federal Program

We have audited Coconino County's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014. The County's major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the County's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the County's compliance.

Opinion on Each Major Federal Program

In our opinion, Coconino County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance that is required to be reported in accordance with OMB Circular A-133 and is described in the accompanying Schedule of Findings and Questioned Costs as item 2014-101. Our opinion on each major federal program is not modified with respect to these matters.

Coconino County's response to the noncompliance finding identified in our audit is presented on page 23. The County's response was not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on it.

Report on Internal Control over Compliance

The County's management is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be a material weakness and a significant deficiency.

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 deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2014-102 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2014-101 to be a significant deficiency.

Coconino County's responses to the internal control over compliance findings identified in our audit are presented on pages 23 through 24. The County's responses were not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on them.

Purpose of this Report

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the governmental activities, each major fund, and aggregate remaining fund information of Coconino County as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the County's basic financial statements. We issued our report thereon dated January 30, 2015, that contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming our opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 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.

Jay Zsorey, CPA
Financial Audit Director

March 25, 2015

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Coconino County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014

Federal agency/CFDA number	Federal program name	Cluster title	Pass-through grantor	Pass-through grantor's number(s)	Program expenditures	Amount provided to subrecipients
Department of Agriculture						
10 550	Food Distribution		Arizona Department of Education	ED09-001	\$ 9,280	
10 553	School Breakfast Program	Child Nutrition Cluster	Arizona Department of Education	ED09-001	13,020	
10 555	National School Lunch Program	Child Nutrition Cluster	Arizona Department of Education	ED09-001	23,080	
	<i>Total Child Nutrition Cluster</i>				<u>36,100</u>	
10 557	Special Supplemental Nutrition Program for Women, Infants, and Children		Arizona Department of Health Services	ADHS11-004572, ADHS14-053061, HG050271	711,280	
10 561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	SNAP Cluster	Arizona Department of Health Services	ADHS12-030674	380,777	
10 565	Commodity Supplemental Food Program	Food Distribution Cluster	Arizona Department of Health Services	ADHS12-010891	6,136	
10 572	WIC Farmers' Market Nutrition Program (FMNP)		Arizona Department of Health Services	ADHS11-004572, ADHS14-053061	442	
10 576	Senior Farmers' Market Nutrition Program		Arizona Department of Health Services	ADHS12-010891	43	
10 664	Cooperative Forestry Assistance		Arizona State Forestry Division	SFA09-001, WFHF- 09	73,492	
10 665	Schools and Roads—Grants to States	Forest Service Schools and Roads Cluster			3,746,967	\$ 1,447,369
10 923	ARRA—Emergency Watershed Protection Program				4,116,144	
	Total Department of Agriculture				<u>9,080,661</u>	<u>1,447,369</u>
Department of Housing and Urban Development						
14 218	Community Development Block Grants/Entitlement Grants	Community Development Block Grants/Entitlement Grants Cluster	City of Flagstaff	88C-11	56,692	
Department of the Interior						
15 033	Road Maintenance—Indian Roads		Bureau of Indian Affairs, Navajo Regional Office	A12AC01067; A14AC00016	121,040	
15 226	Payments in Lieu of Taxes				1,705,008	
15 631	Fish and Wildlife Service				19,369	
	Total Department of the Interior				<u>1,845,417</u>	
Department of Justice						
16 523	Juvenile Accountability Incentive Block Grants		Arizona Governor's Office for Children, Youth and Families	JB-CSG-13-3365- 03; JB-CSG-14- 4365-02	6,184	
16 554	National Criminal History Improvement Program (NCHIP)		Arizona Criminal Justice Commission	NCP12-13-002; NCP13-14-002	50,328	
16 593	Residential Substance Abuse Treatment for State Prisoners		Arizona Criminal Justice Commission	RSAT-13-002; RSAT-14-002	208,508	
16 738	Edward Byrne Memorial Justice Assistance Grant	JAG Program Cluster	Arizona Criminal Justice Commission	DC-14-024	105,670	
	Total Department of Justice				<u>370,690</u>	
Department of Labor						
17 258	WIA Adult Program	WIA Cluster	Arizona Department of Economic Security	DE111005001	291,320	
17 259	WIA Youth Activities	WIA Cluster	Arizona Department of Economic Security	DE111005001	342,296	
17 278	WIA Dislocated Worker Formula Grants	WIA Cluster	Arizona Department of Economic Security	DE111005001	265,505	
	<i>Total WIA Cluster</i>				<u>899,121</u>	

See accompanying notes to schedule.

Coconino County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014

Federal agency/CFDA number	Federal program name	Cluster title	Pass-through grantor	Pass-through grantor's number(s)	Program expenditures	Amount provided to subrecipients
17 267	Incentive Grants—WIA Section 503		Arizona Department of Economic Security	ADES14-056356	48,999	
Total Department of Labor					<u>48,999</u>	<u>948,120</u>
Department of Transportation						
20 205	Highway Planning and Construction	Highway Planning and Construction Cluster	Arizona Department of Transportation	JPA 10-184I; JPA-12-112I; JPA 13-000278-I; JPA 06-015T; ER CCN-0(215)	497,106	
20 600	State and Community Highway Safety	Highway Safety Cluster	Arizona Governor's Office of Highway Safety	2013-OP-01	1,846	
20 703	Interagency Hazardous Materials Public Sector Training and Planning Grants		Arizona Emergency Response Commission	HM-HMP-0282-12-01-00	3,197	
Total Department of Transportation					<u>3,197</u>	<u>502,149</u>
Department of Education						
84 013	Title I Program for Neglected and Delinquent Children		Arizona Supreme Court	KR13 0066	40,390	
84 018	Overseas Programs—Special Bilateral Projects		Arizona Department of Education	13FT1ZDR-3706669-04A	18,728	
84 027	Special Education—Grants to States	Special Education (IDEA) Cluster	Arizona Department of Education	14FESCBG-460594-02A; FESCBG 360594-04A	45,910	
84 365	English Language Acquisition Grants		Arizona Department of Education	14FELENG-470669-66A	17,753	
84 366	Mathematics and Science Partnerships		Arizona Department of Education	14FMSMP2-470669-02A; 14FMSMSP-470669-01A; 14FMSMSP-470669-04A; 13FMSMSS-370669-02A; 14FMSHSM-470669-05A	1,326,838	
84 367	Improving Teacher Quality State Grants		Northern Arizona University	ITQ-IMPNAZ	11,994	
84 367	Improving Teacher Quality State Grants		Arizona Supreme Court	KR13 0066	4,806	
<i>Total 84.367</i>					<u>16,800</u>	
84 395	ARRA—Race to the Top Discretionary/Competitive Grants		Navajo County Education Agency	None	21,738	
Total Department of Education					<u>21,738</u>	<u>1,488,157</u>
Election Assistance Commission						
90 401	Help America Vote Act Requirements Payments		Arizona Secretary of State	None	5,255	
Department of Health and Human Services						
93 053	Nutrition Services Incentive Program	Aging Cluster	Northern Arizona Council of Governments	866000441BA	75,877	
93 069	Public Health Emergency Preparedness		Arizona Department of Health Services	ADHS12-007885	349,499	
93 217	Family Planning—Services		Arizona Family Planning Council	None	108,706	
93 268	Immunization Cooperative Agreements		Arizona Department of Health Services	ADHS13-041537	80,200	

See accompanying notes to schedule.

Coconino County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014

Federal agency/CFDA number	Federal program name	Cluster title	Pass-through grantor	Pass-through grantor's number(s)	Program expenditures	Amount provided to subrecipients
93 283	Centers for Disease Control and Prevention—Investigations and Technical Assistance		Arizona Department of Health Services	None	8,772	
93 507	PPHF 2012 National Public Health Improvement Initiatives		Arizona Department of Health Services	ADHS12-020642	1,000	
93 524	Building Capacity of the Public Health System to Improve Population Health		National Association of County and City Health Officials	2013-121212	14,000	
93 558	Temporary Assistance for Needy Families	TANF Cluster	Arizona Department of Economic Security	DE111076001	50,000	
93 563	Child Support Enforcement		Arizona Department of Economic Security	DE111169001	28,879	
93 568	Low-Income Home Energy Assistance		Arizona Department of Economic Security	DE111076001	365,755	
93 597	Grants to States for Access and Visitation Programs		Arizona Department of Economic Security	DE111144001	11,915	
93 667	Social Services Block Grant		Northern Arizona Council of Governments	866000441BA	149,858	
93 667	Social Services Block Grant		Arizona Department of Economic Security	DE111076001	50,036	
	<i>Total 93.667</i>				<u>199,894</u>	
93 917	HIV Care Formula Grants		Arizona Department of Health Services	ADHS13-040497	258,949	58,700
93 940	HIV Prevention Activities—Health Department Based		Arizona Department of Health Services	ADHS13-031238	18,315	
93 945	Assistance Programs for Chronic Disease Prevention and Control		Arizona Department of Health Services	ADHS14-065458	2,951	
93 994	Maternal and Child Health Services Block Grant to the States		Arizona Department of Health Services	HG959209; ADHS14-058610; ADHS13-034535; ADHS12-0121253; ADHS11-006136; ADHS12-010919; ADHS12-010919	335,641	
	Total Department of Health and Human Services				<u>1,910,353</u>	<u>58,700</u>
Corporation for National and Community Service						
94 006	AmeriCorps				216,323	121,867
94 006	AmeriCorps		Arizona Governor's Office for Children, Youth and Families	AC-VSG-10-0273-03Y3; AC-VSG-13-3273-03	129,478	
	Total Corporation for National and Community Service				<u>345,801</u>	<u>121,867</u>
Department of Homeland Security						
97 024	Emergency Food and Shelter National Board Program		United Way	None	10,003	
97 039	Hazard Mitigation Grant		Arizona Department of Emergency and Military Affairs	FEMA-DR-AZ-HGMP-1888-9-F; FEMA-DR-AZ-HMPG-1888-09-F; FEMA-DR-AZ-HMPG-1888-002R; FEMA-DR-AZ-HMPG-1940-3-3R; FEMA-DR-AZ-HMPG-1888-10-F	101,060	

See accompanying notes to schedule.

Coconino County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014

Federal agency/CFDA number	Federal program name	Cluster title	Pass-through grantor	Pass-through grantor's number(s)	Program expenditures	Amount provided to subrecipients
97 042	Emergency Management Performance Grants		Arizona Department of Emergency and Military Affairs	None	146,653	
97 067	Homeland Security Grant Program		Arizona Department of Homeland Security	130101-01; 130102-01; 130102-02; 12- AZDOHS-HSGP- 999104-02; 12- AZDOHS-HSGP- 999104-03	64,646	
	Total Department of Homeland Security				<u>322,362</u>	
	Total expenditures of federal awards				<u>\$ 16,875,657</u>	<u>\$ 1,627,936</u>

See accompanying notes to schedule.

Coconino County
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014

Note 1 - Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards includes Coconino County's federal grant activity and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

Note 2 - Catalog of Federal Domestic Assistance (CFDA) Number

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2014 *Catalog of Federal Domestic Assistance*.

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Coconino County
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2014

Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:		Unmodified	
Internal control over financial reporting:			
Material weaknesses identified?	<u>X</u>	___	
Significant deficiency identified?	<u>X</u>	___	
Noncompliance material to the financial statements noted?	___	<u>X</u>	

Federal Awards

Internal control over major programs:			
Material weakness identified?	<u>X</u>	___	
Significant deficiency identified?	<u>X</u>	___	
Type of auditors' report issued on compliance for major programs:		Unmodified	
Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (section .510[a])?	<u>X</u>	___	

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
10.665	Schools and Roads—Grants to States
10.923	ARRA—Emergency Watershed Protection Program
20.205	Highway Planning and Construction
93.069	Public Health Emergency Preparedness
93.917	HIV Care Formula Grants

Coconino County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

Dollar threshold used to distinguish between Type A and Type B programs: \$506,270

	Yes	No
Auditee qualified as low-risk auditee?	_____	____ <u>X</u> _____

Other Matters

Auditee's Summary Schedule of Prior Audit Findings required to be reported in accordance with Circular A-133 (section .315[b])?	____ <u>X</u> _____	_____
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Coconino County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

Financial Statement Findings

2014-01

The County should follow its procedures when preparing its financial statements and related note disclosures

Criteria: The County should follow its established policies and procedures when preparing its financial statements and related note disclosures to ensure it prepares them in accordance with U.S. generally accepted accounting principles (GAAP).

Condition and context: The County did not consistently follow its procedures when reporting deposits and investments and fund balance classifications of governmental funds within its notes to the financial statements and recording interfund payments of indirect costs in its fund financial statements. Specifically, the County:

- Misclassified \$30.1 million of investments in negotiable certificates of deposits and money market mutual funds as deposits. Also, the County did not disclose the investment risks related to these investments in its notes to the financial statements.
- Misclassified \$2.1 million of negative fund balance in the Flood Control District Fund as restricted instead of unassigned fund balance.
- Incorrectly recorded \$3.5 million of interfund payments for indirect costs as interfund transfers in its fund financial statements. As a result, the County misstated expenditures or expenses and transfers in its fund financial statements and related note disclosures by \$3.5 million and misclassified expenses in the government-wide financial statements by the same amount.

Effect: The County's financial statements and related note disclosures were not initially prepared in accordance with GAAP. The County made recommended audit adjustments to the financial statements and related note disclosures for all significant errors.

Cause: The County did not properly review the financial statement data and schedules.

Recommendation: The County should follow its established policies and procedures when preparing its annual financial statements and related note disclosures. In addition, the County should improve its procedures by requiring a more detailed review of all data and schedules supporting the financial statements and related note disclosures by someone who is independent of the person preparing the financial statements and knowledgeable of the County's operations and GAAP reporting requirements. This will help ensure the County prepares its financial statements and related note disclosures in accordance with GAAP.

This finding is similar to a prior-year finding.

Coconino County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

2014-02

The County needs to improve its controls over capital assets

Criteria: The County should have effective internal controls over capital assets that are sufficient to control, safeguard, and report capital assets.

Condition and context: Capital assets comprise approximately \$145.9 million, or 58 percent, of the County's total assets. During test work, auditors noted the following deficiencies:

- The County did not properly capitalize the design and engineering costs of a construction project totaling \$325,883.
- The County's fixed-asset policy did not include a requirement to perform a physical inventory, and the County had not performed a physical inventory as of the end of the fiscal year. Further, the County had no record of when it last performed a physical inventory.

Effect: The error for not capitalizing design and engineering costs for a construction project caused an understatement of capital assets and an overstatement of expenses in the government-wide financial statements of \$325,883. In addition, capital assets were exposed to potential theft or misuse as a physical inventory had not been performed. The County adjusted its financial statements and related note disclosures for the error.

Cause: The County did not properly communicate all construction project costs between departments. In addition, the County's policies and procedures did not require a physical inventory of its capital assets.

Recommendation: To help ensure the County's capital assets are properly reported in the financial statements and related note disclosures and to help safeguard the County's capital assets against theft or misuse, the County should follow its capital assets procedures for capitalizing and reporting construction project costs and develop policies and procedures to perform a physical inventory at least every 2 years.

This finding is similar to a prior-year finding.

2014-03

The County needs to improve its purchasing procedures

Criteria: Arizona Revised Statutes §11-254.01 requires that counties use sealed, competitive bidding procedures for purchases of supplies, materials, equipment, and contractual services, except professional services, with an estimated cost in excess of \$10,000 per transaction, or the aggregate dollar amount adopted by the board of supervisors that does not exceed \$100,000. The County has taken a more conservative approach than the state threshold and has adopted a \$50,000 procurement threshold for purchases above which the County must use competitive sealed bidding. In addition, building lease contracts that exceed \$50,000 must be completed through the request for proposals process in accordance with the County's Purchasing Policy.

Coconino County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

Condition and context: The County did not follow appropriate procurement policies and procedures when it procured nonprofessional contractual services and a building lease. During test work, auditors tested 25 purchases and noted the following deficiencies:

- The County did not utilize competitive sealed bidding prior to awarding a food services contract in a prior fiscal year to a vendor who provided food products to the Jail District Detention Facility. In addition, the County's Board of Supervisors did not approve the fiscal year 2014 renewal agreement for the vendor. The County spent \$226,219 on food products purchased from this vendor in the current fiscal year.
- In the prior fiscal year, the County entered into a building lease agreement for a period of 3 years. The lease agreement exceeded \$50,000 and was not procured through the request-for-proposals process. The County spent \$49,342 on rental payments associated with the lease agreement in the current fiscal year.

Effect: The County did not comply with the applicable State Statute or its Purchasing Policy and could have paid more than necessary for food services and a building lease.

Cause: The County did not have adequate procedures to ensure that competitive sealed bidding and formal requests-for-proposals were used.

Recommendation: To help ensure compliance with the applicable State Statute or its Purchasing Policy, the County should improve its procedures by requiring the use of competitive bidding for purchases with an estimated value of \$50,000 or more.

Federal Award Findings and Questioned Costs

2014-101

CFDA No. and Name:	Not applicable
Award Number and Years:	N/A

Criteria: In accordance with OMB Circular A-133, §.300, the County is required to identify, in its accounts, all federal awards received and expended and the federal programs under which they were received, and prepare appropriate financial statements, including a Schedule of Expenditures of Federal Awards (SEFA). In addition, OMB Circular A-133, §.310(b), requires the SEFA to include the Catalog of Federal Domestic Assistance (CFDA) title and number, amount expended, name of the federal awarding agency, and, if applicable, name and identifying number of the pass-through grantor for each of the County's federal awards. This finding was not a result of internal control deficiencies of individual federal programs, and accordingly, did not have a direct and material effect on the reporting requirements over the County's major programs.

Coconino County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

Condition and context: The County did not properly identify federal awards in its records and accounting system so that it could prepare an accurate and complete SEFA. Specifically, auditors noted the County incorrectly reported expenditures for 10 of its federal programs resulting in an understatement of its federal award expenditures by approximately \$324,206, and omitted or incorrectly reported other required information for 18 of its federal programs. The County's SEFA was adjusted for these errors. This finding was not a result of internal control deficiencies of individual federal programs, and accordingly, did not have a direct and material effect on the reporting requirements over the County's major federal programs.

Effect: The County's SEFA may not be accurate, complete, or include all required information.

Cause: The County did not have effective policies and procedures in place to ensure that all federal monies were identifiable in its accounting system and properly recorded on the SEFA. In addition, controls were not effective to ensure that all required federal program information was reported on the SEFA.

Recommendation: To help ensure that the County prepares its SEFA in compliance with OMB Circular A-133, the County should develop and implement internal control policies and procedures to help ensure transactions are entered into the County's computer system accurately and develop an effective review process to ensure information reported on the SEFA is accurate, complete, and includes all required federal program information.

2014-102

CFDA No. and Name:	20.205 Highway Planning and Construction
Award Numbers and Years:	JPA 10-184I, JPA 12-112I-October 1, 2010 through September 30, 2014; JPA 13-000278-I-May 13, 2013 through June 30, 2015; JPA 06-015T-October 1, 2012 through January 30, 2014; ER CCN-0(215)-February 27, 2012 through indefinite
Federal Agency:	Department of Transportation
Pass-Through Grantor:	Arizona Department of Transportation
Compliance Requirement:	Cash Management
Questioned Costs:	None

Criteria: In accordance with 2 CFR §200.303 (formerly 49 CFR §18.20), the County must maintain effective internal control over Federal awards that provides reasonable assurance that it is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. Therefore, all cash reimbursement requests should be reviewed and approved for accuracy prior to submission.

Condition and context: The County did not have adequate policies and procedures in place to review and approve cash reimbursement requests for accuracy before submitting them to the pass-through grantor. For one of two reimbursement requests tested, the County requested three duplicate expenditures totaling \$35,609; however, the duplicate expenditures were not reimbursed by the pass-through grantor as the County had already exceeded its funding limit.

Coconino County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

Effect: The County may have been reimbursed for the same expenditure twice. Auditors performed additional procedures and did not find any evidence of additional duplicate expenditures. Therefore, no questioned costs were noted.

Cause: The County believed that the policies and procedures it had in place to review and approve cash reimbursement requests were adequate.

Recommendation: To ensure the accuracy of the cash reimbursement requests prior to submission, the County should improve its established procedures by requiring a more detailed review of all related accounting transactions supporting the program's cash reimbursement requests.

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COCONINO
COUNTY ARIZONA

FINANCE

Bonny Lynn
CFO/Director

March 25, 2015

Heidi Derryberry
Accounting
Operations and
Special Districts
Manager

Debbie Davenport
Auditor General
2910 N. 44th St., Ste. 410
Phoenix, AZ 85018

Jerri Garcia
Financial Systems
Manager

Dear Ms. Davenport:

Tom Johnson
Financial Reporting
and Audit Manager

We have prepared the accompanying Corrective Action Plan as required by the standards applicable to financial audits contained in *Government Auditing Standards* and by U.S. Office of Management and Budget Circular A-133. Specifically, for each financial reporting finding we are providing you with the corrective action planned and for each federal award finding we are providing you with the names of the contact persons responsible for corrective action, the corrective action planned, and the anticipated completion date that is included in the Schedule of Findings and Questioned Costs.

Scott Richardson
Purchasing Manager

Megan Zickerman
Budget and Financial
Planning Manager

Sincerely,

219 E. Cherry Ave.
Flagstaff, AZ 86001
928-679-7199

Bonny Lynn
Chief Fiscal Officer

Coconino County
Corrective Action Plan
Year Ended June 30, 2014

Financial Statement Findings

2014-01

The County should follow its procedures when preparing its financial statements and related note disclosures

Responsible Persons: Tom Johnson, Accounting Manager, Audit and Financial Reporting Division, Finance Department; Bonny Lynn, Finance Director, Finance Department

Anticipated completion date: June 30, 2015

Corrective Action Plan: Coconino County concurs with the recommendations and will establish procedures to review for conformance with GAAP and County procedures.

Coconino County has reviewed the related GAAP and GASB pronouncements and has modified its financial statement preparation procedures to better ensure interfund payments of indirect costs are recorded as interfund reimbursements by reducing the expenditures or expenses in the funds that originally paid for them and increasing the expenditures or expenses in the funds responsible for them in accordance with the authoritative guidance.

Coconino County has reviewed the related GAAP and GASB pronouncements and has modified its financial statement preparation procedures to better ensure fund balance reporting in accordance with the authoritative guidance.

The County will modify its financial statement preparation procedures to include a detailed review by the Finance Director of all data and schedules supporting deposits and investments note disclosures and to meet with the County Treasurer to review the classifications of the County's deposits and investments.

2014-02

The County needs to improve its controls over capital assets

Responsible Persons: Tom Johnson, Accounting Manager, Audit and Financial Reporting Division, Finance Department; Bonny Lynn, Finance Director, Finance Department

Anticipated completion date: June 30, 2015

Corrective Action: Coconino County concurs with this recommendation and will establish a process and review with departments the policy and process for reporting changes to capital assets, including capital projects expense for design and engineering. The County will submit a revised policy to the Board of Supervisors for consideration of adoption that will include a procedure to perform a physical inventory at least every 2 years.

Coconino County
Corrective Action Plan
Year Ended June 30, 2014

In addition, the Finance Department took proactive steps for a physical inventory to be performed in FY15. This inventory was completed under agreement with Heinfeld, Meech & Co., P.C. The physical inventory will provide a base upon which to build future compliance in conducting physical inventories at least every 2 years.

2014-03

The County needs to improve its purchasing procedures

Responsible Persons: Scott Richardson, Purchasing Manager, Finance Department; Bonny Lynn, Finance Director, Finance Department

Anticipated completion date: June 30, 2015

Corrective Action: Coconino County concurs with this finding and will review, and modify if deemed appropriate, its Purchasing Policy for the best way to handle the procurement of building leases with consideration for the limitations inherent in certain geographic areas of Coconino County while ensuring fair and equitable economic opportunities are afforded to all persons and businesses desiring to compete for County business and at the same time maximizing to the fullest extent possible, the purchasing value of public monies of the County.

Further, action to remedy the second item in this finding will be County Purchasing Director, or his designee, not approving Purchase Requisitions for purchases with an estimated value of \$50,000 or more, unless the Purchasing Policy has been followed with regard to method of procurement. When sealed competitive bidding is required by the policy, written reference to the RFP and date of Board approval, will be required on all Purchase Requisitions for purchases exceeding \$50,000.

Federal Award Findings and Questioned Costs

2014-101

CFDA No. and Name: **Not applicable**

Responsible Persons: Tom Johnson, Accounting Manager, Audit and Financial Reporting Division, Finance Department; Chyenne Schmidt, Senior Accountant – Grants, Finance Department

Anticipated completion date: June 30, 2015

Corrective Action Plan: The County has added an additional Senior Accountant position in the Finance Department in order to manage federal grants and ensure OMB Circular A-133 compliance. This new position will be tasked with developing and implementing control procedures and an effective review process to ensure accurate information is reported on the SEFA.

Coconino County
Corrective Action Plan
Year Ended June 30, 2014

2014-102

CFDA No. and Name: 20.205 **Highway Planning and Construction**

Responsible Person: Dustin Woodman, Engineering Division Manager, Coconino County Public Works; Minerva Lopez, Administrative Manager, Coconino County Public Works; Christine Whelan, Finance Technician, Coconino County Public Works

Anticipated completion date: June 30, 2015

Corrective Action Plan: Coconino County concurs with the recommendation and will reaffirm established procedures to improve review of accounting transactions supporting cash reimbursement requests, including:

Grant Tracking and Reporting:

- Grant expenditure and revenue information must be reviewed and audited periodically by someone other than the person tracking this data.
- Someone other than the person completing the financial report must review, initial and date the Financial Report prior to submitting to granting agency.
- If there are several reviews i.e., Flood and Highway CIP, each person reviewing the data should date and initial the information they have reviewed.
 - Christine Whelan – Tracking of expenditures; collecting expenditure documentation (HTE reports, invoices, and proof of payment); verification that expenditures included in current period reimbursement request have not previously been submitted for reimbursement.
 - Dustin Woodman – Review expenditure documentation to ensure expenditures have been recorded under the correct project and have not previously been submitted for reimbursement; draft reimbursement request package
 - Minerva Lopez – Review all financial data for all reports and reimbursement requests (expenditures and revenue); approve reimbursement request for submission to funding agency.



COCONINO
COUNTY ARIZONA
FINANCE

Bonny Lynn
CFO/Director

March 25, 2015

Heidi Derryberry
Accounting
Operations and
Special Districts
Manager

Jerri Garcia
Financial Systems
Manager

Tom Johnson
Financial Reporting
and Audit Manager

Scott Richardson
Purchasing Manager

Megan Zickerman
Budget and Financial
Planning Manager

Debbie Davenport
Auditor General
2910 N. 44th St., Ste. 410
Phoenix, AZ 85018

Dear Ms. Davenport:

We have prepared the accompanying Summary Schedule of Prior Audit Findings as required by U.S. Office of Management and Budget Circular A-133. Specifically, we are reporting the status of audit findings included in the prior audit's Schedule of Findings and Questioned Costs related to federal awards. This schedule also includes audit findings reported in the prior audit's Summary Schedule of Prior Audit Findings that were not corrected.

Sincerely,

Bonny Lynn
Chief Fiscal Officer

219 E. Cherry Ave.
Flagstaff, AZ 86001
928-679-7199

Coconino County
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2014

Status of Federal Award Findings and Questioned Costs

CFDA No.: 10.665 **Schools and Roads-Grants to States**
17.258, 17.259, and 17.278 **WIA Cluster**
84.366 **Mathematics and Science Partnerships**
94.006 **AmeriCorps**

Finding No.: 2012-5
Status: Fully corrected

CFDA No.: 10.557 **Special Supplemental Nutrition Program for Women, Infants, and Children**
Finding No.: 2013-101
Status: Fully corrected

CFDA No.: 10.665 **Schools and Roads-Grants to States**
Finding No.: 2013-102
Status: Fully corrected

CFDA No.: 94.006 **AmeriCorps**
Finding No.: 2013-103
Status: Not warranted as program ended during fiscal year 2014.

CFDA No.: 94.006 **AmeriCorps**
Finding No.: 2013-104
Status: Not warranted as program ended during fiscal year 2014.

CFDA No.: 94.006 **AmeriCorps**
Finding No.: 2013-105
Status: Not warranted as program ended during fiscal year 2014.
