ARIZONA Auditor General
Making a Positive Difference

REPORT HIGHLIGHTS
Annual Financial and Single Audit Reports
Year Ended June 30, 2014

Gila County

CONCLUSION: Gila 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 2014 financial statements and schedule is reliable. Our Office identified internal control weaknesses over financial reporting, and internal control weaknesses and instances of noncompliance over major 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, liabilities, 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 raised for general purposes. 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 increased by $559,000, or 0.7 percent, in fiscal year 2014.

Federal expenditure schedule—During fiscal year 2014, the County expended approximately $12.4 million in federal awards. The County's federal award expenditures increased by $0.9 million, or 8 percent, compared to fiscal year 2013.

Statement of net position
As of June 30, 2014 (In thousands)

Assets	
Current and other assets	$53,542
Capital assets, net of depreciation	36,149
Total assets	**89,691**
Liabilities	
Current liabilities	3,941
Noncurrent liabilities	11,026
Total liabilities	**14,967**
Net position	
Net investment in capital assets	29,400
Restricted	23,869
Unrestricted	21,455
Total net position	**$74,724**

Statement of activities
Year ended June 30, 2014 (In thousands)

Program revenues	
Governmental activities	$22,005
Business-type activities	2,323
General revenues	
Governmental activities	37,870
Business-type activities	42
Total revenues	**62,240**
Expenses	
Governmental activities	60,332
Business-type activities	1,349
Total expenses	**61,681**
Increase in net position	559
Net position—beginning, as restated	74,165
Net position—ending	**$74,724**

Federal expenditure schedule
Year ended June 30, 2014 (In thousands)

Federal grantor agency	
Department of Interior	$3,426
Department of Labor	2,923
Department of Health and Human Services	2,249
Department of Agriculture	2,089
Other	1,666
Total federal expenditures	**$12,353**

Summary of audit findings and recommendations

For the financial statement audit, we found internal control weaknesses over the County's financial statement preparation, capital assets, payroll expenses, conflict-of-interest statements, budget preparation, and information technology system access controls and contingency planning. For the federal compliance audit, we tested four federal programs under the major program guidelines established by the Single Audit Act and found that the County did not always have adequate internal controls and did not always comply with federal program requirements for three of its federal programs. 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 instances 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's Board of Supervisors and management depend on accurate financial information prepared in accordance with U.S. generally accepted accounting principles (GAAP) to fulfill their oversight responsibilities and to report accurate and timely information to the public and agencies from which the County receives funding. However, the County lacked adequate internal controls over preparing its annual financial report. We found approximately $11.5 million in errors that the County had to correct so that its financial report amounts and note disclosures were reliable. In addition, it was not issued in time to meet the federal Single Audit Act's reporting deadline, which is 9 months after fiscal year-end.

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 a thorough review to help ensure that the annual financial report is accurate and complete and prepared in accordance with GAAP. In addition, the County should dedicate the appropriate resources, assign employees specific responsibilities, and establish completion dates for ensuring timely financial reporting.

County failed to ensure that only allowable costs were charged to the Child Support Enforcement program (CSE program)—The County received over $1 million in federal reimbursements for its CSE program. However, many of the costs the County charged to the CSE program for reimbursement such as indirect costs, employee payroll, and incentive pay were either unallowable or not adequately supported. Further, the County's Family Law Commissioner's expenditures were commingled with its Clerk of the Court and Superior Court expenditures. As a result, we could not confirm that the amounts the County charged to the CSE program for the Commissioner were appropriate.

Recommendation

The County should develop and implement policies and procedures to ensure that all costs charged to the CSE program and claimed for reimbursement are allowable and adequately documented in accordance with federal cost principles. These policies and procedures should include ensuring that the distribution of employees' payroll costs to the CSE program are supported by items such as employee time sheets or a time-study analysis. Additionally, the County should restructure its chart of accounts to better separate and track CSE program expenditures.