Gila County

Single Audit Report

Year Ended June 30, 2017

A Report to the Arizona Legislature

Lindsey A. Perry
Auditor General

ARIZONA Auditor General
Making a Positive Difference

ARIZONA
Auditor General
Making a Positive Difference

The Arizona Office of the Auditor General's mission is to provide independent and impartial information and specific recommendations to improve the operations of State and local government entities. To this end, the Office provides financial audits and accounting services to the State and political subdivisions, investigates possible misuse of public monies, and conducts performance audits and special reviews of school districts, State agencies, and the programs they administer.

The Joint Legislative Audit Committee

Senator **Rick Gray**, Chair
Senator **Lupe Contreras**
Senator **Andrea Dalessandro**
Senator **David C. Farnsworth**
Senator **David Livingston**
Senator **Karen Fann** (ex officio)

Representative **Anthony T. Kern**, Vice Chair
Representative **John Allen**
Representative **Timothy M. Dunn**
Representative **Mitzi Epstein**
Representative **Jennifer Pawlik**
Representative **Rusty Bowers** (ex officio)

Audit Staff

Donna Miller, Director
Mike Manion, Manager

Contact Information

Arizona Office of the Auditor General
2910 N. 44th St., Ste. 410
Phoenix, AZ 85018-7271

contact@azauditor.gov

(602) 553-0333

www.azauditor.gov

TABLE OF CONTENTS

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

ARIZONA AUDITOR GENERAL
LINDSEY A. PERRY

JOSEPH D. MOORE
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
Gila 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, business-type activities, each major fund, and aggregate remaining fund information of Gila County as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated June 28, 2019.

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 have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we did identify 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 deficiencies described in the accompanying schedule of findings and questioned costs as items 2017-01 through 2017-04 and 2017-06 to be material weaknesses.

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 2017-05 and 2017-07 through 2017-09 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 no instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Gila County response to findings

Gila County's responses to the findings identified in our audit are presented in its corrective action plan at the end of this report. 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.

Lindsey Perry, CPA, CFE
Auditor General

June 28, 2019

Independent auditors' report on compliance for each major federal program and 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
Gila County, Arizona

Report on compliance for each major federal program

We have audited Gila County's compliance with the types of compliance requirements described 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, 2017. 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 federal statutes, regulations, and terms and conditions of its federal awards 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 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* (Uniform Guidance). Those standards and the Uniform Guidance 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 adverse, qualified and unmodified opinions on compliance for the major federal programs. However, our audit does not provide a legal determination of the County's compliance.

Basis for adverse opinion on the Housing Vouchers Cluster

As described in the accompanying schedule of findings and questioned costs, the County did not comply with requirements regarding the Housing Vouchers Cluster's (14.871) allowable costs/cost principles, eligibility, reporting, and special tests and provisions as described in 2017-102 through 2017-105. Compliance with such requirements is necessary, in our opinion, for the County to comply with the requirements applicable to that cluster.

Adverse opinion on the Housing Vouchers Cluster

In our opinion, because of the significance of the matters discussed in the basis for adverse opinion paragraph, Gila County did not comply in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Housing Vouchers Cluster (14.871) for the year ended June 30, 2017.

Basis for qualified opinion on the Child Support Enforcement program

As described in the accompanying schedule of findings and questioned costs, the County did not comply with requirements regarding the Child Support Enforcement (93.563) program's activities allowed or unallowed, allowable costs/cost principles, cash management, and reporting as described in 2017-106 and 2017-107. Compliance with such requirements is necessary, in our opinion, for the County to comply with the requirements applicable to that program.

Qualified opinion on the Child Support Enforcement program

In our opinion, except for the noncompliance described in the basis for qualified opinion paragraph, Gila County complied in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Child Support Enforcement (93.563) program for the year ended June 30, 2017.

Unmodified opinion on each of the other major federal programs

In our opinion, Gila 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 other major federal programs identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2017.

Other matters

The results of our auditing procedures disclosed other instances of noncompliance that are required to be reported in accordance with the Uniform Guidance and that are described in the accompanying schedule of findings and questioned costs as items 2017-101 and 2017-108 through 2017-110. Our opinion on each major federal program is not modified with respect to these matters.

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 the Uniform Guidance, 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 material weaknesses and significant deficiencies.

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 2017-101 through 2017-107 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 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 deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2017-108 through 2017-110 to be significant deficiencies.

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.

Gila County response to findings

Gila County's responses to the findings identified in our audit are presented in its corrective action plan at the end of this report. 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.

Report on schedule of expenditures of federal awards required by the Uniform Guidance

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of Gila County as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the County's basic financial statements. We issued our report thereon dated June 28, 2019, 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 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, based on our audit and the procedures performed as described previously, 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 Perry, CPA, CFE
Auditor General

August 27, 2019

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Summary of auditors' results

Financial statements

Type of auditors' report issued:	**Unmodified**
Internal control over financial reporting	
Material weaknesses identified?	**Yes**
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?	**Yes**

Type of auditors' report issued on compliance for major programs: Unmodified for all major programs except for the Housing Vouchers Cluster (14.871) which was adverse and the Child Support Enforcement (93.563) program which was qualified.

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

Identification of major programs

CFDA number	Name of federal program or cluster
10.665	Forest Service Schools and Roads Cluster
14.871	Housing Vouchers Cluster
93.069	Public Health Emergency Preparedness
93.917	HIV Care Formula Grants
93.563	Child Support Enforcement

Dollar threshold used to distinguish between Type A and Type B programs	$750,000
Auditee qualified as low-risk auditee?	No

Other matters

Auditee’s summary schedule of prior audit findings required to be reported in accordance with 2 CFR §200.516(a)?	Yes

Financial statement findings

2017-01

The County awarded $205,788 to various organizations without requiring them to provide documentation that the monies were used to support economic development that benefitted the public, resulting in an elevated risk of misuse of County monies

Condition and context—During fiscal year 2017, the County did not follow its written policies and procedures for providing economic development funding to nonprofit and governmental entities when the Board of Supervisors awarded $205,788 of Constituent Funds discretionary monies to community organizations for economic development. Specifically, contrary to County policies and procedures:

- The County did not prepare an intergovernmental agreement, memorandum of understanding, or contract for it and the receiving parties to sign, enumerating specific services or activities for which the monies should be used.
- One of the awards was an advance of $2,000 that a Board member inappropriately provided to a local for-profit business using a purchasing card. Although the Board member explained that the advance was to make monies available for local nonprofit senior center members' food purchases, the County did not ensure the monies were advanced properly. Therefore, instead of the monies going to the nonprofit senior center to purchase food, the monies went to a for-profit grocery store. The County's policies and procedures specify that monies may only be provided to nonprofit agencies, cities, towns, or other governmental agencies so advancing them to the for-profit business was inappropriate.

Furthermore, although the County had written policies and procedures for providing monies for economic development, those procedures did not include adequate pre-award and follow-up steps for the County to ensure its monies were spent to provide authorized services and activities that benefitted the public.

Criteria—The County should improve and follow its Board of Supervisor Community Agency and Economic Development Funding Policy BOS-FIN-016 and related procedures to help ensure that it complies with the Arizona Constitution Art. IX, Sec. 7, which bans gifts or loans of public monies to associations or corporations.

Effect—The County awarded $205,788 for economic development from its Constituent Funds discretionary spending monies to various organizations without requiring support showing that the monies would be and were used for supporting economic development that benefitted the public, resulting in an elevated risk of misuse of County monies.

Cause—The County did not follow its policies and procedures over awarding economic development funding and failed to require awarded organizations to certify that monies would be and were used for intended and authorized purposes.

Recommendations—To help ensure County monies awarded for economic development are used for the intended and authorized services and activities and are constitutional (i.e., not gifts or loans of public monies), the County should follow its existing policies and procedures. In addition, the County should strengthen its existing procedures to further define criteria and guidelines as follows:

- Include detailed guidelines and requirements that all award recipients must meet to qualify for economic development award monies. For example, the County's policies should describe acceptable award uses, and the County should consider creating an award application where entities would be required to describe their intended uses, such as service and activity goals, expected outcomes, and performance measures and to provide sufficiently detailed budgets indicating how and when the requested monies will be used.

- Ensure a committee evaluates all award requests before making award decisions, and award decisions are approved during the County's Board of Supervisor meetings so the public is aware of the entities to which awards are being allocated.

- Require awarded entities to report and certify how monies were spent. This report and certification should be required periodically or at least once the specified and approved timeframe for expending the monies has occurred.

- Require awarded entities to return any unexpended monies.

The County's responsible officials' views and planned corrective action are in its corrective action plan included at the end of this report.

2017-02

The County paid for $30,741 of a Supervisor's travel expenditures without following County policy and procedures, resulting in an elevated risk of misuse of County monies

Condition and context—During fiscal year 2017, the County paid $30,741 in travel expenditures on behalf of one of its Supervisors despite not having travel expense reports, receipts, or other documentation to support the travel purpose, the appropriateness of the expenditures, and any exceptions provided to the traveler as required by its travel policy and procedures.

Auditors reviewed 230 purchase card transactions made by the 3 Supervisors and found that the County paid for $30,741 in purchase card travel expenditures for the District 1 Supervisor despite the Supervisor not having completed necessary travel expense reports to document the purposes of travel. Further, for $18,600 of the District 1 Supervisor's purchase card travel expenditures the County paid for, it lacked the necessary receipts or other documentation to support their appropriateness as required by its travel policy. In contrast, for $4,897 of purchase card travel expenditures the County paid for on behalf of District 2 and 3 Supervisors, the County had receipts and other appropriate documentation.

Specifically:

- **County did not require District 1 Supervisor to reconcile and account for cash advances—**Auditors identified $4,704 in per-diem cash advances and related bank fees that had not been reconciled with receipts and accounted for. County procedures required that receipts be provided to support the use of cash advances and any monies not supported by receipts be returned to the County. Providing the advances in this manner may have income tax consequences, including a requirement to treat the advances as compensation.

- **County did not have any record of, and prior County managers either did not have any recollection of approval or did not document approval for exceptions to the County travel policy for District 1 Supervisor—**Auditors identified almost $14,000 in travel expenditures that were in violation of the County's travel policy for which there was no documented exception nor support that they were an appropriate use of public monies. Specifically:

- $11,794 in first-class flight purchases for the Supervisor and the Supervisor's spouse who was not a County employee. The County was unable to provide documentation that lower fare seats were unavailable or the County Manager approved an exception to the travel policy to allow first-class travel, as required by its travel policy. Additionally, the County was unable to provide support that the spouse's flights were an appropriate use of public monies.

- $1,576 payment for the Supervisor's sister's hotel stay to attend a conference with the Supervisor. The sister was not a County employee and the County was unable to provide documentation that this purchase was an appropriate use of public monies.

- $513 in travel insurance payments. The County was unable to provide documentation that the County Manager approved an exception to allow the Supervisor to purchase travel insurance. The travel policy specifically prohibited payment for travel insurance.

After these concerns were brought to the attention of County management, the Gila County Manager approved in writing specific travel policy exceptions on June 6, 2019 and revised them on July 31, 2019, for the District 1 Supervisor. Such exceptions include allowing the Supervisor to:

- Fly first class for all air travel.

- Bring a travel companion on County business at the County's expense. The companion can also travel first class for all air travel.

- Take cash advances of $500 prior to travel on County business to be used for gratuities and other de minimis travel expenses such as valet parking. Cash advances should be supported with receipts or other documents to support the travel advance made and any monies advanced not expended shall be returned to the County.

- Purchase travel insurance.

Criteria—The County should follow its travel policy and procedures for all travel expenditures, including those for all members of the Board of Supervisors, to help ensure it complies with the Arizona Constitution, Art. IX, Sec. 7, which bans gifts or loans of public monies to individuals.

Effect—The County paid for $30,741 of the Supervisor's travel expenditures without following the County travel policy and procedures, resulting in an elevated risk of misuse of County monies.

Cause—The County failed to follow its travel policy and procedures.

Recommendations—To help ensure travel expenditures are appropriate and constitutional (i.e., not gifts or loans of public monies), the County should not pay for any travel expenditures that do not have the necessary travel expense reports, receipts, and other supporting documentation as required by its travel policy and procedures. Also, the County should formally approve and document any exceptions to the travel policy and procedures and ensure they do not place the County at an elevated risk of misuse of County monies. Further, the County should work with its legal counsel to determine whether any cash advances it provided to the District 1 Supervisor should be reclassified as compensation.

The County's responsible officials' views and planned corrective action are in its corrective action plan included at the end of this report.

2017-03

The County should improve its policies and procedures to accurately compile, record, and report financial information in its annual financial report and issue its report in a timely manner

Condition and context—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 complete. Consequently, the County had to correct numerous misstatements in its financial statements and notes. The more significant errors are described below:

- The County misclassified $1,210,892 of property tax revenue as special assessments.
- The County misclassified $564,612 of unavailable charges for services as charges for services revenue in the General Fund.
- The County did not report accurate information in the risk-management note disclosure.

In addition, the County's annual financial report was not issued in time to meet the federal Single Audit Act's reporting deadline.

Criteria—The County should prepare its annual financial report that includes its financial statements and related note disclosures in accordance with U.S. generally accepted accounting principles (GAAP) and issue them in a timely manner. Accurate and timely financial statements provide valuable information to those charged with governance, management, and other financial statement users to make important decisions about the County's financial operations. In addition, the County's annual financial report must be issued in time to satisfy the audit requirements imposed by federal and State laws and regulations, grants, contracts, and long-term debt covenants.

Effect—There is an increased risk that the County's financial statements and note disclosures could include significant misstatements and mislead those relying on the information. Also, the County's fiscal year 2017 financial report was issued 2 years after the fiscal year ended, so the information was outdated for those who need it and was not issued in time to meet the federal Single Audit Act's reporting deadline, which is 9 months after the County's fiscal year-end. The County did not issue its single audit reporting package until August 2019. The County made the necessary audit adjustments to correct the financial statements and note disclosures for all significant errors and omissions that we discovered.

Cause—The County did not have comprehensive internal control policies and procedures or sufficient resources needed to prepare accurate, complete, and timely financial statements in accordance with GAAP. In addition, the County did not perform detailed reviews and appropriate approvals to ensure the accuracy and completeness of the financial statements and note disclosures.

Recommendations—To help ensure that the County's annual financial report is accurate and complete, prepared in accordance with GAAP, and issued in time to meet the federal Single Audit Act's reporting deadline, the County should:

- Develop and implement comprehensive written policies and procedures over financial statement preparation, including instructions for closing the general ledger at fiscal year-end, preparing common year-end financial statement adjustments, and performing a detailed supervisory review over the draft financial statements, supporting schedules, and note disclosures. These procedures should also include detailed instructions for obtaining information from the accounting system and information not readily available from the accounting system but necessary for preparing financial statements, preparing supporting schedules, and documenting and reviewing adjustments necessary for preparing its financial statements.
- Dedicate appropriate resources, assign employees specific responsibilities, and establish completion dates.
- Require an employee who is independent of the person preparing the financial statements and knowledgeable of the County's operations and GAAP reporting requirements to review the statements and related note disclosures. This review should ensure that the amounts are accurate and complete, properly supported, and presented in accordance with GAAP.

The County's responsible officials' views and planned corrective action are in its corrective action plan included at the end of this report.

This finding is similar to prior year finding 2016-01.

2017-04

The County needs to improve controls over its capital assets

Condition and context—The County did not have detailed policies and procedures to adequately control, record, and classify capital assets, including construction in progress, and depreciation. Further, the County has not conducted a full physical inventory of its machinery and equipment since 2009 to update its records for these capital assets and ensure they were accurate and complete.

Criteria—The County's capital assets comprise $36.3 million, or 42 percent of the County's total assets. Therefore, the County should have effective internal controls over capital assets that are sufficient to control, safeguard, and report capital assets.

Effect—The County's capital assets were exposed to potential theft, loss, and misuse, and items may not have been accurately reported in the financial statements.

Cause—The County's policies and procedures were not sufficiently detailed to adequately control capital assets, including tracking construction in progress when multiple projects are included within a single contract. In addition, the County did not follow its policies requiring a complete physical inventory.

Recommendations—To help ensure the County's capital assets are safeguarded against theft, loss, and misuse and accurately reported in the financial statements, the County should:

- Develop and implement detailed capital asset policies and procedures to properly control, record, and classify capital assets, including construction in progress, and depreciation. These policies and procedures should include reconciling current-year capital expenditures to current-year capital additions; reconciling current-year capital asset balances to prior-year capital asset balances; and tracking construction expenditures by project, including tracking when the construction projects are to be completed, reclassified, and depreciated.

- Perform a full physical inventory at least once every 2 years, maintaining the inventory documentation and reconciling the inventory results to the capital asset records to ensure they are accurate and complete.

The County's responsible officials' views and planned corrective action are in its corrective action plan included at the end of this report.

This finding is similar to prior year finding 2016-02.

2017-05

Managing risk

Condition and context—The County's process for managing 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 data and systems. 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.

Criteria—Effectively managing risk at the County includes an entity-wide risk-assessment process that involves members of the County's administration and IT management to determine the risks the County faces as it 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. The process should provide the basis for developing appropriate responses based on identified risk tolerances and specific potential risks to which the County might be subjected. To help ensure the County's objectives can be met, an annual risk assessment should include considering IT risks. For each identified risk, the County should analyze the identified risk and develop a plan to respond within the context of the County's defined objectives and risk tolerances. The process of managing risks should also address the risk of unauthorized access and use, modification, or loss of sensitive information and the risk of losing the continuity of business operations in the event of a disaster or system interruption.

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

Cause—The County previously relied on an informal risk assessment process and did not document a County-wide risk assessment that included IT security, including applicable policies and procedures.

Recommendations—The County should identify, analyze, and reduce risks to help prevent undesirable incidents and outcomes that could impact business functions and IT systems and data. It also should plan for where resources should be allocated and where critical controls should be implemented. To help ensure it has effective entity-wide policies and procedures to achieve these objectives, the County should follow guidance from a credible IT security framework such as that developed by the National Institute of Standards and Technology. Responsible administrative officials and management over finance, IT, and other entity functions should be asked for input in the County's process for managing risk. The County should conduct the following as part of its process for managing risk:

- Perform an annual County-wide IT risk-assessment process that includes evaluating risks such as risks of inappropriate access that would affect financial data, system changes that could adversely impact or disrupt system operations, and inadequate or outdated system security.
- 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.
- Evaluate and determine the business functions and IT systems that would need to be restored quickly given the potential impact disasters or other IT system interruptions could have on critical organizational functions, such as public safety, and operations, such as payroll and accounting, and determine how to prioritize and plan for recovery.

The County's responsible officials' views and planned corrective action are in its corrective action plan included at the end of this report.

This finding is similar to prior year finding 2016-04 (risk assessment) and 2016-06 (contingency planning).

2017-06

Information technology (IT) controls—access, configuration and change management, security, and contingency planning

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

- **Restricting access to its IT systems and data—**Procedures did not consistently help prevent or detect unauthorized or inappropriate access.
- **Configuring systems securely and managing system changes—**Procedures did not ensure IT systems were securely configured and all 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.
- **Updating and testing a contingency plan—**Plan lacked key elements related to testing and updating the plan for test results and training staff responsible for placing the plan into operation.

Criteria—The County should have effective internal controls to protect its IT systems and help ensure the integrity and accuracy of the data it maintains.

- **Logical and physical access controls—**Help to ensure systems and data are accessed by users who have a need, systems and data access granted is appropriate, key systems and data access is monitored and reviewed, and physical access to system infrastructure is protected.
- **Well-defined documented configuration management process—**Ensures the County's IT systems are configured securely 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 security or operations. Separation of 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.

- **IT security internal control policies and procedures—**Help prevent, detect, and respond to instances of unauthorized or inappropriate access or use, manipulation, damage, or loss to its IT systems and data.
- **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.

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 the loss of confidentiality and 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 is in the process of developing and implementing policies and procedures.

Recommendations—To help ensure the County has effective policies and procedures over its IT systems and data, the County should follow guidance from a credible IT security framework such as that developed by the National Institute of Standards and Technology. To help achieve these control objectives, the County should develop, document, and implement control procedures in each IT control area described below:

Access

- Assign and periodically review employee user access ensuring appropriateness and compatibility with job responsibilities.
- Remove terminated employees' access to IT systems and data.
- Review all other account access to ensure it remains appropriate and necessary.
- Evaluate the use and appropriateness of accounts shared by 2 or more users and manage the credentials for such accounts.
- Enhance authentication requirements for IT systems.
- Protect IT systems and data with session time-outs after defined period of inactivity.
- Manage entity-owned electronic devices connecting to the County's systems and data.
- Manage remote access to the County's systems and data.
- Segregate public and internal wireless networks and secure internal wireless network access.
- Review data center physical access periodically to determine whether individuals still need it.

Configuration and change management

- Establish and follow a documented change management process.
- Review proposed changes for appropriateness, justification, and security impact.
- Document changes, testing procedures and results, change approvals, and post-change review.
- Test changes prior to implementation.
- Separate responsibilities for the change management process or, if impractical, perform a post-implementation review to ensure the change was implemented as approved.
- Configure IT resources appropriately and securely and maintain configuration settings.
- Manage software installed on employee computer workstations.

Security

- Perform proactive key user and system activity logging and log monitoring, particularly for users with administrative access privileges.
- Prepare and implement a security-incident-response plan clearly stating how to report and handle incidents.

- Provide all employees ongoing training on IT security risks and their responsibilities to ensure systems and data are protected.
- Perform IT vulnerability scans and remediate vulnerabilities in accordance with a remediation plan.
- Identify, evaluate, and apply patches in a timely manner.
- Secure unsupported software.
- Develop, document, and follow a process for awarding IT vendor contracts.

Contingency planning

- Update the contingency plan and ensure it includes all required elements to restore critical operations, including being prepared to enable moving critical operations to a separate alternative site if necessary.
- Test the contingency plan.
- Train staff responsible for implementing the contingency plan.
- Back up and securely maintain backups of systems and data.

The County's responsible officials' views and planned corrective action are in its corrective action plan included at the end of this report.

This finding is similar to prior year finding 2016-05 (access), 2016-06 (contingency planning), and 2016-04 (risk assessment).

2017-07

The County should comply with laws governing conflict of interest

Condition and context—During fiscal year 2017, a County official inappropriately participated in awarding County monies to an entity in which she disclosed an interest. The official disclosed that she is a trustee of the entity on the County's annually required financial disclosure statement. Although the County required officials and employees to annually prepare a financial disclosure statement, it did not have adequate policies and procedures in place to ensure that its officials and employees refrained from participating in decisions when they have a substantial conflict of interest, as required by State laws.

Criteria—Arizona law requires public officers and employees to avoid conflicts of interest that might influence or affect their official conduct. If public officials/employees or their relatives have a substantial interest in either (1) any contract, sale, purchase, or service to the public agency or (2) any decision of the public agency, the public officer/employee is required to fully disclose the interest and refrain from voting upon or otherwise participating in the matter in any way as a public officer/employee. See A.R.S. §§38-502 and 38-503(A)(B).

Effect—The County official is at risk of not complying with conflict-of-interest laws. Also, the County is at an elevated risk of inappropriately giving, or appearing to give, preference to an entity it conducts business with when one of its officials or employees has a substantial interest in that entity.

Cause—The County official did not refrain from participating in decision-making that involves conducting business with or awarding County monies to an entity with whom the official had a documented interest.

Recommendation—To help ensure compliance with State laws, the County should follow its adopted policies and procedures that require its officials and employees to refrain from participating in decision-making that involves conducting business with or awarding County monies to an entity with whom a County official or employee has a substantial interest. The County should also ensure its officials and employees are periodically reminded of these policies and procedures.

The County's responsible officials' views and planned corrective action are in its corrective action plan included at the end of this report.

This finding is similar to prior year finding 2016-07.

2017-08

The County should comply with laws governing transfers of monies between budgeted line items

Condition and context—The County did not obtain Board of Supervisor approval for transfers of monies between County funds that were greater than $50,000 during fiscal year 2017.

Criteria—Arizona Revised Statutes (A.R.S.) §42-17106 requires that the County's Board of Supervisors approve transfers of monies between budget line items at a public meeting. In addition, the County's policy requires the Board to approve operating transfers greater than $50,000 if those transfers were not known at the time of the adopted budget.

Effect—The County was in noncompliance with statute and transferred monies without authority and without the Board's knowledge or approval. Consequently, there is an elevated risk the County could transfer monies that are restricted for a specific purpose by laws, regulations, or provisions of contracts or grant agreements or could transfer monies for an unnecessary purpose that is not in the public's interest.

Cause—Because of County employee turnover, the responsible County employee did not realize that a State law and County policies required regularly occurring transfers greater than $50,000 be approved by the Board.

Recommendation—To help ensure that the County does not transfer monies that are restricted for a specific purpose by laws, regulations, or provisions of contracts or grant agreements, or does not transfer monies for a purpose that is not in the public's interest, the County should follow State laws and its policies, including asking for and receiving Board approval for all transfers greater than $50,000.

The County's responsible officials' views and planned corrective action are in its corrective action plan included at the end of this report.

2017-09

The County should comply with laws requiring all public deposits to be collateralized

Condition and context—The County did not collateralize public deposits retained in a bank account under the County's name as required by State laws. Specifically, the Public Fiduciary's Office balance of public deposits was $275,760 on June 30, 2017, and only $250,000 of that balance was insured by the Federal Deposit Insurance Corporation (FDIC); the remaining $25,760 was not insured or collateralized as required by State laws.

Criteria—A.R.S. §35-1201, et seq. require all public deposits to be insured and, for any amounts in excess of deposit insurance, collateralized at 102 percent. In addition, all public deposits must be either included in the Arizona Statewide Collateral Pool or deposited with a qualified escrow agent.

Effect—The County's Public Fiduciary's Office public deposits may be at risk of loss, and there may be other deposit accounts the County failed to insure or collateralize.

Cause—The County did not know that the deposits held by the Public Fiduciary's Office for the people it serves were classified as public deposits under State laws.

Recommendation—To help ensure that the County complies with State laws governing public deposits and protects all deposit accounts from loss, the County should:

- Develop and implement policies and procedures to monitor all bank accounts to ensure that all public deposits are either reported to the Arizona State Treasurer and included in the Arizona Statewide Collateral Pool or deposited with a qualified escrow agent so that they are insured and, if necessary, properly collateralized.
- Train employees who administer County bank accounts on these policies and procedures and the classification of public deposits.

The County's responsible officials' views and planned corrective action are in its corrective action plan included at the end of this report.

Federal award findings and questioned costs

2017-101

CFDA number and name: Not Applicable
Questioned costs: N/A

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 schedule of expenditures of federal awards (SEFA). Specifically, the County overstated its federal award expenditures by $122,346. In addition, the County did not always correctly report the appropriate cluster name or pass-through entity identifying information. The County's SEFA was adjusted to correct these errors. Further, the federal reporting deadline for the County's 2017 single audit reporting package was March 31, 2018. However, the County did not issue its single audit reporting package until August 2019.

Criteria—The County should prepare an accurate and complete SEFA that reports its federal award expenditures in accordance with Uniform Guidance, 2 Code of Federal Regulations (CFR) §200.510; identify in its accounts all federal awards received and expended in accordance with 2 CFR §200.302; and submit its single audit reporting package to the federal clearinghouse no later than 9 months after fiscal year-end in accordance with 2 CFR §200.512.

Effect—The County is at an elevated risk of losing awards for future federal programs, misleading those that rely on reported expenditures, and wasting public monies because a misstated SEFA could result in auditors unnecessarily auditing incorrect federal award programs or programs that were not from federal monies. 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.

Cause—The County did not have effective policies and procedures in place to ensure that all federal awards were identifiable in its accounting system and properly reported on the SEFA and to prepare its annual financial statements and SEFA in time to meet its federal financial reporting requirements.

Recommendation—To help ensure that the County prepares its SEFA in compliance with the Uniform Guidance, the County should develop and implement policies and procedures to separately identify in its accounting system each federal award the County receives and expends and establish a review process to help ensure that the SEFA is accurate and complete and complies with Uniform Guidance requirements. Further, the County should improve its financial reporting process so that it can submit its single audit reporting package to the federal clearinghouse no later than 9 months after fiscal year-end.

The County's responsible officials' views and planned corrective action are in its corrective action plan included at the end of this report.

This finding is similar to prior year finding 2016-101.

2017-102

Cluster name:	**Housing Choice Vouchers Cluster**
CFDA number and name:	14.871 **Section 8 Housing Choice Vouchers**
Award numbers and years:	AZ045, July 1, 2016 through June 30, 2017
Federal agency:	**Department of Housing and Urban Development (HUD)**
Compliance requirements:	Allowable costs/cost principles, eligibility, and reporting
Questioned costs:	$9,120

Condition and context—During fiscal year 2017, the County did not properly perform and report the annual family composition reexaminations for a tenant because the file did not include approval of a live-in aide, and for another tenant, the County did not obtain third-party verification of the tenant's family annual income. The County may have overawarded these tenants a total of $9,120 in federal housing assistance. The County had a total of 76 tenants that were approved to receive Section 8 Housing Choice Vouchers assistance, and we tested 40 of those tenants' files.

Criteria—The Gila County Administrative Plan requires written verification from a reliable, knowledgeable professional, such as a doctor, social worker, or case worker, that a live-in aide is essential for the elderly, near-elderly, or disabled family member's care and well-being. For continued approval, the family must submit a new written request, and the County must perform a verification during the tenant's annual family composition reexamination. The approved live-in aide must be accurately reported on the HUD-50058 Family Report as a Household Member. In addition, 24 CFR §982.516 requires the County to obtain and document third-party verification of the reported family annual income, and the County must establish and maintain effective internal control that provides reasonable assurance that it is managing the program in compliance with all applicable laws, regulations, and award terms (2 CFR §200.303).

Effect—The County is at an elevated risk of providing federal housing assistance to those that are not qualified.

Cause—The County's internal controls included a supervisory review of the eligibility determinations and the annual family composition reexamination report. However, the supervisory review did not reveal that there was no documented approval of a live-in aide and that the required annual family composition reexamination was not performed.

Recommendation—To help ensure that the County complies with its Administrative Plan and does not provide federal housing assistance to those who are not qualified, it should develop and implement policies and procedures for supervisors to follow that include obtaining a written verification that demonstrates that a live-in aide is essential for the care for the eligible tenant, retaining this documentation in the tenant file, and performing and reporting annual family composition reexaminations. In addition, the County should follow established policies and procedures for obtaining third-party income verifications.

The County's responsible officials' views and planned corrective action are in its corrective action plan included at the end of this report.

2017-103

Cluster name:	**Housing Choice Vouchers Cluster**
CFDA number and name:	14.871 **Section 8 Housing Choice Vouchers**
Award numbers and years:	AZ045, July 1, 2016 through June 30, 2017
Federal agency:	**Department of Housing and Urban Development (HUD)**
Compliance requirements:	Special tests and provisions
Questioned costs:	Unknown

Condition and context—For 1 of 15 annual housing unit inspections tested, the County failed to reinspect the unit that had been identified as having housing quality standard deficiencies within the 60 days allotted by its policies.

Criteria—Non-life-threatening housing unit deficiencies the County identifies during inspections must be corrected within 30 days unless the County approves an extension (24 CFR §982.404). It is the County's policy to reinspect housing units with identified deficiencies within 60 days. In addition, the County must establish and maintain effective internal control over its federal award that provides reasonable assurance that the County is managing the award in compliance with federal statutes, regulations, and the terms and conditions of the award (2 CFR §200.303).

Effect—There is an elevated risk that the County may disburse federal housing assistance that should have been stopped until housing quality-standard deficiencies were corrected. It was not practical to extend our auditing procedures sufficiently to determine questioned costs, if any, that may have resulted from this finding because the County did not maintain a listing of annual housing unit inspections requiring reinspection.

Cause—The County failed to follow its policies and procedures to reinspect housing units with identified deficiencies within the allotted time to ensure the housing quality standard deficiencies had been corrected.

Recommendation—To help ensure that the County complies with the program's special tests and provisions and does not disburse federal housing assistance to tenants' landlords whose housing units have deficiencies requiring correction, the County should reinspect housing units that failed to meet housing quality standards within the time frame allotted by its policies.

The County's responsible officials' views and planned corrective action are in its corrective action plan included at the end of this report.

2017-104

Cluster name: **Housing Choice Vouchers Cluster**
CFDA number and name: 14.871 **Section 8 Housing Choice Vouchers**
Award numbers and years: AZ045, July 1, 2016 through June 30, 2017
Federal agency: **Department of Housing and Urban Development (HUD)**
Compliance requirements: Special tests and provisions
Questioned costs: None

Condition and context—The County did not enter into a depository agreement with its financial institution using the form required by HUD.

Criteria—In accordance with 24 CFR §982.156(c), the County is required to enter into a depository agreement with its financial institution using the form required by HUD. The agreement must include the following requirements:

- Deposited monies must be insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund.
- Deposited monies must be in a separate interest-bearing account.
- Financial institution must honor notices from HUD to discontinue withdrawals from the account.
- Rights and duties of this agreement must not be transferred or assigned without the prior written approval of the County's Housing Authority and HUD.

Effect—HUD was unable to have adequate oversight of federal monies awarded and credited to the County so that it could exercise its responsibilities to freeze the account if it deemed necessary.

Cause—The County lacked sufficient policies and procedures to ensure it had entered into the required depository agreement prior to the start of the award period.

Recommendation—To help ensure that the County complies with HUD requirements, the County should develop and implement policies and procedures requiring an appropriate level of management to verify that a depository agreement is in effect with its Housing Authority's financial institution by using the required HUD form.

The County's responsible officials' views and planned corrective action are in its corrective action plan included at the end of this report.

This finding is similar to prior finding 2013-008

2017-105

Cluster name: **Housing Choice Vouchers Cluster**
CFDA number and name: 14.871 **Section 8 Housing Choice Vouchers**
Award numbers and years: AZ045, July 1, 2016 through June 30, 2017
Federal agency: **Department of Housing and Urban Development (HUD)**
Compliance requirements: Reporting
Questioned costs: None

Condition and context—The County did not submit its annual Financial Data Schedules to HUD within 9 months after fiscal year-end.

Criteria—The County is required to submit annual Financial Data Schedules to HUD no later than 9 months after the fiscal year-end (24 CFR §5.801). In addition, the County must establish and maintain effective internal control over its federal award that provides reasonable assurance that the County is managing the award in compliance with federal statutes, regulations, and the terms and conditions of the award (2 CFR §200.303).

Effect—There is an elevated risk that the County may not receive adequate funding because HUD was delayed in carrying out its responsibilities to estimate future County funding needs and to evaluate the overall effectiveness of the federal award monies spent.

Cause—The County was unaware that it needed to prepare its annual Financial Data Schedules and engage auditors to certify them to meet the required time frame because the County's Housing Department hired a new financial manager during the fiscal year.

Recommendation—To help ensure that the County meets HUD's financial reporting requirements, the County should:

- Document these requirements and designate an official to oversee them.
- Develop and implement policies and procedures for preparing its Financial Data Schedules and submitting them to HUD.
- Ensure that it engages auditors annually to perform the necessary services on the schedules to ensure they are submitted to HUD within the required time frame.

The County's responsible officials' views and planned corrective action are in its corrective action plan included at the end of this report.

2017-106

CFDA number and name: 93.563 **Child Support Enforcement**
Award numbers and years: DI16002156, October 1, 2015 through September 30, 2019
Federal agency: **Department of Health and Human Services**
Pass-through grantor: Arizona Department of Economic Security (ADES)
Compliance requirements: Allowable costs/cost principles
Questioned costs: Unknown

Condition and context—The County's indirect cost plan proposal inappropriately identified a 70.56 percent indirect cost rate and contained indirect costs that the County also requested for reimbursement as program direct costs. However, during ADES's contract and financial review, it caught these errors and limited the indirect cost rate to 18.57 percent. Therefore, the County did not request and receive excess reimbursement. However, based on the lower approved percentage, the County requested reimbursement for $122,791 for indirect payroll costs that it did not record in the program's accounting records. Therefore, these charges to the program were not supported by the County's records. Further, the County did not have adequate review procedures in place to ensure its indirect cost plan proposal was compliant with 2 CFR §200. Specifically, the plan did not include the required County organization charts and incorrectly referred to OMB Circular A-87 instead of being updated to comply with the 2 CFR §200, Appendix V.

Criteria—The County's grant agreement with ADES and 2 CFR §200, Appendix V, requires the County to prepare an indirect cost allocation plan proposal that ADES approves before indirect costs can be claimed for reimbursement. Further, the plan proposal must be accompanied by an organization chart sufficiently detailed to show operations and should not include costs that have been claimed as direct costs. Additionally, 45 CFR §75.302 (b)(3) requires the County to identify in its accounting records the source and application of federally funded activities. Lastly, the County must establish and maintain effective internal control over its federal award that provides reasonable assurance that it is managing the award in compliance with federal statutes, regulations, and the award's terms and conditions (45 CFR §75.303).

Effect—The County is at an elevated risk of requesting and receiving reimbursement of federal monies for which it is not entitled.

Cause—The County lacked adequate policies and procedures for preparing reimbursement requests and ensuring program expenditures were separately reflected in the accounting records and incurred prior to requesting reimbursement. Also, although the County used the services of a qualified outside consultant to prepare its fiscal year 2017 indirect cost allocation plan proposal, the County did not clearly designate employees responsible for communicating with, overseeing, and monitoring the consultant to ensure that the plan complied with the Uniform Guidance.

Recommendation—To help ensure the County does not receive reimbursement of federal monies it is not entitled to, it should:

- Develop and implement policies and procedures for preparing, reviewing, and approving reimbursement requests prior to their submission to the grantor to verify that expenditures are supported by and reconciled to the grant program accounting records and incurred prior to requesting reimbursement.
- Establish clear policies and procedures for communicating with, overseeing, and monitoring the consultant contracted to prepare its annual indirect cost allocation plan proposal.

The County's responsible officials' views and planned corrective action are in its corrective action plan included at the end of this report.

This finding is similar to prior year finding 2016-102.

2017-107

CFDA number and name: 93.563 **Child Support Enforcement**
Award numbers and years: DI16002156, October 1, 2015 through September 30, 2019
Federal agency: **Department of Health and Human Services**
Pass-through grantor: Arizona Department of Economic Security (ADES)
Compliance requirements: Activities allowed or unallowed, allowable costs/cost principles, cash management, and reporting
Questioned costs: $3,258

Condition and context—The County submitted reimbursement requests for fiscal year 2017 to ADES that inappropriately included $3,258 for employee incentive payments that ADES had already calculated and paid to the County causing the County to be reimbursed for $3,258 in unallowable costs. ADES is responsible for determining incentive amounts the County earned.

Criteria—The County's grant agreement with ADES states that the County may receive employee incentive pay based on a methodology set forth in the ADES current incentive policy, and these monies are to be used solely to enhance the program. ADES is to determine the amount of incentive payments 45 days after the end of the quarter in which they were earned. In addition, the County must establish and maintain effective internal control over its federal award that provides reasonable assurance that the County is managing the award in compliance with federal statutes, regulations, and the award's terms and conditions (45 CFR §75.303).

Effect—The County was reimbursed for unallowable costs totaling $3,258, resulting in the County possibly having to repay these questioned costs to ADES. Also, because the County lacks sufficient written procedures, it is at an elevated risk of not complying with the federal requirements in the future and having to repay ADES for additional questioned costs.

Cause—The County did not understand that ADES was responsible for determining the amount of any incentives it earned. Further, the County did not have adequate procedures in place to ensure all costs charged to the program and claimed for reimbursement were allowable.

Recommendation—To help ensure that the County requests reimbursement for only allowable costs and meets its matching requirement, the County should not calculate and claim employee incentive pay for reimbursement from ADES. In addition, the County should separately account for employee incentive payments and ensure those monies are used solely to enhance the program.

The County's responsible officials' views and planned corrective action are in its corrective action plan included at the end of this report.

This finding is similar to prior year finding 2016-103.

2017-108

CFDA number and name: 93.069 **Public Health Emergency Preparedness**
Award number and years: ADHS17-133182, July 1, 2016 through June 30, 2021
Federal agency: **Department of Health and Human Services**
Pass-through grantor: Arizona Department of Health Services (ADHS)
Compliance requirement: Allowable costs/cost principles and matching
Questioned costs: None

Condition and context—The County was not adequately tracking whether it met its matching requirements because it did not have documentation or accounting records supporting employees' time and effort contributed to the program as matching expenditures until after we requested documentation. Based on the documentation, the County demonstrated that it had reasonably met its award period's 10 percent matching requirement, which was $20,042. In addition, the County inappropriately commingled program expenditures that were subject to reimbursement under 2 different reimbursement arrangements, cost-reimbursement and fixed-price, making it difficult for the County to ensure it reported and received reimbursement for the correct expenditures.

Criteria—The County's grant agreement with ADHS required it to match 10 percent of its award amount with nonfederal monies to further support the public health services this grant provided. The grant agreement allowed matching to be provided through a "soft" or "in-kind" match, and the County contributed its match with its employees' time and effort spent towards the program's goals that were to be paid through nonfederal sources. In accordance with 2 CFR §200.302 and §200.306, the County should maintain program accounting records that adequately identify the source and application of nonfederal matching contributions. In addition, the County must establish and maintain effective internal control over its federal award that provides reasonable assurance that the County is managing the award in compliance with federal statutes, regulations, and the terms and conditions of the award (45 CFR §75.303).

Effect—There is an elevated risk that the County may not provide its citizens with the appropriate amount of emergency preparedness services that the grant agreement intended if it does not meet its matching requirement.

Cause—The County did not have adequate policies and procedures for recording matching expenditures and monitoring whether it met its matching requirement during the award period. In addition, the County's accounting system did not have a properly designed account code structure.

Recommendation—To help ensure that the County sufficiently matches the federal award with nonfederal sources to support the program's goals, the County should develop and implement policies and procedures for recording and monitoring its matching contributions during the award period. In addition, the County should restructure its accounting system's account code structure to separately identify program expenditures that are reimbursed by the pass-through grantor.

The County's responsible officials' views and planned corrective action are in its corrective action plan included at the end of this report.

2017-109

CFDA number and name: 93.069 **Public Health Emergency Preparedness**
Award number and years: ADHS17-133182, July 1, 2016 through June 30, 2021
Federal agency: **Department of Health and Human Services**
Pass-through grantor: Arizona Department of Health Services (ADHS)
Compliance requirement: Suspension and debarment
Questioned costs: None

Condition and context—The County paid $228,020 to one vendor during the year without ensuring that the vendor was not suspended or debarred from doing business with the federal government.

Criteria—The County must verify that a vendor is not suspended or debarred or is otherwise excluded from participating in federal programs before it enters into a procurement transaction that is expected to equal or exceed $25,000 with a vendor (2 CFR §180.300). In addition, the County must maintain effective internal control over the federal award to provide reasonable assurance that it is managing the award in compliance with federal statutes, regulations, and the award terms and conditions (2 CFR §200.303).

Effect—There is an elevated risk that the County could make payments or award contracts to suspended or debarred parties. However, we were able to perform auditing procedures to verify that the vendor was not suspended or debarred. This finding has the potential to affect other federal programs the County administered.

Cause—The County's procurement policies and procedures did not require employees to verify and document that vendors were not suspended or debarred prior to making payments or awarding contracts to them using federal monies.

Recommendation—To help ensure that the County does not make payments or award contracts to suspended or debarred parties, the County should develop and implement policies and procedures to verify and document that vendors have not been suspended or debarred prior to making payments and awarding contracts expected to exceed $25,000 or more using federal monies. This verification may be accomplished by checking the System for Award Management maintained by the U.S. General Services Administration and obtaining vendor certifications or adding clauses or conditions to the contract.

The County's responsible officials' views and planned corrective action are in its corrective action plan included at the end of this report.

2017-110

Cluster name: **Forest Service Schools and Roads Cluster**
CFDA number and name: 10.665 **Schools and Roads—Grants to States**
Award number and years: N/A, October 1, 2015 through September 30, 2016
N/A, October 1, 2016 through September 30, 2017
Federal agency: **Department of Agriculture**
Compliance requirement: Cash management
Questioned costs: None

Condition and context—The County did not distribute $241,586 and $26,843 of program monies allocated to public schools and roads until 120 and 169 days, respectively, after it received the federal award monies.

Criteria—The County should take efforts to minimize the time elapsed between the receipt of federal award monies and their distribution or expenditure for program purposes (2 CFR §200.305(b)). In addition, the County must maintain effective internal control over its federal award to provide reasonable assurance that it is managing the award in compliance with federal statutes, regulations, and the award terms and conditions (2 CFR §200.303).

Effect—There is an elevated risk that the County may not meet its school districts' operational needs or provide its citizens with the appropriate amount of road services if it does not distribute program monies in a timely manner.

Cause—Although the County's Board of Supervisors received notification in March 2017, they did not meet until June 2017 to approve the disbursements.

Recommendation—To help ensure that the County effectively manages federal award monies to avoid having idle cash balances, the County's management should ensure the Board of Supervisors meets to approve the federal award allocation to schools prior to receiving the federal award monies.

The County's responsible officials' views and planned corrective action are in its corrective action plan included at the end of this report.

This finding is similar to prior year finding 2016-106.

COUNTY SECTION

Gila County
Schedule of expenditures of federal awards
Year ended June 30, 2017

Federal agency/CFDA number	Federal program name	Cluster title	Pass-through grantor	Pass-through grantor's numbers	Program expenditures	Amount provided to subrecipients
Department of Agriculture						
10 551	Supplemental Nutrition Assistance Program	SNAP Cluster	Arizona Community Action Association	None	$ 5,328	
10 561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	SNAP Cluster	Arizona Department of Health Services	ADHS16-106556	179,716	77,520
	Total SNAP Cluster				185,044	77,520
10 557	WIC Special Supplemental Nutrition Program for Women, Infants, and Children		Arizona Department of Health Services	ADHS14-053062	265,696	
10 565	Commodity Supplemental Food Program	Food Distribution Cluster	Arizona Department of Health Services	ADHS12-010890, ADHS17-132851	3,528	
10 665	Schools and Roads—Grants to States	Forest Service Schools and Roads Cluster			241,586	
10 704	Law Enforcement Agreements				71,408	
	Total Department of Agriculture				767,262	77,520
Department of Housing and Urban Development						
14 228	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii		Arizona Department of Housing	127-16	100,700	
14 871	Section 8 Housing Choice Vouchers	Housing Voucher Cluster			420,678	
	Total Department of Housing and Urban Development				521,378	
Department of Justice						
16 575	Crime Victim Assistance		Arizona Department of Public Safety	2015-233	60,086	
16 606	State Criminal Alien Assistance Program				9,308	
16 738	Edward Byrne Memorial Justice Assistance Grant Program		Arizona Criminal Justice Commission	DC-17-004, DC-17-023	154,557	
16 Unknown	Domestic Cannabis Eradication and Suppression Program				6,673	
	Total Department of Justice				230,624	
Department of Energy						
81 042	Weatherization Assistance for Low-Income Persons		Arizona Department of Housing	203-16	58,187	
Department of Education						
84 002	Adult Education-Basic Grants to States		Arizona Department of Education	17FAEABE-713181-16B, 17FAEIEL-713181-16B, 17FEDWIO-713181-16B, 17FAEADL-713181-16B, 17FAEAPL-713181-16B	67,475	
84 027	Special Education—Grants to States	Special Education Cluster (IDEA)	Arizona Department of Education	17FESCBG-711207-09A, 17FESSCG-713181-55B	10,570	
84 041	Impact Aid				169,065	
84 358	Rural Education		Arizona Department of Education	17FTIRLC-711207-04A	272	
84 366	Mathematics and Science Partnerships		Arizona Department of Education	17-FSDSP-713181-10C	86,798	
	Total Department of Education				334,180	

See accompanying notes to schedule.

Gila County
Schedule of expenditures of federal awards
Year ended June 30, 2017

Federal agency/CFDA number	Federal program name	Cluster title	Pass-through grantor	Pass-through grantor's numbers	Program expenditures	Amount provided to subrecipients
Department of Health and Human Services						
93 069	Public Health Emergency Preparedness		Arizona Department of Health Services	ADHS17-133182	266,289	
93 136	Injury Prevention and Control Research and State and Community Based Programs		Arizona Department of Health Services	ADHS16-110815	95,517	
93 243	Substance Abuse and Mental Health Services—Projects of Regional and National Significance				88,348	
93 268	Immunization Cooperative Agreements		Arizona Department of Health Services	ADHS13-041539	121,413	
93 505	Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	Maternal, Infant, and Early Childhood Home Visiting Cluster	Arizona Department of Health Services	ADHS13-028437	23,542	
93 558	Temporary Assistance for Needy Families	TANF Cluster	Arizona Department of Economic Security	ADES15-089113	18,161	
93 563	Child Support Enforcement		Arizona Department of Economic Security	DI16-002156	544,541	
93 568	Low-Income Home Energy Assistance		Arizona Department of Economic Security	ADES15-089113	123,587	
93 569	Community Services Block Grant		Arizona Department of Economic Security	ADES15-089113	131,874	
93 597	Grants to States for Access & Visitation Programs		Arizona Department of Economic Security	KR15-0113	11,583	
93 667	Social Services Block Grant		Arizona Department of Economic Security	ADES15-089113	161,177	
93 917	HIV Care Formula Grants		Arizona Department of Health Services	ADHS13-040496	205,345	
93 940	HIV Prevention Activities—Health Department Based		Arizona Department of Health Services	ADHS13-031248	4,713	
93 991	Preventive Health and Health Services Block Grant		Arizona Department of Health Services	ADHS16-098369	47,090	
93 994	Maternal and Child Health Services Block Grant to the States		Arizona Department of Health Services	ADHS16-098369	89,840	
	Total Department of Health and Human Services				1,933,020	
Department of Homeland Security						
97 042	Emergency Management Performance Grants		Arizona Department of Emergency and Military Affairs	EMW-2015-EP-00048, EMF-2016-EP-000009-S01	174,114	
	Total expenditures of federal awards				$ 4,018,765	$ 77,520

Gila County
Notes to schedule of expenditures of federal awards
Year ended June 30, 2017

Note 1 - Basis of presentation

The accompanying schedule of expenditures of federal awards includes Gila County's federal grant activity for the year ended June 30, 2017. 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* (Uniform Guidance).

Note 2 - Summary of significant accounting policies

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.

Note 3 - Catalog of Federal Domestic Assistance (CFDA) numbers

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2017 *Catalog of Federal Domestic Assistance.* When no CFDA number had been assigned to a program, the two-digit federal agency identifier and the federal contract number were used. When there was no federal contract number, the two-digit federal agency identifier and the word "unknown" were used.

Note 4 - Indirect cost rate

The County did not elect to use the 10 percent de minimis indirect cost rate as covered in 2 CFR §200.414.

COUNTY RESPONSE

Mary Jane Springer
Finance Director
mspringer@gilacountyaz.gov
(928) 402-8516

Maryn Belling
Budget Manager
mbelling@gilacountyaz.gov
(928) 402-8743

Gila County Finance Department
1400 E. Ash Street, Globe, Arizona 85501
Fax: (928) 425-7056

Amber Warden
Accounting Manager
atwarden@gilacountyaz.gov
(928) 402-8777

August 27, 2019

Lindsey Perry,
Auditor General
2910 N. 44th St., Ste. 410
Phoenix, Arizona 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 U.S. Office of Management and Uniform Guidance. 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.

Sincerely,

Mary Jane Springer
Finance Director

Gila County
Corrective Action Plan
Year Ended June 30, 2017

Financial Statement Findings

2017-01

The County should improve its policies and procedures to ensure monies awarded for economic development are used for the intended and authorized services and activities and are constitutional.

Contact: Mary Jane Springer, Finance Director
Anticipated Completion Date: March 31, 2021

Corrective Action Plan: To help ensure that the County provides funding for economic development activities that are used for the intended purposes and that are constitutional the County will revise its policy and procedures. In addition, each request will be reviewed by the County Manager and Finance Director to ensure the policy and procedures are followed and the required documentation is included. Each agreement executed by the County and requesting party will require that the funds will be utilized as intended and any unexpended funds will be returned to the County.

2017-02

The County paid for travel expenditures without following County policy and procedures, resulting in an elevated risk of misuse of County monies.

Contact: Mary Jane Springer, Finance Director
Anticipated Completion Date: March 31, 2021

Condition and context: It is the highest priority of the Board of Supervisors to be transparent and accountable to the citizens of Gila County. Consequently, under the direction of the Gila County Board of Supervisors the County developed, and on July 23, 2019, formally adopted the *Gila County Five-Year Strategic Plan* (Plan). The first and most critical element noted in the Plan is “Responsible Resource Management” which is defined as “effectively managing resources including workforce, property, equipment, and funds determined to be in the best interest of the communities we serve.” To further ensure the transparency and accountability of Gila County the Board of Supervisors did direct the development of comprehensive and detailed financial policies, including the Gila County Travel Policy (BOS-FIN-112), and did formally adopt such policies, on November 20, 2018. These financial policies, including the travel policy, is consistent and compliant with the requirements of governmental accounting standards and best practices and with the *Uniform Accounting Manual for Arizona Counties* (UAMAC) as published by the Arizona Office of the Auditor General. Prior to the current Board’s adoption of these fiscal policies the Gila County Finance Department utilized a memorandum of unknown origin as a guideline to administer the County’s employee travel requirements. In fiscal year 2016-17 the travel memorandum was 18 years old and had been subject to a wide variety of interpretations through the years because a Board approved policy did not exist

The County Manager, Steve Besich, who was in this position from May 1985 to January 2010, verbally authorized exceptions to the Gila County travel practices for the District 1 Supervisor. These exceptions to the travel practices included: the authorization to fly first class for all air travel, with an authorized travel companion; the purchase of travel insurance for first class airfare tickets; and the use of per diem cash advances for taxis, gratuities and other travel necessities. When receipts and other documentation for cash advances were submitted to the Finance Department it was stated to the District 1 Supervisor in FY2012 that the documentation for per diem cash advances was not required and would be discarded. The District 1 Supervisor, for recordkeeping purposes, did not discard the applicable receipts. Subsequently, in August 2019 the County requested the per diem cash advance receipts which were provided. Of the $4,704 identified as cash advances by the Office of the Auditor General there are receipts and documentation totaling $4,794. The $4,794 did not include travel related food that was personally paid for and not reimbursed. Mr. Besich passed away January 2010; however, there are witnesses that have verified the authorization of these exceptions.

In addition to the roles of Finance Director and Deputy County Manager, John Nelson was the County Manager in 2007, 2010 and 2017. Mr. Nelson verbally reauthorized the same exceptions to the travel practices. Further, on July 1, 2019, Mr. Nelson confirmed this in writing.

As an employer with approximately 600 employees Gila County must be compliant with federal employment laws that protect employee rights such as the Fair Labor Standards Act (FLSA) and the Americans with Disabilities Act (ADA). In the application of these federal laws the County must administer them fairly and impartially to all County employees. For example, once an employer becomes aware that an employee requires an accommodation in the performance of their job duties the employer has a mandatory obligation under the ADA to engage in an interactive process with the employee to identify and implement appropriate reasonable accommodations. Consequently, in compliance with the FLSA, ADA and other federal employment laws the County must administer such laws fairly and impartially for all employees. Regarding this specific instance the County Manager in place at the time exceptions were initially allowed is now deceased and could neither confirm nor deny the existence of provided exceptions. In subsequent years numerous witnesses have substantiated that verbal authorizations were given for applicable travel exceptions; however, previous County managers were remiss in providing written documentation of such approvals. On July 31, 2019 applicable travel exceptions were memorialized in writing by, James Menlove, the current Gila County Manager.

Gila County acknowledges that for fiscal year 2016-17 travel documentation for the District 1 Supervisor, was incomplete and did not include travel claim forms. However, credit card statements, including receipts documenting travel expenditures, were reconciled each month and retained.

Corrective Action Plan: To help ensure travel expenditures are appropriate the County will not pay for travel expenditures that do not have the necessary travel expense reports, receipts, and other supporting documentation as required by the Gila County travel policy adopted on November 20, 2018. Also, the County will formally approve and document any exceptions to the travel policy and procedures to ensure the County is not placed at an elevated risk of misuse of County monies. The County has reviewed the per-diem cash advance receipts and determined the expenditures are appropriate travel related expenditures and have determined that they should not be reclassified as compensation.

2017-03

The County should improve its policies and procedures to accurately compile, record, and report financial information in its annual financial report and issue its report in a timely manner.

Contact: Mary Jane Springer, Finance Director
Anticipated Completion Date: March 31, 2021

Corrective Action Plan: To help ensure that the County’s financial statements and note disclosures are accurate, complete, follow GAAP, and are issued in time to meet the Single Audit reporting requirements the County will develop and implement comprehensive written policies and procedures, dedicate appropriate staff who are assigned specific responsibilities independent of the person preparing the financial statements to review the statements and related note disclosures. County is working with

Arizona AG office and outside consultant to expedite completion of past due financial statements and single audit. Gila County Finance Department had tremendous turnover over the past few years however, as of October 2018 is fully staffed with qualified individuals to perform these functions. New financial policies were adopted by the Board of Supervisors on November 20, 2018. Gila County expects to be current with the financial audits March 31, 2021.

2017-04

The County needs to improve controls over its capital assets

Contact: Mary Jane Springer, Finance Director
Completion Date: December 31, 2019

Corrective Action Plan: To help ensure the County's capital assets are safeguarded against theft and misuse and accurately reported, the County will develop and implement capital asset procedures for properly classifying and disposing of capital assets and for performing a physical inventory at least every 2 years. Physical inventory was completed in 2017 by an outside consulting firm and staff is reconciling the physical inventory report to the existing capital asset listing; anticipated completion December 2019. New capital asset policy was adopted by the Board of Supervisors on November 20, 2018. Training on new capital asset policy and proper procedures for disposal for all departments completed December 2018.

2017-05

The County should improve process for managing its risk-assessment to include information technology security by 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 data and systems.

Contact: Mary Jane Springer, Finance Director
Anticipated Completion Date: June 30, 2020

Corrective Action Plan: To help improve its risk-analysis for information and technology security the County IT Department developed a new Security Risk Assessment policy BOS-IT-003 that was adopted by the Board of Supervisors on June 25, 2019. IT will provide appropriate training on the policy requirements and will assist in identification and classification of sensitive information and how to safeguard information with proper controls. IT will develop additional procedures to perform an IT risk-assessment processes.

2017-06

The County should improve Information technology (IT) controls – access, configuration and change management, security, and contingency planning

Contact: Mary Jane Springer, Finance Director
Anticipated Completion Date: June 30, 2020

Corrective Action Plan: To help prevent and detect unauthorized access or use, manipulation, damage, or loss to its IT resources, the County will develop effective logical access policies and procedures over its IT resources. The new IT policies and procedures BOS-IT-002 Access Control and BOS-IT-004 Contingency Planning were adopted by the Board of Supervisors on June 25, 2019. The County will train staff on the policies and procedures and perform periodic reviews of employee user accounts to help ensure appropriate access to network systems are compatible with current job responsibilities. To help ensure county operations continue in the event of a disaster, system or equipment failure, or other interruption, the County will establish a remote data recovery site and exercise its contingency planning procedures at least annually and identify potential system improvements. Data recovery site will be set up by January 2020 and contingency planning procedure testing will be completed by June 30, 2020. Vulnerability scans and penetration testing will be conducted at least annually and evaluate the impact disasters or other system interruptions could have on critical IT resources. IT will develop a configuration/change management policy and associated procedures by the June 30, 2020.

2017-07

The County should comply with laws governing conflict of interest

Contact: Mary Jane Springer, Finance Director
Completion Date: September 30, 2018

Corrective Action Plan: To help ensure compliance with state laws, the County will develop procedures to verify all public officers prepare and file financial disclosure statements with the Secretary of State annually and retain a copy of employee conflict-of-interest forms for a period of 3 years. The County will review and compile a list of all declared conflicts to ensure potential conflicts are identified and affected public officials or staff is made aware of potential conflicts, so they would properly abstain from participating in awarding County monies to a known conflict. The list of declared conflicts will be compiled annually by staff and provided to appropriate personnel responsible for identifying the conflicts before any action is taken.

2017-08

The County should comply with laws governing transfers of monies between budgeted line items

Contact: Mary Jane Springer, Finance Director
Completion Date: June 25, 2019

Corrective Action Plan: To help ensure compliance with state laws, the Finance staff will annually prepare a listing of all transfers to be presented to the Board of Supervisors for approval. The Finance Department prepared and presented a listing of transfers for FY2017, FY2018, and FY2019 to the Board of Supervisors on June 25, 2019 which were approved.

2017-09

The County should comply with laws requiring all public deposits to be collateralized

Contact: Mary Jane Springer, Finance Director
Anticipated Completion Date: September 30, 2019

Corrective Action Plan: To help ensure compliance with laws governing all public deposits to be collateralized the County will revise the existing cash policy, establish procedures and train departments who manage County bank accounts to monitor all bank accounts to ensure that all public deposits are either reported to the Arizona State Treasurer and included in the Arizona Statewide Collateral Pool or deposited with a qualified escrow agent so that they are insured and, if necessary, properly collateralized.

Federal Award Findings and Questioned Costs

2017-101

CFDA No.: NOT APPLICABLE
Contact: Mary Jane Springer, Finance Director
Anticipated Completion Date: June 30, 2019

Corrective Action Plan: To help ensure that the County prepares the SEFA in compliance with Uniform Guidance, 2 Code of Federal Regulations (CFR) §200.510. The County will develop and implement policies and procedures identify in its accounting system all federal awards the County receives and disburses and establish a review process to help ensure that the SEFA is accurate and complete. Further, the County will improve its financial reporting process so that it can submit its single audit reporting package to the federal clearinghouse no later than 9 months after fiscal year-end in accordance with 2 CFR §200.512.

2017-102

CFDA No.: 14.871 Section 8 Housing Choice Vouchers
Contact: Mary Jane Springer, Finance Director
Anticipated Completion Date: June 30, 2020

Corrective Action Plan: To help ensure that the County complies with its Administrative Plan and does not provide federal housing assistance to those who are not qualified, it should develop and implement quality control document check policies to ensure the forms are accurately prepared if a live-in aide is essential for the care for the eligible tenant. Program supervisors will follow procedures that include obtaining a written verification that demonstrates that a live-in aide is essential for the care for the eligible tenant, retaining this documentation in the tenant file, and performing and reporting annual family composition reexaminations. In addition, the County Community Services Fiscal Manager will follow established policies and procedures for obtaining third-party income verifications.

2017-103

CFDA No.: 14.871 Section 8 Housing Choice Vouchers
Contact: Mary Jane Springer, Finance Director
Anticipated Completion Date: June 30, 2019

Corrective Action Plan: To help ensure that the County complies with the program's special tests and provisions and does not disburse federal housing assistance to tenants' landlords whose housing units have deficiencies requiring correction, the County Community Services Director will update policies to incorporate the HQS inspection compliance as part of the Director's responsibilities and will document in writing verification that the housing units that failed to meet housing quality standards were re-inspected within the time frame allotted by its policies.

2017-104

CFDA No.: 14.871 Section 8 Housing Choice Vouchers
Contact: Mary Jane Springer, Finance Director
Completion Date: June 30, 2018

Corrective Action Plan: To help ensure that the County complies with HUD requirements, the County's Community Services Fiscal Manager verified that a depository agreement is in effect with its Housing Authority's financial institution by using the required HUD form completed June 2018.

2017-105

CFDA No.: 14.871 Section 8 Housing Choice Vouchers
Contact: Mary Jane Springer, Finance Director
Anticipated Completion Date: June 30, 2020

Corrective Action Plan: To help ensure that the County meets HUD's financial reporting requirements, the County's Community Services Fiscal Manager will implement policies and procedures for preparing the Financial Data Schedules and submit them to the County's Finance Department and to HUD. The County's Finance Director will engage the auditors annually to perform necessary services on the schedules to ensure they are submitted to HUD within the required time frame. The County is working with HUD to request a waiver for prior years financial data reports.

2017-106

CFDA No.: 93.563 Child Support Enforcement
Contact: Mary Jane Springer, Finance Director
Anticipated Completion Date: June 30, 2019

Corrective Action Plan: Child Support Enforcement: To help ensure that the County complies with 2 CFR §200, appendix V the County will establish clear policies and procedures that provides reasonable assurance that the County is managing the federal award in compliance with federal statutes and ensures the County is collecting and retaining supporting documentation, organizational charts, and signed certifications. The County will also oversee, review, and monitor the consultant responsible for preparing the Indirect Cost Plan to ensure the County is entitled to receive the appropriate indirect costs for the Child Support Enforcement program.

2017-107

CFDA No.: 93.563 Child Support Enforcement
Contact: Mary Jane Springer, Finance Director
Anticipated Completion Date: June 30, 2019

Corrective Action Plan: Child Support Enforcement: To help ensure that the County complies with 45 CFR §75.303 the County will establish clear policies and procedures that provides reasonable assurance that the County is managing the federal award in compliance with federal statutes. The County will provide appropriate guidance, training, and program oversight to departments to ensure all aspects of the grant follows Federal statutes, regulations and the terms and conditions of the award.

2017-108

CFDA No.: 93.069 Public Health Emergency Preparedness
Contact: Mary Jane Springer, Finance Director
Anticipated Completion Date: June 30, 2019

Corrective Action Plan: To help ensure that the County sufficiently matches the federal award with nonfederal sources to support the program's goals, the County will develop and implement procedures for documenting its matching contributions during the award period. The County will also restructure its accounting system's account code structure to separately identify program expenditures that are reimbursed by the pass-through grantor.

2017-109

CFDA No.: 93.069 Public Health Emergency Preparedness
Contact: Mary Jane Springer, Finance Director
Anticipated Completion Date: June 30, 2019

Corrective Action Plan: To help ensure that it complies with 2 CFR §180.300 and §200.303 the program's requirements for suspension and debarment and managing the federal award in compliance with federal statutes, regulations and award terms and conditions, the County will establish written policies and procedures to verify that vendors have not been suspended or debarred prior to making payments and awarding contracts. The verification will be accomplished by obtaining vendor certifications with all contracts or adding clauses or conditions to contracts awards that are expected to equal or exceed $25,000. Documentation of the verification will be maintained in the procurement file.

2017-110

CFDA No.: 10.665 – Schools and Roads—Grants to States
Contact: Mary Jane Springer, Finance Director
Anticipated Completion Date: June 30, 2019

Corrective Action Plan: In accordance with 2 CFR §200.305(b), and §200.303 The County will ensure the Board of Supervisors approves the program allocations prior to receiving program monies. Additionally, the County will minimize the time elapsing between the transfer of funds and disbursement by the recipient.

Gila County Finance Department
1400 E. Ash Street, Globe, Arizona 85501
Fax: (928) 425-7056

Mary Jane Springer
Finance Director
mspringer@gilacountyaz.gov
928-402-8516

Amber T. Warden
Accounting Manager
atwarden@gilacountyaz.gov
928-402-8777

Maryn Belling
Budget Manager
mbelling@gilacountyaz.gov
928-402-8743

July 17, 2019

Lindsey Perry
Auditor General
2910 North 44th Street
Suite 410
Phoenix, AZ 85018

Dear Ms. Perry:

We have prepared the accompanying 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,

Mary Jane Springer
Finance Director

Gila County
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2017

Status of Financial Statement Findings

The County should improve its policies and procedures to accurately compile, record, and report financial information in its annual financial report and issue its report in a timely manner.
Finding No.: 2016-01, 2015-01, 2014-01, 2013-001
Status: Not Corrected

County is working with Arizona AG office and outside consultant to expedite completion of past due financial statements and single audit and anticipating being current with the FY2020 audit by March 31, 2021. As of November 20, 2018, the department was fully-staffed and new policies were adopted by the Gila County Board of Supervisors as follows:

Policy #	Regarding	Adopted
BOS-FIN-101	CALENDAR OF EVENTS	11-20-2018
BOS-FIN-102	CHART OF ACCOUNTS	11-20-2018
BOS-FIN-103	BUDGET	11-20-2018
BOS-FIN-104	ACCOUNTING RECORDS	11-20-2018
BOS-FIN-105	FUND BALANCE	11-20-2018
BOS-FIN-106	FINANCIAL REPORTING	11-20-2018
BOS-FIN-107	AUDIT REQUIREMENTS	11-20-2018
BOS-FIN-108	CASH	11-20-2018
BOS-FIN-109	INVESTMENTS	11-20-2018
BOS-FIN-110	SUPPLIES INVENTORY	11-20-2018
BOS-FIN-111	CAPITAL ASSETS	11-20-2018
BOS-FIN-112	TRAVEL	11-20-2018
BOS-FIN-113	PROCUREMENT	11-20-2018
BOS-FIN-114	CREDIT CARD	11-20-2018

The County needs to improve controls over its capital assets.
Finding No.: 2016-02, 2015-02, 2014-02, 2013-001
Status: Partially Corrected

Physical inventory was completed in 2017 by an outside consulting firm, staff is reconciling the physical inventory report to the capital asset listing to ensure records in financial software system are properly recorded. New capital asset policy (BOS-FIN-111) was adopted by the Board of Supervisors on November 20, 2018.

The County should improve its policies and procedures to ensure its departments accurately record revenues and safeguard cash receipts
Finding No.: 2016-03, 2015-03, 2014-03, 2013-001
Status: Not Corrected

New Cash policy (BOS-FIN-108) adopted by the Board of Supervisors on November 20, 2018.

Gila County
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2017

The county should improve its risk-assessment process to include information technology security.
Finding No.: 2016-04
Status: Not Corrected

The county has developed standards and policies as appropriate to ensure adequate risk assessment of information technology systems is performed and documented. New IT Risk Assessment policy will be proposed to the Board of Supervisors and adopted by June 30, 2019.

The County should comply with laws governing preparation of budgets.
Finding No.: 2015-05, 2014-06
Status: Not Corrected

To help ensure compliance with state laws, the County will develop policies and procedures that require the preparation of budgets for departments administered by all elected and appointed county officers. Budget policy was adopted by the Board of Supervisors on November 20, 2018.

The County should improve access controls over its information technology resources.
Finding No.: 2016-05, 2015-06, 2014-07
Status: Not Corrected

Password and access control audit of financial system was performed in January 2019.
The county has developed standards and policies as appropriate to ensure adequate controls over the county's resources and access controls. Access control policy will be adopted by the Board of Supervisors by June 30, 2019.

The County should improve its contingency planning procedures for its information technology resources.
Finding No.: 2016-06, 2015-07, 2014-08
Status: Not Corrected

The county has developed standards, policies, and redundant resources as appropriate to ensure adequate protection of the county's information technology data. The new contingency policy will be adopted by the Board of Supervisors by June 30, 2019.

The County should comply with laws governing conflict of interest.
Finding No.: 2016-07, 2015-04
Status: Not Corrected

The county requires annual disclosure of conflict of interest statements. The statements are reviewed, and any disclosure is recorded on a spreadsheet and distributed to the Finance staff to ensure financial transactions do not pose a conflict. The review process was implemented June 2018.

Gila County
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2017

The County should comply with laws governing contributions to pension plans
Finding No.: 2016-08
Status: Not Corrected

The county developed a setup procedure for pension deductions to ensure pensions are calculated with the correct rates. Financial system setup was corrected immediately upon discovery April 2018.

Status of Federal Award Findings and Questioned Costs

CFDA No.: NOT APPLICABLE
Finding No.: 2016-101, 2015-101, 2014-101, 2013-002, 2013-004, 2013-003, 2012-19, 2012-15, 2011-19, 2010-21
Status: Not Corrected

Corrective Action Plan: To help ensure that the County prepares the SEFA in compliance with the Uniform Guidance, the County will develop and implement policies and procedures identify in its accounting system all federal awards the County receives and disburses and establish a review process to help ensure that the SEFA is accurate and complete. Further, the County will improve its financial reporting process so that it can submit its single audit reporting package to the federal clearinghouse no later than 9 months after fiscal year-end. Expected date to be current with audit March 2021.

CFDA No.: 93.563 Child Support Enforcement
Finding No.: 2016-102, 2015-102, 2014-102
Status: Not Corrected

Corrective Action Plan – Child Support Enforcement: To help ensure that the County complies with 2 CFR §200, appendix V the County will establish clear policies and procedures that provides reasonable assurance that the County is managing the federal award in compliance with federal statutes and ensures the County is collecting and retaining supporting documentation, organizational charts, and signed certifications. The County will also oversee, review, and monitor the consultant responsible for preparing the Indirect Cost Plan to ensure the County is entitled to receive the appropriate indirect costs and include a separate indirect cost rate for the Family Law Commissioner's Office (Commissioner) and Child Support Enforcement program. New firm, Heinfeld Meech was retained in 2018 and Finance staff coordinated contributing department meetings to ensure data was provided and indirect cost plans were developed collaboratively and accurately.

Gila County
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2017

CFDA No.: 93.563 Child Support Enforcement
Finding No.: 2016-103, 2015-103, 2014-103
Status: Not Corrected

Corrective Action Plan – Child Support Enforcement: To help ensure that the County complies with 2 CFR §200.465, 45 CFR §304.20, and 2 CFR 200.303 the County will establish clear policies and procedures that provides reasonable assurance that the County is managing the federal award in compliance with federal statutes. The County will provide appropriate guidance, training, and program oversight to departments to ensure all aspects of the grant follows Federal statutes, regulations and the terms and conditions of the award.

CFDA No.: 93.563 Child Support Enforcement
Finding No: 2016-104, 2015-105, 2014-105, 2013-005, 2012-20, 2011-21, 2010-24, 2009-16, 08-19, 07-21, 06-20, 05-21, 04-21, 03-101
Status: Not Corrected

Corrective Action Plan – Child Support Enforcement: To help ensure that the County complies with 2 CFR §200.302 and 2 CFR §200.303, the County will establish clear policies and procedures that provides reasonable assurance that the County is managing the federal award in compliance with federal statutes. The County hired a Grants Administrator to work with departments to ensure all aspects of the grant follows Federal statutes, regulations and the terms and conditions of the award and that timely submittal of CPES reports occur for each grant program. The County has implemented a change in the chart of accounts structure so that expenditures and reimbursements by a third party can be easily tracked in the accounting system.

CFDA No.: 93.563 Child Support Enforcement
Finding No: 2015-104, 2014-104, 2013-006
Status: Not Corrected

Corrective Action Plan – Child Support Enforcement: To help ensure that the County employees payroll costs to the program are supported by timesheets, in 2018 the Finance Department implemented e-timesheets for all county departments to ensure timely and accurate reporting of hours worked. Finance Department hired a grants administrator in 2018 who will provide appropriate guidance, training, and program oversight to departments to ensure that financial results are accurate, current and complete.

CFDA No.: 10.665 – Schools and Roads—Grants to States
Finding No.: 2016-105, 2015-107
Status: Not Corrected

Corrective Action Plan: To help ensure that it complies with 2 CFR §180.300 and §200.303 the program's requirements for suspension and debarment and managing the federal award in compliance with federal statutes, regulations and award terms and conditions, the County will establish written policies and procedures to verify that vendors have not been suspended or debarred prior to making payments and awarding contracts of $25,000 or more using federal monies. New procurement policy was approved by the Board of Supervisors on November 20, 2018 and includes suspension and debarment verification. The verification will be accomplished by obtaining vendor certifications with all contracts or adding clauses or conditions to contracts awards that are expected to equal or exceed $25,000. Documentation of the verification will be maintained in the procurement file.

CFDA No.: 10.665 – Schools and Roads—Grants to States
Finding No.: 2016-106, 2015-106, 2014-106, 2013-007
Status: Not Corrected

Corrective Action Plan: In accordance with 2 CFR §200.305(b), and §200.303 The County will ensure the Board of Supervisors approves the program allocations timely upon receiving program monies. Additionally, the County will minimize the time elapsing between the transfer of funds and disbursement by the recipient. Corrected June 2019

CFDA No.: 14.871 – Section 8 Housing Choice Vouchers
Finding No.: 2013-008
Status: Not Corrected

Corrective Action Plan: Community Services Department will work with current banking institution to ensure accounts meet HUD requirements in accordance with 24 CFR 982.156(c) Corrected June 2018.