

**GILA COUNTY, ARIZONA**  
**SINGLE AUDIT**  
**YEAR ENDED JUNE 30, 2010**

**GILA COUNTY, ARIZONA  
TABLE OF CONTENTS  
YEAR ENDED JUNE 30, 2010**

<b><u>TABLE OF CONTENTS</u></b>	<b><u>PAGE</u></b>
<b>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 <i>GOVERNMENT AUDITING STANDARDS</i></b>	<b>1</b>
<b>INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133</b>	<b>3</b>
<b>SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS</b>	<b>6</b>
<b>NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS</b>	<b>9</b>
<b>SCHEDULE OF FINDINGS AND QUESTIONED COSTS</b>	
<b>SUMMARY OF AUDITORS' RESULTS</b>	<b>10</b>
<b>FINANCIAL STATEMENT FINDINGS, INCLUDING THE COUNTY'S CORRECTIVE ACTION PLAN</b>	<b>12</b>
<b>FEDERAL AWARD FINDINGS AND QUESTIONED COSTS, INCLUDING THE COUNTY'S CORRECTION ACTION PLAN</b>	<b>21</b>
<b>SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS</b>	<b>29</b>

Report Issued Separately:  
Annual Financial Report

**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**

The Auditor General of the State of Arizona

Board of Supervisors of  
Gila County  
Globe, Arizona

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Gila County (the County), as of and for the year ended June 30, 2010, which collectively comprise the County's basic financial statements and have issued our report thereon dated October 10, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Gila County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Gila County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Gila County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 2010-01 through 2010-16 to be material weaknesses.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Gila County's financial statements are free of 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We also noted certain matters that we reported to management of Gila County in a separate letter dated October 10, 2011.

Gila County's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Gila County's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the members of the Arizona State Legislature, the Auditor General of the State of Arizona, management, the Board of Supervisors, others within the County, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Larson Allen LLP". The signature is written in a cursive, flowing style.

**LarsonAllen LLP**

Mesa, Arizona  
October 10, 2011

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS  
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133**

The Auditor General of the State of Arizona

Board of Supervisors of  
Gila County  
Globe, Arizona

Compliance

We have audited Gila County's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Gila County's major federal programs for the year ended June 30, 2010. Gila County's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on Gila County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Gila County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Gila County's compliance with those requirements.

In our opinion, Gila County complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2010-17, 2010-19, and 2010-22 through 2010-24.

### Internal Control over Compliance

Management of Gila County is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Gila County's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Gila 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 significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be 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 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 2010-19 and 2010-21 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 2010-18, 2010-20 and 2010-22 through 2010-24 to be significant deficiencies.

Gila County's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Gila County's responses and, accordingly, we express no opinion on the responses.

### Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Gila County as of and for the year ended June 30, 2010, and have issued our report thereon dated October 10, 2011. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the members of the Arizona State Legislator, the Auditor General of the State of Arizona, management, the Board of Supervisors, others within the County, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Larson Allen LLP*

**LarsonAllen LLP**

Mesa, Arizona  
October 10, 2011

**GILA COUNTY, ARIZONA  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2010**

<b>Federal Grantor/Pass-Through Grantor/Program Title</b>	<b>CFDA Number</b>	<b>Pass-Through Grantor's Number</b>	<b>Expenditures</b>
<b>U.S. Department of Agriculture</b>			
<b>Passed through the Arizona Department of Health Services</b>			
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	HG861141-0, HG861141-2	\$ 315,239
Commodity Supplemental Food Program	10.565	HG861159, HB861159-1	5,096
<b>Passed through the Arizona State Treasurer</b>			
School and Roads - Grants to States	10.665	None	198,139
<b>Passed through the U.S. Forest Service, Tonto National Forest</b>			
Forest Service Pavement Maintenance Project	10.Unknown	None	136,873
Total U.S. Department of Agriculture			<u>655,347</u>
<b>U.S. Department of Housing and Urban Development</b>			
Section 8 Housing Choice Vouchers	14.871	N/A - Direct	332,541
<b>Passed through the Arizona Department of Commerce</b>			
Community Development Block Grants/State's Program	14.228	125-07, 150-09, 116-08	51,468
<b>Passed through the Arizona Department of Economic Security</b>			
Emergency Shelter Grants Program	14.231	E6306015	6,659
<b>Passed through the Arizona Department of Housing</b>			
Community Development Block Grant	14.225	112-10R	156,770
ARRA - Homeless Prevention and Rapid Re-Housing Program	14.262	506-10	7,497
Total U.S. Department of Housing and Urban Development			<u>554,935</u>
<b>U.S. Department of the Interior</b>			
Payments in Lieu of Taxes	15.226	N/A - Direct	4,161,274
Total U.S. Department of the Interior			
<b>U.S. Department of Justice</b>			
<b>Passed through the Arizona Criminal Justice Commission</b>			
Crime Victim Compensation	16.576	VC-09-052	12,585
Justice Assistance Grant Program Cluster			
ARRA - Edward Byrne Memorial Justice Assistance Grant	16.803	DC10-027, DC-10-036	\$ 458,406
Edward Byrne Memorial Justice Assistance Grant Program	16.738	DC-09-026, DC-09-029	5,775
Total Justice Assistance Grant Program Cluster			<u>464,181</u>
Total U.S. Department of Justice			<u>476,766</u>
<b>U.S. Department of Labor</b>			
<b>Passed through the Arizona Department of Economic Security</b>			
Workforce Investment Act Cluster:			
WIA Adult Program	17.258	DE070295001, DE091206001, DE081297001	548,948
WIA Youth Activities	17.259	DE070295001, DE091206001, DE081297001, E5706004	449,161
WIA Dislocated Workers	17.260	DE070295001, DE091206001, DE081297001	865,690
ARRA WIA Adult Program	17.258	DE070295001, DE091206001, DE081297001	202,396
ARRA WIA Youth Activities	17.259	DE070295001, DE091206001, DE081297001, E5706004	71,400
ARRA WIA Dislocated Workers	17.260	DE070295001, DE091206001, DE081297001	1,009,540
Total Workforce Investment Act Cluster			<u>3,147,135</u>
Incentive Grants - WIA Section 503	17.267	DE070295001, DE091206001, DE081297001, E5706004	42,495
Total U.S. Department of Labor			<u>3,189,630</u>
<b>U.S. Department of Transportation</b>			
<b>Passed through the Arizona Department of Transportation</b>			
Highway Planning and Construction	20.205	IGA/JPA 08-1321	937,953

(Continued)



**GILA COUNTY, ARIZONA**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)**  
**YEAR ENDED JUNE 30, 2010**

				(Continued)
<b>Federal Grantor/Pass-Through Grantor/Program Title</b>	<b>CFDA Number</b>	<b>Pass-Through Grantor's Number</b>		<b>Expenditures</b>
<b>U.S. Department of Energy</b>				
<b>Passed through the Arizona Department of Commerce</b>				
Weatherization Assistance for Low Income Persons	81.042	C037-09-02, C051-09-02, C052-09-02		148,198
ARRA - Weatherization Assistance for Low Income Persons	81.042	C037-09-02		724,445
Total U.S. Department of Energy				872,643
<b>U.S. Department of Education</b>				
Impact Aid	84.041	N/A - Direct		160,090
<b>Passed through the Arizona Governor's Office of Economic Recovery</b>				
ARRA - State Fiscal Stabilization Fund	84.394	GOER-FY2010-506-E	67,796	
<b>Passed through the Arizona Department of Education</b>				
ARRA - State Fiscal Stabilization Fund	84.394	HR1	47,355	
Total State Fiscal Stabilization:				115,151
Title I, Part A Cluster:				
Title I Grants to Local Educational Agencies	84.010	S010A080003	77,823	
ARRA - Title I	84.389	S389A090003	27,030	
Total Title I, Part A Cluster:				104,853
English Language Acquisition Grants	84.365	T365A80003A		9,064
Mathematics and Science Partnerships	84.366	S366B070003, S366B080003		406,806
Adult Education--Basic Grants to States	84.002	V002A090003		69,657
Safe and Drug Free Schools	84.186	IGA	32	
<b>Passed through the Arizona Supreme Court</b>				
State and Drug-Free Schools and Committees - State Grants	84.186	S186A080003	712	
Total Safe and Drug Free Schools				744
<b>Passed through the Arizona Department of Education</b>				
Special Education Cluster:				
Special Education - Grants to State	84.027	H027A090007	20,378	
ARRA Special Education	84.391	H391A090007	15,255	
<b>Passed through the Arizona Supreme Court</b>				
Special Education - Grants to State	84.027	IGA	34,964	
Total Special Education Cluster				70,597
<b>Passed through the Arizona Department of Education</b>				
Education Technology State Grant Cluster:				
Education Technology State Grants	84.318	S318X090003	347	
ARRA - Education Technology State Grants	84.386	S386A090003	435	
<b>Passed through Pima County</b>				
Enhancing Education Through Technology	84.318	S318X090003	75,625	
Total Education Technology State Grant Cluster:				76,407
<b>Passed through the Arizona Supreme Court</b>				
Title I Program for Neglected and Delinquent Children	84.013	29823		31,615
Improving Teacher Quality State Grants	84.367	S367A090049	2,246	
Improving Teacher Quality State Grants	84.367	29823	13,985	
<b>Passed through the Arizona Department of Education</b>				
Improving Teacher Quality State Grants	84.367	S367A80049	97,365	
Total Improving Teacher Quality State Grants				113,596
<b>Passed through the Arizona Department of Economic Security</b>				
Rehabilitation Services -- Vocational Rehabilitation Grants to States	84.126	DE070366-001		44,926
Total U.S. Department of Education				1,203,506
<b>U.S. Election Assistance Commission</b>				
<b>Passed through the Arizona Secretary of State</b>				
Help America Vote Act Requirements Program	90.401	None		42,713
<b>U.S. Department of Health and Human Services</b>				
<b>Passed through the Arizona Department of Health Services</b>				
Immunization Grants Cluster:				
Immunization Grants	93.268	HG854284, HG854284-0	24,017	
ARRA Immunization	93.712	HG854284-0	11,875	
Total Immunization Grants Cluster				35,892
Public Health Preparedness & Response for Bioterrorism	93.069	HC754195-0, HG754195-0, HG754195		366,969
HIV Prevention Activities -- Health Department Based	93.940	HG852277-0 & HG852277-1		8,086
Maternal and Child Health Services Block Grant, Special Needs	93.994	HG854246-1, HG854246-2, HP961245-003		9,856

(Continued)

**GILA COUNTY, ARIZONA**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)**  
**YEAR ENDED JUNE 30, 2010**

<b>Federal Grantor/Pass-Through Grantor/Program Title</b>	<b>CFDA Number</b>	<b>Pass-Through Grantor's Number</b>	<b>Expenditures</b>
<b>U.S. Department of Health and Human Services (Continued)</b>			
<b>Passed through the Arizona Department of Economic Security</b>			
Temporary Assistance for Needy Families	93.558	E6306015	150,000
Child Support Enforcement	93.563	DES06725-1, DES06726-1	1,112,554
Low-Income Home Energy Assistance	93.568	E6306015	181,403
Community Services Block Grant Cluster:			
Community Services Block Grant	93.569	E6306015	136,443
ARRA - Community Services Block Grant	93.710	E6306015	127,125
Total Community Services Block Grant Cluster			263,568
Social Services Block Grant	93.667	E6306015	8,352
HIV Care Formula Grants	93.917	HP652141-001-4, HP652141-001-6	54,232
<b>Passed through the Arizona Secretary of State</b>			
Voting Access for Individuals with Disabilities Grants to States	93.617	0503AZVOTE & 0603AZVOTE	8,519
Total U.S. Department of Health and Human Services			2,199,431
<b>U.S. Department of Homeland Security:</b>			
<b>Passed through the Arizona Department of Homeland Security</b>			
Homeland Security Grant Program	97.067	333305-01, 444307-02	168,357
Buffer Zone Protection Program	97.078	333305-02	63,133
		07-AZDOHS-HSGP-333300-01, 07-AZDOHS-HSGP-333300-02, 07-AZDOHS-HSGP-333300-04	3,070
Emergency Management Performance Grant	97.042		
<b>Passed through the Arizona Department of Emergency Services and Military Affairs</b>			
Emergency Food and Shelter National Board Program Cluster:			
Emergency Food and Shelter National Board Program	97.024	26-024800-7	6,000
ARRA Emergency Food and Shelter National Board Program	97.114	024800-007	3,000
Total Emergency Food and Shelter National Board Program Cluster			9,000
Total U.S. Department of Homeland Security			243,560
Total Expenditures of Federal Awards			\$ 14,537,758

**GILA COUNTY, ARIZONA  
NOTES TO SCHEDULE OF EXPENDITURES  
OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2010**

**NOTE 1 BASIS OF ACCOUNTING**

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

**NOTE 2 THE REPORTING ENTITY**

Gila County, Arizona, for purposes of the Schedule of Expenditures of Federal Awards, includes all the funds of the primary government as defined by Government Accounting Standards Board (GASB) Statement 14, *The Financial Reporting Entity*.

Gila County, Arizona, administers certain federal financial assistance programs through sub-recipients. Those sub-recipients are not considered part of the Gila County, reporting entity.

**NOTE 3 SUBRECIPIENTS**

From the federal expenditures presented in the schedule, the County awarded the following to subrecipients.

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Paid to Subrecipient</u>
Workforce Investment Act - Adult and Youth Programs	17.258 & 17.259 & 17.267	\$ 1,641,229

**NOTE 4 RECOVERY ACT**

ARRA denotes the program has received funding provided by the American Recovery and Reinvestment Act of 2009.

**GILA COUNTY, ARIZONA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2010**

**SECTION I – SUMMARY OF AUDITORS' RESULTS**

***Financial Statements***

Type of auditor's report issued: *Unqualified*

Internal control over financial reporting:

- Material weakness(es) identified?          X     yes                 no
- Significant deficiency(ies) identified?                 yes          X     none reported

Noncompliance material to financial statements noted?                 yes          X     no

***Federal Awards***

Internal control over major programs:

- Material weakness(es) identified?          X     yes                 no
- Significant deficiency(ies) identified?          X     yes                 none reported

Type of auditor's report issued on compliance for major programs: *Unqualified*

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?          X     yes                 no

**GILA COUNTY, ARIZONA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
YEAR ENDED JUNE 30, 2010**

**SECTION I – SUMMARY OF AUDITORS' RESULTS (CONTINUED)**

***Federal Awards (Continued)***

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
15.226	Payments in Lieu of Taxes
16.738	Justice Assistance Grant Program Cluster:
16.803	Edward Byrne Memorial Grant
	ARRA Edward Byrne Memorial Justice Grant
17.258, 17.259 & 17.260	Workforce Investment Act Cluster
20.205	Highway Planning and Construction
81.042	ARRA Weatherization Assistance for Low-Income Persons
93.563	Child Support Enforcement

Dollar threshold used to distinguish between  
Type A and Type B programs:

\$436,133

Auditee qualified as low-risk auditee?

\_\_\_\_\_ yes   X   no

Other Matters

Auditee Summary Schedule of Prior Audit  
Findings required to be reported in accordance  
with Circular A-133 (Section .315(b))

  X   yes \_\_\_\_\_ no

**GILA COUNTY, ARIZONA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2010**

**SECTION II – FINANCIAL STATEMENT FINDINGS**

**2010-01: Oversight of the Financial Reporting Process**

**Condition:** The County does not have a system of internal controls that would enable management to conclude the financial statements and related disclosures are complete and presented in accordance with GAAP. As such, management requested contracted with an outside professional to draft the financial statements and related disclosures.

The audit firm proposed entries to properly state cash, receivables, and inter-fund activity at June 30, 2010. These entries relate to internal controls over the year-end close-out process. The absence of a complete control procedure or process in this area is considered a material weakness because the potential exists that a material misstatement of the financial statements could occur and not be prevented or detected by the County's internal control processes.

The major fund calculation was not properly calculated therefore a major fund was grouped as other governmental funds in the financial statements. Adjustments were recommended by the auditors to correct the major funds. This indicates a weakness of controls over financial statement preparation.

**Criteria:** The County should have controls in place to prevent and detect a material misstatement in the financial statements, including adequately reviewing the year-end financial statements to ensure account balances are properly stated and for ensuring the financial statements include all required disclosures.

**Effect:** Significant audit adjustments were proposed and subsequently approved by management to properly state year-end balances in the fund and government-wide financial statements.

**Cause:** The County has not established controls to ensure accounts are adjusted to their appropriate year-end balances in accordance with GAAP. The County relies on contracted professionals to prepare the annual financial statements and related footnote disclosures. However, they have reviewed and approved the annual financial statements and related footnote disclosures.

**Recommendation:** We recommend the County continue to evaluate its internal control processes to determine if additional internal control procedures should be implemented to ensure accounts are properly stated at year-end in accordance with GAAP. Additionally, we recommend that the County review these adjustments and modify year-end reconciling procedures in an effort to avoid similar adjustments next year.

Lastly, should the County elect to establish the "full oversight" of the financial statement preparation, we suggest management establish effective review policies and procedures, including, but not limited to, the following functions: reconciling general ledger amounts to the draft financial statements; review of all supporting documentation and explanations for journal entries proposed by us and approve the entries; review the adequacy of financial statement disclosures by completing a disclosure checklist; review and approve schedules and calculations supporting the amounts included in the notes to the financial statements; apply analytic procedures to the draft financial statements; and perform other procedures considered necessary by management, including a recalculation of major funds.

**Corrective Action:** The County concurs with this recommendation and will reconcile all year-end account balances in the future. The County will also consider the recommendation in order to take "full oversight" of the financial statement preparation and will consult with its auditors to remedy this finding.

**Contact Person:** Joseph Heatherly, Finance Director

**GILA COUNTY, ARIZONA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
YEAR ENDED JUNE 30, 2010**

**SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**2010-02: Material Audit Adjustment – Prior Period Adjustment**

**Condition:** As part of the audit, we proposed material adjustments to restate the prior year financial statements for errors in reporting cash restricted by ADEQ for landfill closure costs, and for revenues that were not recognized in the appropriate year.

**Criteria:** The County's management is responsible for establishing and maintaining internal controls to properly record the County's accounting transactions, including account coding, reporting of accruals, and net assets.

**Effect:** The design of the internal controls over recording transactions and year-end accruals limits the ability of the County to provide accurate accrual basis financial information and resulted in a restatement of the prior year financial statements in the amount of \$4,058,359.

**Cause:** Decentralized departmental cash and inconsistencies in account coding at year end.

**Recommendation:** We recommend County management and financial personnel continue to increase their awareness and knowledge of all procedures and processes involved in recording transactions and reclassifications and develop internal control policies to ensure proper recording of these items.

**Corrective Action:** The County concurs with this recommendation and will review its current procedures and will develop internal controls to ensure compliance in the upcoming fiscal year.

**Contact Person:** Joseph Heatherly, Finance Director

**2010-03: Accounts Payable**

**Condition:** The County does not maintain an accounts payable subsidiary ledger.

**Criteria:** The County should have controls in place to maintain an accounts payable subsidiary ledger and should reconcile general ledger activity to the subsidiary ledger to prevent and detect material misstatement in the financial statements in a timely manner. Management is responsible for the accuracy and completeness of all financial records and related information. Their responsibilities include adjusting the financial statements to correct material misstatements, including reconciling accounts payable to the subsidiary ledger and investigating any variances from the general ledger.

**Effect:** Opportunity for errors in financial reporting.

**Cause:** The County has not established controls to maintain an accounts payable subsidiary ledger.

**Recommendation:** We recommend the County continue to evaluate its internal control processes to determine if additional internal control procedures should be implemented to ensure accounts payable are reconciled to the general ledger. The County should utilize the accounts payable function to create and reconcile an accounts payable subsidiary ledger to the general ledger.

**Corrective Action:** The County concurs with this recommendation and will review its current procedures and will develop internal controls to ensure compliance in the upcoming fiscal year.

**Contact Person:** Joseph Heatherly, Finance Director

**GILA COUNTY, ARIZONA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**  
**YEAR ENDED JUNE 30, 2010**

**SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**2010-04: Departmental Bank Accounts**

**Condition:** County departments receiving checks have established separate checking accounts to be used as a clearing account. On a monthly basis, the cash from these checking accounts is deposited with the Treasurer's office. The June collections deposited in July were not always indicated as such and therefore not recorded in the proper fiscal year. Cash retained in the department bank accounts is tracked, however not reported as cash in the County's financial statements.

**Criteria:** The County's management is responsible for establishing and maintaining internal controls for the proper recording of all the County's accounting transactions. Departmental cash balances should be reported to finance at year end to ensure they are properly included in ending cash.

**Effect:** Opportunity for errors in financial reporting.

**Cause:** The County has operated in this manner for the past several years and has not changed its accounting practice.

**Recommendation:** We recommend County management and financial personnel continue to increase their awareness and knowledge of all procedures and processes involved in recording transactions and develop internal control policies to ensure all cash balances and transactions are included in the financial activity at the end of the year.

**Corrective Action:** The County concurs with this recommendation and will review its current procedures and will develop internal controls to ensure compliance in the upcoming fiscal year.

**Contact Person:** Joseph Heatherly, Finance Director

**2010-05: Physical Inventory of Assets and Supplies**

**Condition:** A physical inventory of capital assets and public works supplies has not been conducted in the last several years.

**Criteria:** The County's management is responsible for establishing and maintaining internal controls for the proper recording of all the County's accounting transactions. Proper asset accountability requires that detailed records of capital assets and inventory be maintained. Physical counts of assets and inventory contribute to accurate and reliable asset and inventory records.

**Effect:** Opportunity for errors in financial reporting.

**Cause:** The County did not have internal controls established to ensure a physical inventory of capital assets and public works supplies were conducted on regular basis.

**Recommendation:** We recommend County management conduct a physical inventory of capital assets and supplies inventory annually and investigate and resolve any variances.

**Corrective Action:** The County concurs with this recommendation and has since begun a physical inventory of capital assets and will conduct a physical inventory of supplies inventory annually.

**Contact Person:** Joseph Heatherly, Finance Director



**GILA COUNTY, ARIZONA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
YEAR ENDED JUNE 30, 2010**

**SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**2010-06: Rural School District – Segregation of Duties**

**Condition:** The County does not have adequate segregation of duties at the Rural School District. The recordkeeping and custody of assets functions are performed by one individual.

**Criteria:** County management should constantly be aware of the need to have adequate segregation of duties regarding the processing of transactions for the County. In addition, County management should be aware that the concentration of duties and responsibilities in one or a very few number of individuals is not desirable from an internal control perspective.

**Effect:** A lack of segregation of duties may result in the County's inability to prevent or detect material misappropriation of County assets.

**Cause:** Limited number of personnel.

**Recommendation:** We recommend County management be aware of the lack of segregation of duties and assess whether additional segregation of duties is cost beneficial. If additional segregation is not feasible, we recommend County management implement oversight procedures to ensure the internal control policies and procedures are being followed by County staff.

**Corrective Action:** The County concurs with this recommendation and will review its current procedures and will develop internal controls to ensure compliance in the upcoming fiscal year.

**Contact Person:** Joseph Heatherly, Finance Director

**2010-07: Education Service Agency (ESA) and Rural School District– Internal Controls over Payroll Transactions**

**Condition:** The County was unable to provide payroll authorization forms indicating the account code employees are assigned for 35 of 40 Gila County Education Service Agency (ESA) and Rural School District personnel files tested. Timesheets were not approved by management for four of twenty ESA payroll transactions tested.

**Criteria:** County management should have procedures designed that require employees to document the completion of key internal controls, including signing documents indicating supervisor review.

**Effect:** Documentation was not available to determine designed controls were being performed by employees.

**Cause:** Unknown.

**Recommendation:** We recommend County management review the internal controls over the payroll process and develop procedures to strengthen the current process. Payroll authorization forms should indicate the general ledger account code for the program being charged and should indicate approval by management. Timesheets should be reviewed for accuracy by management.

**Corrective Action:** The County concurs with this recommendation and implemented controls over the payroll account coding during the fiscal year. The current process will be reviewed to ensure compliance in the upcoming year.

**Contact Person:** Joseph Heatherly, Finance Director

**GILA COUNTY, ARIZONA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
YEAR ENDED JUNE 30, 2010**

**SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**2010-08: ESA and Rural School District– Internal Controls over Disbursements**

**Condition:** The County was unable to provide documentation of management review and approval of 39 of 40 ESA and 2 of 40 Rural School District purchase requisitions tested.

**Criteria:** The County's management is responsible for establishing and maintaining internal controls to ensure all purchases are adequately reviewed and approved prior to purchase.

**Effect:** Documentation was not available to determine designed controls were being performed by management.

**Cause:** Unknown.

**Recommendation:** In order to strengthen internal controls, all requisitions should be reviewed and approved by management prior to purchasing goods and/or services.

**Corrective Action:** The County concurs with this recommendation and will review requisitions in order to strengthen internal controls.

**Contact Person:** Joseph Heatherly, Finance Director

**2010-09: Rural School District– Internal Controls over Disbursements**

**Condition:** The County was unable to provide an approved receiving report for 4 of 13 Rural School District disbursements tested. Without a receiving report the County is unable to provide documentation of the verification of goods received.

**Criteria:** The County's management is responsible for establishing and maintaining internal controls for the proper recording of all the County's accounting transactions.

**Effect:** Documentation was not available to determine designed controls were being performed by employees.

**Cause:** Unknown.

**Recommendation:** In order to strengthen internal controls, a receiving report should be prepared to indicate the receipt of goods in satisfactory condition.

**Corrective Action:** The County concurs with this recommendation and will work with receiving personnel to ensure a receiving report is prepared.

**Contact Person:** Joseph Heatherly, Finance Director

**GILA COUNTY, ARIZONA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
YEAR ENDED JUNE 30, 2010**

**SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**2010-10: Rural School District– Supporting Documentation for Disbursements**

**Condition:** The County was unable to provide supporting documentation for 1 of 40 Rural School District disbursements tested.

**Criteria:** Internal control frameworks recommend that supporting documentation for disbursements be maintained with payment vouchers.

**Effect:** Internal control weakness. The risk of fraud and errors in account coding is increased if disbursements are not properly supported.

**Cause:** Unknown.

**Recommendation:** We recommend the County require and retain supporting documentation for all transactions.

**Corrective Action:** The County concurs with this recommendation and will obtain and maintain supporting documentation prior to the issuance of payment.

**Contact Person:** Joseph Heatherly, Finance Director

**2010-11: ESA and Rural School District– Journal Entries**

**Condition:** The County was unable to provide evidence that journal entries were reviewed and approved by an employee independent of the journal entry preparation prior to system input for two of six ESA and five of six Rural School District journal entries tested. In addition, documentation was not maintained to support the journal entries in all cases.

**Criteria:** The duties of journal entry preparation and journal entry review and approval should be segregated. In addition, documentation should be maintained to support the purpose of the journal entry.

**Effect:** Internal control weakness. Fraudulent or erroneous journal entries could be entered into the accounting system and go undetected and uncorrected.

**Cause:** Unknown.

**Recommendation:** We recommend that County management take the proper steps to ensure the duties of journal entry preparation and approval are segregated. In addition, the County should implement procedures to ensure that all journal entries are supported by adequate documentation.

**Corrective Action:** The County concurs with this recommendation and will develop policies and procedures over the journal entry process.

**Contact Person:** Joseph Heatherly, Finance Director

**GILA COUNTY, ARIZONA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
YEAR ENDED JUNE 30, 2010**

**SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**2010-12: ESA – Accounting Software Restrictions**

**Condition:** ESA employees have full access to software applications.

**Criteria:** Employee access to software applications should be restricted to only those needed to perform job functions.

**Effect:** The lack of software application restrictions provides an opportunity for misstatements due to error or fraud to occur and go undetected by management.

**Cause:** Past practice.

**Recommendation:** We recommend that County management evaluate their internal controls over computerized systems. User rights should only be assigned to individuals that need access to perform individual job functions and restrict those that are unnecessary.

**Corrective Action:** The County concurs with this recommendation and will review the nature of the employees' job functions and assign user access as appropriate.

**Contact Person:** Joseph Heatherly, Finance Director

**2010-13: ESA and Rural School District–Policies**

**Condition:** The ESA and Rural School District do not have written payroll and accounts payable disbursements policies or procedures. Personnel manuals and accounting manuals were not maintained.

**Criteria:** Internal control procedures would dictate that policies and procedures over payroll and general disbursements are necessary to prevent and detect a material misstatement.

**Effect:** Policies and procedures provide a framework in which internal controls should be designed and implemented. The lack of such policies and procedures weakens internal controls over payroll and accounts payable processing due to the County not addressing key controls over financial statement assertions.

**Cause:** Past practice.

**Recommendation:** We recommend that County management write policies and procedures manuals to cover payroll and accounting functions.

**Corrective Action:** The County concurs with this recommendation and will formalize an accounting policy that addresses key financial statement assertions.

**Contact Person:** Joseph Heatherly, Finance Director

**GILA COUNTY, ARIZONA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
YEAR ENDED JUNE 30, 2010**

**SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**2010-14: Disaster Recovery Plan**

**Condition:** The County does not have a written disaster recovery plan.

**Criteria:** Internal control frameworks recommend that organizations have plans and procedures in place to address information technology needs in the event of a disaster, including: location of, and access to, off-site data storage; a list of all data files that would have to be obtained from the off-site storage location; identification of a backup location (name and telephone number) with similar or compatible equipment for emergency processing, responsibilities of various personnel in an emergency, and priority of critical applications and reporting requirements during an emergency period.

**Effect:** In case of a disaster the County may be at an increased risk of losing critical financial data or other data critical to operations. The County may also have difficulty establishing minimum operations if a disaster were to occur.

**Cause:** Past practice.

**Recommendation:** We recommend the County update and expand its plans and procedures relating to business resumption in the event of a disaster.

**Corrective Action:** The County concurs with this recommendation and will review its current policy and develop a policy and action plan in the event of a disaster.

**Contact Person:** Joseph Heatherly, Finance Director

**2010-15: Internal Controls over Cash Receipts**

**Condition:** Receipts deposited with the treasurer are not reviewed for proper account coding. Receipts collected at year end are not reviewed by a second individual to ensure proper cutoff.

**Criteria:** The County's management is responsible for establishing and maintaining internal controls for the proper recording of all the County's accounting transactions.

**Effect:** The lack of internal controls could affect the ability of the County to record financial data consistently with the assertions of management in the financial statements.

**Cause:** Past practice.

**Recommendation:** We recommend County management be consistently aware of all procedures and processes involved in recording receipts and develop internal control policies to ensure proper recording.

**Corrective Action:** The County concurs with this recommendation and will review the cash receipt process and develop internal controls as appropriate.

**Contact Person:** Joseph Heatherly, Finance Director

**GILA COUNTY, ARIZONA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
YEAR ENDED JUNE 30, 2010**

**SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**2010-16: Internal Controls over Revenues**

**Condition:** The County does not have adequate controls over revenues to ensure that all material revenues are properly accrued in the financial statements.

**Criteria:** The County's management is responsible for establishing and maintaining internal controls for the proper recording of all the County's accounting transactions.

**Effect:** Significant audit adjustments were proposed and subsequently approved by management to properly state year-end balances in the fund and government-wide financial statements.

**Cause:** The County has not established controls to ensure accounts are adjusted to their appropriate year-end balances in accordance with GAAP.

**Recommendation:** We recommend the County review revenue cutoff procedures to ensure that revenues are recorded in the proper fiscal year.

**Corrective Action:** The County concurs with this recommendation and will review the cutoff procedures and develop internal controls as appropriate.

**Contact Person:** Joseph Heatherly, Finance Director

**GILA COUNTY, ARIZONA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
YEAR ENDED JUNE 30, 2010**

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

**2010-17**

**Condition/Context:** The financial and compliance audit was not completed within nine months of the end of the fiscal year.

**Criteria:** OMB Circular A-133 - Financial Reporting.

**Effect:** Noncompliance with OMB Circular A-133 - Financial Reporting.

**Questioned Cost:** None.

**Cause:** The County has not established controls to ensure the financial statement audit was completed within nine months of the fiscal year end. The County was several months behind in completing its prior financial statement audit and sufficient time was not available to allow the County to prepare the financial statements timely and have the audit completed within nine months of the fiscal year end.

**Recommendation:** We recommend the County properly reconcile its records in a timelier manner to allow sufficient time to complete the audit within nine months following the end of the fiscal year.

**Corrective Action:** The County concurs with this recommendation and will implement internal controls over the closing process to ensure a timely audit. In addition, the County has contracted to begin the audit for the fiscal year ended June 30, 2011 earlier to allow sufficient time to complete the audit within nine months of the end of the fiscal year. The audit is expected to be completed prior to March 31<sup>st</sup> in the next fiscal year.

**Contact Person:** Joseph Heatherly, Finance Director

**GILA COUNTY, ARIZONA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
YEAR ENDED JUNE 30, 2010**

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**U.S. DEPARTMENT OF JUSTICE  
JUSTICE ASSISTANCE GRANT PROGRAM CLUSTER  
CFDA No. 16.738 & 16.803  
PASSED THROUGH THE ARIZONA CRIMINAL JUSTICE COMMISSION  
PASS THROUGH NUMBER DC 10-027, DC-10-036, DC-09-026 AND DC-09-029**

**U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES  
CHILD SUPPORT ENFORCEMENT  
CFDA No. 93.563  
PASSED THROUGH THE ARIZONA DEPARTMENT OF ECONOMIC SECURITY  
PASS THROUGH NUMBER DES06725-1 AND DES06726-1**

**2010-18**

**Condition:** Federal financial and performance reports were not reviewed by supervisory personnel prior to submission to a third party.

**Context:** Four of four Byrne Grant Section 1512 reports tested; four of four Byrne Grant Cycle 23 reports tested; and three of three Child Support Enforcement financial statistical reports tested.

**Criteria:** Entities receiving federal awards are required to establish and maintain internal controls designed to ensure compliance with federal laws, regulations, and program compliance

**Effect:** As a result of a lack of review of financial and performance reports, there is an increased risk that financial and performance reports will be submitted to a third party with errors.

**Questioned Cost:** None.

**Cause:** County oversight.

**Recommendation:** We recommend the County establish and maintain internal controls over grant financial and performance reports. Reports submitted to a third party should be reviewed by supervisory personnel with knowledge of grant operations.

**Corrective Action:** The County concurs with this recommendation and will establish and maintain internal controls over grant reporting; those controls will be immediately implemented to ensure compliance for the fiscal year 2010-11.

**Contact Person:** Joseph Heatherly, Finance Director



**GILA COUNTY, ARIZONA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
YEAR ENDED JUNE 30, 2010**

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**U.S. DEPARTMENT OF LABOR**

**WORKFORCE INVESTMENT ACT CLUSTER**

**CFDA No. 17.258, 17.259, & 17.260**

**PASSED THROUGH THE ARIZONA DEPARTMENT OF ECONOMIC SECURITY**

**PASS THROUGH NUMBER DE070295001, DE091206001, DE081297001 AND E5706004**

**U.S. DEPARTMENT OF ENERGY**

**WEATHERIZATION ASSISTANCE FOR LOW-INCOME PERSONS**

**CFDA No. 81.042**

**PASSED THROUGH THE ARIZONA DEPARTMENT OF COMMERCE**

**PASS THROUGH NUMBER C037-09-02, C051-09-02 AND C052-09-02**

**2010-19**

**Condition/Context:** The schedule of expenditures of federal awards did not identify expenditures of Recovery Act awards as required by OMB Circular A-133. The schedule of expenditures of federal awards required significant adjustments to report actual expenditures.

**Criteria:** The Code of Federal Regulations (CFR) Title 2, Section 176.210(b).

**Effect:** Noncompliance with Title 2 CFR Section 176.210(b) – Separate Accountability for ARRA funding and internal control procedures.

**Questioned Cost:** None.

**Cause:** The County does not have internal controls in place to ensure that the schedule of expenditures of federal awards separately identifies ARRA funding for recovery act grants.

**Recommendation:** We recommend the County exercise due care in the preparation of the schedule of expenditures of federal awards. Recovery Act expenditures should be recognized as such.

**Corrective Action:** The County concurs with this recommendation and will immediately review the internal controls over the preparation of the schedule of expenditures of federal awards to ensure ARRA funding is properly reported in the upcoming fiscal year. The County expects to complete the 2010-11 year-end close-out in October 2011 and will implement those controls in October 2011 when closing out the 2010-11 fiscal year.

**Contact Person:** Joseph Heatherly, Finance Director

**GILA COUNTY, ARIZONA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
YEAR ENDED JUNE 30, 2010**

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**U.S. DEPARTMENT OF JUSTICE**

**JUSTICE ASSISTANCE GRANT PROGRAM CLUSTER**

**CFDA No. 16.738 & 16.803**

**PASSED THROUGH THE ARIZONA CRIMINAL JUSTICE COMMISSION**

**PASS THROUGH NUMBER DC 10-027, DC-10-036, DC-09-026 AND DC-09-029**

**2010-20**

**Condition:** Cash management reports were not submitted timely, were not supported by County accounting records, and were not reviewed by supervisory personnel prior to submission.

**Context:** Nine of twelve cash management reports tested were not submitted timely; four of twelve cash management reports were not reviewed by supervisory personnel; and three of twelve cash management reports were not supported by accounting records.

**Criteria:** Entities receiving federal awards are required to establish and maintain internal controls designed to ensure compliance with federal laws, regulations and program compliance.

**Effect:** As a result of lack of review of cash management reports and submission of those reports timely, there is an increased risk that reports could be submitted to a third party with errors or could be rejected as a result of reports not being submitted timely.

**Questioned Cost:** \$8,407

**Cause:** The County does not have internal controls in place to ensure that cash management reports are completely accurately and submitted on a timely basis.

**Recommendation:** We recommend a reporting deadline monitoring system be considered in order to minimize the risk of missed deadlines and potential loss of funds. Cash management reports should be supported by accounting records and reviewed by supervisory personnel prior to submission to a third party.

**Corrective Action:** The County concurs with this recommendation and will immediately implement internal control procedures to ensure timely and accurate reporting to avoid similar findings in the 2010-11 fiscal year. The controls have been implemented in March 2011.

**Contact Person:** Joseph Heatherly, Finance Director

**GILA COUNTY, ARIZONA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
YEAR ENDED JUNE 30, 2010**

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**U.S. DEPARTMENT OF LABOR**

**WORKFORCE INVESTMENT ACT CLUSTER**

**CFDA No. 17.258, 17.259, & 17.260**

**PASSED THROUGH THE ARIZONA DEPARTMENT OF ECONOMIC SECURITY**

**PASS THROUGH NUMBER DE070295001, DE091206001, DE081297001 AND E5706004**

**2010-21**

**Condition/Context:** Grant reimbursements were not reconciled to the expenditures. Expenditures were not accurately reported by CFDA number on the schedule of expenditures of federal awards.

**Criteria:** The County should maintain accounting records in sufficient detail to properly report expenditures by CFDA number on the schedule of expenditures of federal awards.

**Effect:** Internal control weakness resulting in a restatement of the prior year financial statements, as well as significant audit adjustments to correct the allocation of federal expenditures between CFDA numbers.

**Questioned Cost:** None.

**Cause:** Inconsistencies in account coding.

**Recommendation:** We recommend the County review the control procedures and processes involved in recording cash receipts and develop internal control policies to ensure proper recording. Reimbursements should be reconciled to grant expenditures to ensure completeness. In addition, the grant revenues and expenditures should be reconciled by CFDA number to ensure grants are properly reported on the schedule of federal expenditures by CFDA number.

**Corrective Action:** The County concurs with this recommendation and will immediately implement internal control procedures to ensure proper reconciling and accurate reporting of the schedule of federal expenditures for the fiscal year ended June 30, 2011. The County expects to complete the 2010-11 year-end close-out in October 2011 and will implement those controls in October 2011 when closing out the 2010-11 fiscal year.

**Contact Person:** Joseph Heatherly, Finance Director

**GILA COUNTY, ARIZONA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
YEAR ENDED JUNE 30, 2010**

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**U.S. DEPARTMENT OF ENERGY**

**WEATHERIZATION ASSISTANCE FOR LOW-INCOME PERSONS**

**CFDA No. 81.042**

**PASSED THROUGH THE ARIZONA DEPARTMENT OF COMMERCE**

**PASS THROUGH NUMBER C037-09-02, C051-09-02 AND C052-09-02**

**2010-22**

**Condition:** The County has not performed a physical inventory of equipment acquired under federal awards within the last two years. Capital assets purchased under federal awards were not always added to the capital asset listing.

**Context:** One of three capital assets purchased with federal funds were not added to the capital assets listing.

**Criteria:** The program must maintain complete property records and perform an inventory in conformance with the County's policies.

**Effect:** Control weakness as audit adjustments were necessary to properly record assets acquired with federal funds to the County's stewardship asset listing.

**Questioned Cost:** None.

**Cause:** The County does not have internal controls in place to ensure assets acquired through federal awards are properly tracked. This was also a financial statement finding, see 2010-05.

**Recommendation:** We recommend the County develop policies and procedures to ensure the proper handling of assets acquired through federal funds. Internal controls should be established over the procedures implemented.

**Corrective Action:** The County concurs with this recommendation and is currently in the process of performing a physical inventory of all County assets. The process will be reviewed and internal controls implemented as appropriate. The physical inventory was expected to be completed by June 30, 2011; the results of the physical inventory will be reconciled to the capital assets listing and adjustments will be included in the June 30, 2011 year-end financial statements. As of the report date, the County is continuing to reconcile the physical inventory, but expects the inventory will be complete prior to the issuance of the June 30, 2011 report.

**Contact Person:** Joseph Heatherly, Finance Director

**GILA COUNTY, ARIZONA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
YEAR ENDED JUNE 30, 2010**

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES**

**CHILD SUPPORT ENFORCEMENT**

**CFDA No. 93.563**

**PASSED THROUGH THE ARIZONA DEPARTMENT OF ECONOMIC SECURITY**

**PASS THROUGH NUMBER DES06725-1 AND DES06726-1**

**2010-23**

**Condition/Context:** The October 2009 through June 2010 Certified Public Expenditure Reports were filed with the Arizona Department of Economic Security using the prior year approved indirect cost rate (fiscal year 2009).

**Criteria:** The grant agreement requires the County to use the approved indirect cost rate received for each fiscal year to calculate the allowable indirect costs charged to the grant. That approved indirect cost rate should be applied to the appropriate fiscal year.

**Effect:** The current year approved cost rate exceeded the indirect rate actually charged to the grant; therefore the County did not request reimbursement for all eligible expenditures.

**Questioned Cost:** None.

**Cause:** Court Clerk personnel were unaware that indirect cost rates changed annually.

**Recommendation:** We recommend the County review expenditures charged to the program to ensure they are properly supported. The Cost Allocation Plan should be provided to all departments charging indirect costs to the grant.

**Corrective Action:** The County concurs with this recommendation and will review the internal controls over expenditures to ensure a process is in place for accurate reporting. In addition, the County will review the indirect cost rate used for the 2010-11 fiscal year and amend requests already filed for the 2010-11 fiscal year, as necessary. Amendments for these grants have been filed and the County had updated the indirect cost rate for the 2011 year.

**Contact Person:** Joseph Heatherly, Finance Director

**GILA COUNTY, ARIZONA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
YEAR ENDED JUNE 30, 2010**

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES**

**CHILD SUPPORT ENFORCEMENT**

**CFDA No. 93.563**

**PASSED THROUGH THE ARIZONA DEPARTMENT OF ECONOMIC SECURITY**

**PASS THROUGH NUMBER DES06725-1 AND DES06726-1**

**2010-24**

**Condition/Context:** Child Support Enforcement expenditures from the Court Clerk's office are unidentifiable within the County ledger system. The child support expenditures are commingled with other Court Clerk department expenditures.

**Criteria:** The Code of Federal Regulations 45 CFR Section 92.20 requires grantees to maintain records that adequately identify the source and application of funds provided for financially assisted activities.

**Effect:** An increased risk that transactions and account balances not related to the program are commingled with those of the program.

**Questioned Cost:** None.

**Cause:** Inadequate account code structure.

**Recommendation:** We recommend the County restructure its chart of accounts to better segregate and track expenditures reimbursed by a third party.

**Corrective Action:** The County concurs with this recommendation and will immediately review the account structure and modify the account structure, as necessary, to ensure compliance with the Code of Federal Regulations. The account structure modification was not completed by June 30, 2011. The County will reconcile the June 30, 2011 general ledger to identify child support enforcement expenditures for the June 30, 2011 audit; however, the County will not recode the 2011 expenditures. New account code structures have been established for the 2012 fiscal year.

**Contact Person:** Joseph Heatherly, Finance Director

**GILA COUNTY, ARIZONA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
YEAR ENDED JUNE 30, 2010**

**SECTION IV – SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

**U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES**

**CHILD SUPPORT ENFORCEMENT**

**CFDA No. 93.563**

**PRIOR REFERENCE NUMBER: 2009-16, 08-19, 07-21, 06-20, 05-21, 04-21, 03-101**

<i>Condition</i>	Child support transactions are not recorded within a single fund or program designated specifically for this program.
<i>Status</i>	Not corrected. Similar condition and corrective action noted as item 2010-24.

**U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**

**SECTION 8 HOUSING**

**CFDA No. 14.871**

**U.S. DEPARTMENT OF INTERIOR**

**PAYMENT IN LIEU OF TAXES**

**CFDA No. 15.226**

**U.S. DEPARTMENT OF LABOR**

**WORKFORCE INVESTMENT ACT CLUSTER**

**CFDA No. 17.258, 17.259, & 17.260**

**U.S. DEPARTMENT OF EDUCATION**

**MATHEMATICS AND SCIENCE PARTNERSHIPS**

**CFDA No. 84.366**

**U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES**

**CHILD SUPPORT ENFORCEMENT**

**CFDA No. 93.563**

**PRIOR REFERENCE NUMBER: 2009-17, 08-21, 07-23, 06-22, 05-24, 04-24**

<i>Condition</i>	The audit, data collection form, and single audit reporting package were not submitted to the Federal Clearinghouse within nine months after year end.
<i>Status</i>	Not corrected. Similar condition and corrective action noted as item 2010-17.

**GILA COUNTY, ARIZONA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**  
**YEAR ENDED JUNE 30, 2010**

**SECTION IV – SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (CONTINUED)**

**U.S. DEPARTMENT OF LABOR**  
**WORKFORCE INVESTMENT ACT CLUSTER**  
**CFDA No. 17.258, 17.259, & 17.260**  
**PRIOR REFERENCE NUMBER: 2009-18**

<i>Condition</i>	Program capital asset listings did not agree to the County's capital asset listing.
<i>Status</i>	Fully corrected during the current fiscal year. No similar instances were brought to our attention in the current fiscal year.

**U.S. DEPARTMENT OF EDUCATION**  
**MATHEMATICS AND SCIENCE PARTNERSHIPS**  
**CFDA No. 84.366**  
**PRIOR REFERENCE NUMBER: 2009-19**

<i>Condition</i>	Time certifications were not prepared to document employee's time charged to multiple activities.
<i>Status</i>	The issue was not corrected by June 30, 2010. The County has implemented procedures to comply with grant time and effort requirements for fiscal year 2011.

**U.S. DEPARTMENT OF EDUCATION**  
**MATHEMATICS AND SCIENCE PARTNERSHIPS**  
**CFDA No. 84.366**  
**PRIOR REFERENCE NUMBER: 2009-20**

<i>Condition</i>	Personnel files for 2 employees that worked for the grant did not have the current employment contracts or payroll authorization forms.
<i>Status</i>	Partially corrected. Payroll authorization forms were included in the employee files however the files did not include current employment contract as of June 30, 2010. The County will continue to review personnel files to determine that all applicable documents are maintained and will ensure all documentation is complete for the fiscal year ended June 30, 2011.



**GILA COUNTY, ARIZONA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
YEAR ENDED JUNE 30, 2010**

**SECTION IV – SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (CONCLUDED)**

**U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES  
INVESTIGATIONS AND TECHNICAL ASSISTANCE AND PUBLIC HEALTH EMERGENCY PREPAREDNESS  
CFDA No. 93.283 AND 93.069  
PRIOR REFERENCE NUMBER: 08-20, 07-22, 05-18, 04-18, 03-102**

<i>Condition</i>	Eight out of nineteen expenditure reports were not submitted timely. The reports were 5 to 65 days late.
<i>Status</i>	Partially corrected. The County no longer has CFDA Number 93.283. The County had implemented procedures subsequent to fiscal year end June 30, 2010 to run general ledger and project reports by the 15 <sup>th</sup> of the month to ensure the previous month's contract report is submitted timely. The County also prepared monthly checklists to track completed reports. These procedures were implemented in May and June of 2011.