

La Paz County, Arizona
Single Audit Reporting Package
June 30, 2014

La Paz County, Arizona
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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*

The Auditor General of the State of Arizona
The Board of Supervisors of
La Paz 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 La Paz County, Arizona (the "County") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated March 23, 2015.

Internal Control Over Financial Reporting

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

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that consider to be material weaknesses. We did identify certain deficiencies in internal control described in the accompanying Schedule of Findings and Questioned Costs as items **2014-001**, **2014-002**, **2014-003** and **2014-004** that we consider 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, contract, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and is described in the accompanying Schedule of Findings and Questioned Costs as item **2014-005**.

La Paz County Response to Findings

La Paz County's responses to the findings identified in our audit are presented on pages 11 through 18. 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.



Gilbert, Arizona
March 23, 2015

Independent Auditors' Report on Compliance for Each
Major Federal Program; Report on Internal Control Over
Compliance; and Report on Schedule of Expenditures of
Federal Awards Required by OMB Circular A-133

The Auditor General of the State of Arizona
The Board of Supervisors of
La Paz County, Arizona

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on Each Major Federal Program

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

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance that is required to be reported in accordance with OMB Circular A-133 and that is described in the accompanying Schedule of Findings and Questioned Costs as item **2014-006**. Our opinion on each major federal program is not modified with respect to this matter.

La Paz County's responses to the noncompliance findings identified in our audit are presented on pages 16 through 17. 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 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 circumstance for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

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. 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.

Our consideration of internal control over compliance 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 compliance that might be material weakness or significant deficiencies, and therefore, material weakness or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance as described in the accompanying Schedule of Findings and Questioned Costs as items **2014-006** and **2014-007** that we consider to be significant deficiencies.

La Paz County's responses to the internal control over compliance findings identified in our audit are presented on pages 16 through 18. The County's responses were not subjected to the auditing procedures applied to the audit of compliance, and accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

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

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of the County as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the County's basic financial statements. We issued our report thereon dated March 23, 2015, that contained unmodified opinions on those financial statements.

Our audit was conducted for the purpose of forming our opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of the County's management and was derived from and related 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 to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Smsola + Butler, CPAs, PLLC

Gilbert, Arizona
March 23, 2015

Schedule of Expenditures of Federal Awards

**La Paz County Arizona
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2014**

Federal Grantor / Pass-Through Grantor / Program or Cluster Title	Federal CFDA Number	Pass-Through Entity or Other Identifying Number	Expenditures
U.S. Department of the Interior			
Payments in Lieu of Taxes	15.226		\$ 1,928,269
Total U.S. Department of the Interior			<u>1,928,269</u>
U.S. Department of Justice			
Passed through Arizona Criminal Justice Commission			
Crime Victim Assistance	16.575	VA 14-023	23,480
Crime Victim Compensation	16.576	VC 14-055	42,637
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2009-SB-B9-3144	39,992
ARRA - Recovery Act Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to Units of Local Government	16.804	DC 13-037	47,437
Total U.S. Department of Justice			<u>153,546</u>
U.S. Department of Labor			
Passed through Mohave County Board of Supervision			
		88389441, 88389445, 88389442, 88389446,	
WIA - Adult Program (WIA Cluster)	17.258	88289457, 88489445, 88489442, 88489446	65,101
WIA - Youth Activities (WIA Cluster)	17.259	88389451, 88389455, 88489451, 88489455	105,612
		88189463 88189464 88189465 88189466	
WIA - Dislocated Workers (WIA Clusters)	17.260	88189468 88489470 88489476 88589470	39,726
Total WIA Cluster			<u>210,439</u>
Passed Through Colorado River Indian Tribes			
Native American Employment and Training	17.265	GRA-RC030-14-0602-01	7,000
Total U.S. Department of Labor			<u>217,439</u>
U.S. Department of Transportation			
Passed through Arizona Governor's Office of Highway Safety			
State and Community Highway Safety	20.600	2012-AL-023, 2012-OP-012, 2013-AL-040	44,845
Intraagency Hazardous Materials public Sector Training and Planning Grants	20.703	HM-HMP-0036-13-01-00	2,311
Total U.S. Department of Transportation			<u>47,156</u>
Environmental Protection Agency			
Passed through Arizona Governor's Office of Highway Safety			
Water Quality Cooperative Agreements	66.463	EV-09-0180	770
Total Environmental Protection Agency			<u>770</u>
U.S. Department of Education			
Passed through the Arizona Department of Education			
Adult Education-Basic Grants to States	84.002A	V002A000003	55,573
Race to the Top-District Grants	84.416	14FSERY3-470677-01A	5,923
Special Education_Preschool Grants	84.173	14FESSCG-470677-02A	1,423
Total U.S. Department of Education			<u>62,919</u>

(continued)

La Paz County Arizona
Schedule of Expenditures of Federal Awards-continued
For the Year Ended June 30, 2014

Federal Grantor / Pass-Through Grantor / Program or Cluster Title	Federal CFDA Number	Pass-Through Entity or Other Identifying Number	Expenditures
U.S. Election Assistance Commission			
Passed through Arizona Secretary of State			
Help America Vote Act Requirements Payments	90.401	None	5,465
Total U.S. Election Assistance Commission			<u>5,465</u>
U.S. Department of Health and Human Services			
Passed through Western Arizona Council of Governments			
Special Programs for Aging Title III, Part B, Grants for Supportive Services and Senior Centers	93.044	E86-0445604-401-13	7,276
Passed through Arizona Department of Health Services			
Medical Reserve Corps Small Grant Program	93.008	MRCSG101005-04-00	3,500
Public Health Emergency Preparedness	93.069	HG754198	171,754
Project Grants and Cooperative Agreements for Tuberculosis Control Program	93.116	854554	12,975
Family Planning-Services	93.217	HG854250	12,390
Immunization Cooperative Agreements	93.268	HG854287	114,834
Centers for Disease Control and Prevention_ Investigations and Technical Assistance	93.283	E015472	10,400
HIV Care Formula Grants	93.917	E01602054	77,310
Maternal and Child Health Services Block Grant to the States	93.994	E0157282	12,425
Passed through Arizona Department of Economic Security			
Child Support Enforcement	93.563	DE111166001	239,164
Total U.S. Department of Health and Human Services			<u>662,028</u>
U.S. Department of Homeland Security			
Passed through River City United Way			
Emergency Food and Shelter National Board Program	97.024	0254-00	1,800
Passed through Arizona Governor's Office of Highway Safety			
Homeland Security Grant Program	97.036	11-AZDOHS-HSGP-888508-01	124,508
Passed through Arizona Department of Homeland Security			
Homeland Security Grant Program	97.067	10-AZDOHS-OPSG-777423-01	40,107
Passed through Arizona Department of Emergency and Military Affairs			
FEMA Hazard Mitigations Grant	97.039	HMPG#1888-11	4,076
Emergency Management Performance Grants	97.042	None	65,107
Total U.S. Department of Homeland Security			<u>235,598</u>
Total expenditures of federal awards			<u>\$ 3,313,190</u>

La Paz County Arizona
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2014

1) Basis Accounting

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of La Paz County, Arizona (the "County") and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

2) Catalog of Federal Domestic Assistance (CFDA) Number

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

3) Subrecipients

The County did not provide any federal awards to subrecipients during the year ended June 30, 2014.

Schedule of Findings and Questioned Costs

**La Paz County Arizona
Schedule of Findings and Questioned Costs
Year Ended June 30, 2014**

Section I - Summary of Auditors' Results

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiencies identified?	Yes
Non-Compliance material to financial statements noted?	Yes

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	No
Significant deficiencies identified?	Yes
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	Yes

Identification of major programs

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
15.226	Payments in Lieu of Taxes

Dollar threshold used to distinguish between type A and type B programs:	\$300,000
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**La Paz County Arizona
Schedule of Findings and Questioned Costs-continued
Year Ended June 30, 2014**

**Section I - Summary of Auditors' Results -
continued**

Auditee qualified as low-risk auditee?

No

Other Matters

Auditee's summary schedule of prior audit findings
required to be reported in accordance with
Circular A-133 section 315(b)?

Yes

La Paz County Arizona
Schedule of Findings and Questioned Costs-continued
Year Ended June 30, 2014

Section II-Financial Statement Findings

2014-001-Lack of Adequate Segregation of Accounting Duties (Significant Deficiency: Repeat Finding)

Criteria or Specific Requirement: To help ensure the accuracy of financial records and to help reduce the risk of misappropriation of assets, duties should be segregated whereby the individual with custody of assets should not be the same individual responsible for the recordkeeping of those assets. The Uniform Accounting Manual for Arizona Counties (UAMAC), section VI-C, published by the State of Arizona Auditor General's office requires Counties to develop and adhere to written policies and procedures to safeguard assets.

Condition: Adequate segregation of accounting duties was not in place in the following areas:

- Health Department personnel responsible for collecting various fees are often also responsible for the recordkeeping of these receipts and for billing and tracking accounts receivable. Independent third-party reconciliations of amounts collected and deposited to the expected receipts is not performed.
- Although another individual prepares all accounts payable disbursements for processing, during the fiscal year the Finance Director had the ability to authorize disbursements, record transactions, and had access to the warrants and signature stamps.

Cause and Effect: A detailed risk assessment was not performed for all County departments. As a result, policies have not been implemented to help ensure that duties are segregated, to the extent possible, that minimize control situations where individuals have the opportunity to misappropriate assets.

Auditor's Recommendation: The County should perform a formal risk assessment whereby all departments where cash handling occurs are evaluated to determine the level of risks and, based on these identified risks, implement additional policies and procedures to appropriately segregate accounting duties as necessary.

Managements Response:

Health and other Departments handling cash: The County will perform an internal risk assessment whereby all departments handling cash are assessed. Where appropriate segregation of duties is lacking, suggestions will be made by Finance and Administration and implemented within the Department. These procedures will further be monitored consistently during the first year of implementation and randomly thereafter.

Finance Department: Segregation of duties is practiced in actuality; however, the Director had access to a safe combination. By eliminating this access, the internal control structure was restored. Access was simply passed down as a means of necessity for backup over the years. Finance has not experienced a situation where the Director needed to access the safe on an emergency basis (due to advanced planning) in over three years.

La Paz County Arizona
Schedule of Findings and Questioned Costs-continued
Year Ended June 30, 2014

2014-002-Deficit Fund balances and Grants Receivable Analysis (Significant Deficiency)

Criteria or Specific Requirement: Generally Accepted Accounting Principles requires that inter-fund payables that are not expected to be repaid within a reasonable period of time should be eliminated and transfers recorded for these amounts. In addition, to help ensure that all grant revenue is appropriately recorded, grants should be periodically analyzed to determine if expenditures in excess of funding, giving rise to an interfund payable and deficit fund balance, is either unbilled grant revenue or an effective subsidy from another County fund, as the grant fund may not have the future resources to reimburse the other funds for this deficit.

Condition: Several County funds have reported deficit fund balances at fiscal year ending June 30, 2014 as well as corresponding inter-fund payable balances. The funds were not adequately analyzed during the year to determine the portion of these deficits that for which transfers should be made to eliminate the deficit, or to determine if there is un-reimbursed grant funds available that have not been billed to the grantor.

Auditor's Recommendations: The County should establish procedures where special revenue funds are analyzed to determine the estimated amount which will require a subsidy from the other funds. These estimates should be included as part of the budgets and timely transfers should be made to eliminate these deficits.

Managements Response: This response is two-pronged. First, the matter of existing fund deficits that fall under a reduction plan, and second involves the need to consolidate the financial reporting and analysis to Finance, not the external departments.

Existing Fund balance deficits: The current situation regarding negative fund balances extends back approximately 10 years to 2004 when the audits and financial reporting and accounting began falling egregiously behind. In order to gain perspective on where we are now, and what we can and have accomplished, perspective is required. The timeliness of financial reporting was not addressed until 2009/10. At that time, audits were required to be belted out two at a time for multiple years in order to catch up. Because procedures were not in place, or were not followed, departments did not know what the results of their operations were, much less the final results on the fund balances thereof. 2013 is the first time in years that La Paz finally gained a clear picture of our financial status over the previous ten years. Once perspective and context were acquired, a plan was devised to correct the structural deficit in addition to ongoing monitoring and adjustments to the financials on a consistent basis. Unfortunately, the deficits were so large in some cases, that this approach required a multi-year approach and legislative assistance as well (use of the AZ Legislative "Flexibility language.) So, while in 2014, we do still have some negative fund balances, those balances will be corrected- as approved by the Board of Supervisors- within the next year to a large extent. Some regenerating fund balances will be allowed to autocorrect as their funds collect and expenses are not taken.

Ongoing financial monitoring and reporting: It has long been the policy of La Paz County to allow each department the flexibility and access to their department's financial reports and

La Paz County Arizona
Schedule of Findings and Questioned Costs-continued
Year Ended June 30, 2014

to report to external agencies as required. However, after critical observation, the departments are falling short and the task needs to be consolidated for accuracy and timeliness under Finance. Whether it has been due to lack of accounting knowledge and procedure, lack of priority or ability, or other reason, various departments fail to comply with making timely transfers of matching funds, create inaccurate receivable statements based on partial data, and report from incomplete financial data. It is obvious that this function must remain a Finance function and financial reporting return to the experts practiced in the field and competent in governmental accounting knowledge and procedures.

Although the Board of Supervisors is statutorily responsible for the entity's financial reporting, Arizona Appellate case law, Hounshell v. White, has unfortunately redefined and limited the extent that a Board of Supervisor's may legally direct or demand that specific qualified personnel be assigned by other elected officials responsible for reporting financial information to external agencies. This creates an uncontrollable and potentially unmanageable situation, where a County may be in noncompliance but its Board of Supervisors cannot legally force another elected official to comply and should be taken into consideration.

The Finance Director, working in conjunction with the County Administrator, have been and will continue to work with the Board to correct the deficiencies. The majority of these deficits will be zeroed out by June 30, 2015. The only ones that will remain will be those funds that have the ability to continue receiving revenue to overcome the deficit in one or two years' more time.

2014-003-Budgetary Control (Significant Deficiency: Repeat Finding)

Criteria or Specific Requirement: Arizona Revised Statutes (A.R.S.) §42-17101 and §42-17107 require the County to prepare and adopt a balanced budget for each governmental fund on an annual basis. The Board of Supervisors must approve such operating budgets on or before the third Monday in July to allow sufficient time for the legal announcements and hearings required for the adoption of the property tax levy on the third Monday in August. A.R.S. §42-17106(A) prohibits the expenditure of funds or the creation of liabilities in excess of the adopted budget for the fiscal year. Expenditures may not legally exceed appropriations at the department level. In certain instances, transfers of appropriations between departments or from the contingency account to a department may be made upon the Board of Supervisors' approval.

Condition: There were several instances where budgetary line items were over-expended in fiscal year 2014.

Cause and Effect: Although budgets are monitored on an ongoing basis, procedures have not been implemented to ensure that all departments comply with budget requirements. As such, the County over-expended funds contrary to Arizona Revised Statutes.

La Paz County Arizona
Schedule of Findings and Questioned Costs-continued
Year Ended June 30, 2014

Auditor's Recommendations: Implement policies and procedures to ensure that budget requirements are enforced at all levels of the County's departments.

Managements Response: The majority of the departments over budget are elected officials'. The consequence on an elected official is not termination or discipline, as it could be with a department head. There is documented evidence to the contrary that the budget was not monitored. The only possible consequence for an Elected official that would have any meaning would be to reduce their budget the same as the County's would be reduced if we exceed our expenditure limit the subsequent year. This concept will be proposed for consideration during the next budget process. [See note above regarding Hounshell v. White.]

The Finance Director, in conjunction with the County Administrator, will advise and make recommendations to the Board of Supervisors as to the budgetary control options and alternatives available to control consistent over-expenditure of elected officials and implement by June 30, 2014.

2014-004- Capital Asset Inventory (Significant Deficiency)

Criteria: Per the Uniform Accounting Manual for Arizona Counties (UAMAC), section VI-E, to satisfy the standard required for recipients of federal monies, a physical inventory of furniture, equipment, and vehicles purchased with federal monies costing \$5,000 or more, and having useful lives over 1 year should be conducted and reconciled to the capital asset list at least once every two years to be in compliance with A-102 Common Rule § .32, as codified by each federal funding agency in its title of the Code of Federal Regulations for all federal funding.

Condition: The County did not perform an inventory count in fiscal year 2014.

Cause and Effect: The County did not aggregate enough time to complete inventory count planning and observation into the fiscal year 2014. As a result, the County's inventory count observation was not completed as required by the federal government.

Auditors' Recommendations: To complete an inventory count in fiscal year 2015 to be in compliance with the compliance requirements set forth in the 2014 Compliance Supplement.

Managements Response: Staff will conduct a physical inventory in 2015.

2014-005-Compliance-Budget for Property Tax Levy Funds (Repeat Finding)

Criteria or Specific Requirement: A.R.S. §42-17151(A)(1) requires the County to fix, levy, and assess the amount to be raised from primary property taxation and secondary property taxation. This amount, plus all other sources of revenue, as estimated, and restricted and unrestricted unencumbered balances from the preceding fiscal year, shall equal the total of the amounts proposed to be spent in the budget for the current fiscal year.

Condition: The General fund was not budgeted for a zero ending fund balance.

La Paz County Arizona
Schedule of Findings and Questioned Costs-continued
Year Ended June 30, 2014

Effect: Lack of such policies and procedures could create a situation whereby the County could levy additional property taxes that could result in the County exceeding the primary property levy limit. If the primary property levy limit is exceeded the County would have to reduce the primary property tax levy in the subsequent year.

Auditor's Recommendations: The County should implement and develop procedures to ensure that the County's budget is in compliance with Arizona Revised Statutes.

Managements Response: If you consider the effect of (potentially) negating the deficit fund balances previously mentioned above, there is no net fund balance overage. There is no circumstance that would have led to the primary property tax levy exceeding the limit in this circumstance. Unfortunately, the overall long-term fix of the structural deficit requires that revenue exceed expenses in certain funds in order that prior years' funds be brought square in the current or near current periods.

The Finance Director, in conjunction with the County Administrator will comply with this statute immediately – March 31, 2015

**La Paz County Arizona
Schedule of Findings and Questioned Costs-continued
Year Ended June 30, 2014**

Section III-Federal Award Findings and Questioned Costs

2014-006- Capital Asset Inventory (Significant deficiency: Repeat Finding)

Federal program information:

Funding agency:	Department of Interior
Title:	Payments in Lieu of Taxes
CFDA number:	15.226
Award period:	July 1, 2013 through June 30, 2014

Criteria: Per the Uniform Accounting Manual for Arizona Counties (UAMAC), section VI-E, to satisfy the standard required for recipients of federal monies, a physical inventory of furniture, equipment, and vehicles purchased with federal monies costing \$5,000 or more, and having useful lives over 1 year should be conducted and reconciled to the capital asset list at least once every two years to be in compliance with A-102 Common Rule § .32, as codified by each federal funding agency in its title of the Code of Federal Regulations for all federal funding.

Condition: The County did not perform an inventory count in fiscal year 2014.

Cause and Effect: The County did not aggregate enough time to complete inventory count planning and observation into the fiscal year 2014. As a result, the County's inventory count observation was not completed as required by the federal government.

Auditors' Recommendations: To complete an inventory count in fiscal year 2015 to be in compliance with the compliance requirements set forth in the 2014 Compliance Supplement.

Managements Response: Staff will conduct a physical inventory in 2015.

2014-007-Lack of Adequate Segregation of Accounting Duties (Significant deficiency)

Federal program information:

Funding agency:	Department of Interior
Title:	Payments in Lieu of Taxes
CFDA number:	15.226
Award period:	July 1, 2013 through June 30, 2014

Criteria or Specific Requirement: To help ensure the accuracy of financial records and to help reduce the risk of misappropriation of assets, duties should be segregated whereby the individual with custody of assets should not be the same individual responsible for the recordkeeping of those assets. The Uniform Accounting Manual for Arizona Counties (UAMAC), section VI-C, published by the State of Arizona Auditor General's office requires Counties to develop and adhere to written policies and procedures to safeguard assets.

Condition: Adequate segregation of accounting duties was not in place in the following areas:

- Health Department personnel responsible for collecting various fees are often also responsible for the recordkeeping of these receipts and for billing and tracking accounts

La Paz County Arizona
Schedule of Findings and Questioned Costs-continued
Year Ended June 30, 2014

receivable. Independent third-party reconciliations of amounts collected and deposited to the expected receipts is not performed.

- Although another individual prepares all accounts payable disbursements for processing, during the fiscal year the Finance Director had the ability to authorize disbursements, record transactions, and had access to the warrants and signature stamps.

Cause and Effect: A detailed risk assessment was not performed for all County departments. As a result, policies have not been implemented to help ensure that duties are segregated, to the extent possible, that minimize control situations where individuals have the opportunity to misappropriate assets.

Auditor's Recommendation: The County should perform a formal risk assessment whereby all departments where cash handling occurs are evaluated to determine the level of risks and, based on these identified risks, implement additional policies and procedures to appropriately segregate accounting duties as necessary.

Managements Response:

Health and other Departments handling cash: The County will perform an internal risk assessments whereby all departments handling cash are assessed. Where appropriate segregation of duties is lacking, suggestions will be made by Finance and Administration and implemented within the Department. These procedures will further be monitored consistently during the first year of implementation and randomly thereafter.

Finance Department: Segregation of duties is practiced in actuality; however, the Director had access to a safe combination. By eliminating this access, the internal control structure was restored. Access was simply passed down as a means of necessity for backup over the years. Finance has not experienced a situation where the Director needed to access the safe on an emergency basis (due to advanced planning) in over three years.

**La Paz County Arizona
Corrective Action Plan
Year Ended June 30, 2014**

Audit Finding	Corrective Action Plan	Persons Responsible	Estimated Completion Date
2014-001	See management's response at the finding	Finance Director	December, 2014
2014-002	See management's response at the finding	Finance Director/ County Administrator	June, 2015
2014-003	See management's response at the finding	Finance Director/ County Administrator	June, 2015
2014-004	See management's response at the finding	Finance Director	June, 2015
2014-005	See management's response at the finding	Finance Director/ County Administrator	March, 2015
2014-006	See management's response at the finding	Finance Director	June, 2015
2014-007	See management's response at the finding	Finance Director	December, 2014

**La Paz County Arizona
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2014**

Prior Audit Findings	Current Status
<u>Financial Statement Findings</u>	
12-1 Lack of Adequate Safeguards	Partially Resolved
2013-001/ Segregation of Duties, see current year 12-3 finding 2014-001	Partially Resolved
2013-002/ Budgetary Control, see current year finding 12-4 2014-003	Unresolved
11-05 Segregation of Duties-Treasurer's Office	Resolved
2013-003 Compliance-Budget For Property Tax Levy Funds, see current year finding 2014-005	Unresolved
<u>Federal Award Findings and Questioned Costs</u>	
2013-005/ Payments in Lieu of Taxes, Emergency Relief Program 11/14	Resolved
2013-004 Payments in Lieu of Taxes, Capital Asset Inventory, see current year finding 2014-006	Unresolved