



## REPORT HIGHLIGHTS

### FINANCIAL STATEMENT AND SINGLE AUDITS

### Our Conclusion

Santa Cruz County is responsible for preparing annual financial statements and a schedule of expenditures of federal awards, maintaining effective internal controls, and being accountable for its use of public monies. Our Office is responsible for auditing the County's financial statements, schedule, and major federal programs annually. A summary of the financial statements and schedule of expenditures of federal awards is presented to the right.

Based on our audits, we issued opinions on the County's financial statements and schedule of expenditures of federal awards and issued reports on its internal control and compliance over financial reporting and major federal programs. The information in the County's fiscal year 2015 financial statements and schedule is reliable. Our Office identified internal control weaknesses over financial reporting and internal control weaknesses and instances of noncompliance over major federal programs. The most significant findings are summarized on the next page.



2015

Year Ended June 30, 2015

## Condensed financial information

**Statement of net position**—This statement reports all of the County's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Net position is reported in three major categories:

- **Net investment in capital assets**—Shows the equity in land, buildings, equipment, and infrastructure.
- **Restricted**—Shows the resources that must be used for restricted purposes as specified by donors and other external entities, such as the federal government.
- **Unrestricted**—Shows the remaining net position balance after allocating the net investment in capital assets and restricted balances. The balance was negative at June 30, 2015, because the County implemented new pension accounting standards. Additional information on these new standards is included on the next page.

**Statement of activities**—This statement reports all revenues, expenses, and other changes in net position. Revenues include program revenues—those generated by or dedicated to a specific program—and general revenues, such as taxes raised for general purposes. It also reports revenues and expenses as either governmental activities—primarily supported by taxes and grant monies—or business-type activities—primarily supported by user fees and charges. Net position decreased by approximately \$4.8 million, or 7.6 percent, in fiscal year 2015.

**Schedule of expenditures of federal awards**—During fiscal year 2015, the County expended approximately \$5.6 million in federal awards. The County's federal award expenditures decreased by \$238,000, or 4 percent, compared to fiscal year 2014.

### Condensed statement of net position Governmental and business-type activities

As of June 30, 2015  
(In thousands)

<b>Assets</b>	
Current and other assets	\$ 27,296
Capital assets, net of depreciation	<u>129,360</u>
Total assets	<u>156,656</u>
<b>Deferred outflow of resources</b>	<u>7,249</u>
<b>Liabilities</b>	
Current liabilities	3,702
Noncurrent liabilities:	
Net pension liability	34,943
Other	<u>62,288</u>
Total liabilities	<u>100,933</u>
<b>Deferred inflows of resources</b>	<u>4,050</u>
<b>Net position</b>	
Net investment in capital assets	74,614
Restricted	7,712
Unrestricted (deficit)	<u>(23,404)</u>
Total net position	<u>\$ 58,922</u>

### Condensed statement of activities Governmental and business-type activities

For the year ended June 30, 2015  
(In thousands)

<b>Program revenues</b>	
Governmental activities	\$ 16,840
Business-type activities	1,993
<b>General revenues</b>	
Governmental activities	28,760
Business-type activities	<u>3</u>
Total revenues	<u>47,596</u>
<b>Expenses</b>	
Governmental activities	51,531
Business-type activities	<u>887</u>
Total expenses	<u>52,418</u>
Change in net position	(4,822)
Net position—beginning, as restated	<u>63,744</u>
Net position—ending	<u>\$ 58,922</u>

### Condensed schedule of expenditures of federal awards by grantor agency For the year ended June 30, 2015 (In thousands)

Department of Education	\$1,084
Department of Interior	933
Department of Labor	775
Department of Agriculture	583
Executive Office of the President	540
Department of Health and Human Services	534
Other	<u>1,188</u>
Total federal expenditures	<u>\$5,637</u>

## Significant pension reporting changes in fiscal year 2015

The Governmental Accounting Standards Board (GASB) issued new pension accounting standards for all state and local governments that resulted in significant reporting changes starting in fiscal year 2015. The County is required to follow these new standards because its employees are members in the State of Arizona's defined benefit pension plans. The new GASB standards are designed to increase the transparency, consistency, and comparability of pension information across governments. In addition, they require all governments to report more robust pension information, including their share of any unfunded, or net, pension liability, which was \$34.9 million for the County at June 30, 2015. The net pension liability is calculated by subtracting the pension plans' assets from the estimated pension obligations and means that the assets are less than estimated pension obligations. This liability reduced the County's unrestricted net position.

It is important to note that the new reporting requirements will not change the actual cost of providing pension benefits. As they always have, the County and its participating employees will continue to pay their required contributions to cover the estimated pension benefits. The County's contributions were \$2.02 million in fiscal year 2015.

## Summary of audit findings and recommendations

For the financial statement audit, we found four internal control weaknesses over financial reporting. For the federal compliance audit, we tested seven federal programs under the major program guidelines established by the Single Audit Act and found that the County did not always have adequate internal controls and did not always comply with federal program requirements for four of its federal programs. Our Single Audit report includes a Schedule of Findings and Questioned Costs that contains further details to help the County correct the internal control weaknesses and instances of noncompliance. The most significant findings and recommendations are summarized below.

### Inadequate policies and procedures over financial statement preparation and information technology (IT) resources

The County did not have adequate policies and procedures to prepare accurate financial statements. As a result, we found numerous errors that the County had to correct so that its financial statement amounts were accurate. In addition, the County lacked effective policies and procedures over its IT resources. Specifically, it had weaknesses over its IT access, change management, and disaster recovery. Access security weaknesses included not properly monitoring access to its IT resources to ensure access roles assigned were needed and compatible with employees' job responsibilities. Change management weaknesses included not documenting test procedures, test results, and approvals for changes to its IT systems. Finally, disaster recovery weaknesses included not having a comprehensive up-to-date disaster recovery plan to provide for the continuity of operations in the event of disaster, system or equipment failure, or other interruption.

### Recommendations

The County should:

- Develop and implement comprehensive written policies and procedures for preparing its annual financial statements that include an independent detailed review of all schedules supporting the financial statements.
- Evaluate and update policies and procedures over its IT resources to ensure they include performing a periodic and comprehensive review of all existing access accounts; documenting all tests performed, test results, and approvals for changes made to IT resources; and updating the disaster recovery plan to include all key elements.