

Santa Cruz County

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

Based on our audits, we issued opinions on the County's financial statements and federal expenditure schedule and issued reports on internal control and on compliance over financial reporting and major federal programs. The information in the County's fiscal year 2016 financial statements and schedule is reliable. Our Office identified internal control weaknesses and an instance of noncompliance over financial reporting and internal control weaknesses and instances of noncompliance over major federal programs. The most significant findings are summarized on the next page.

Condensed financial information

Statement of net position—This statement reports all of the County's assets, 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.

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 \$0.4 million, or 0.7 percent, in fiscal year 2016.

Federal expenditure schedule—During fiscal year 2016, the County expended approximately \$6.9 million in federal awards. The County's federal award expenditures increased by approximately \$1.2 million, or 22 percent, compared to fiscal year 2015.

Statement of net position

As of June 30, 2016 (In thousands)

Assets and deferred outflows	
Current and other assets	\$ 24,150
Capital assets, net of depreciation	129,101
Deferred outflows of resources	7,273
Total assets and deferred outflows	160,524
Liabilities and deferred inflows	
Current liabilities	2,081
Noncurrent liabilities:	
Net pension liability	37,488
Other	59,872
Deferred inflows of resources	2,598
Total liabilities and deferred inflows	102,039
Net position	
Net investment in capital assets	73,759
Restricted	9,756
Unrestricted	(25,030)
Total net position	\$ 58,485

Statement of activities

Year ended June 30, 2016 (In thousands)

Program revenues	
Governmental activities	\$17,517
Business-type activities	2,062
General revenues	
Governmental activities	30,151
Business-type activities	-
Total revenues	49,730
Expenses	
Governmental activities	48,096
Business-type activities	2,071
Total expenses	50,167
Decrease in net position	(437)
Net position—beginning	58,922
Net position—ending	\$58,485

Federal expenditure schedule

Year ended June 30, 2016 (In thousands)

Federal grantor agency	
Department of Transportation	\$1,415
Department of the Interior	1,074
Department of Agriculture	931
Department of Labor	750
Department of Health and Human Services	629
Department of the Education	621
Department of Homeland Security	610
Other	853
Total federal expenditures	\$6,883

Summary of audit findings and recommendations

For the financial statement audit, we found internal control weaknesses and an instance of noncompliance over the County's financial reporting related to its financial statement preparation, interest earnings apportionment, and its information technology (IT) resources. For the federal compliance audit, we tested three 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 one of its federal programs. Our single audit report includes a schedule of findings and questioned costs that contains further details to help the County correct the internal control weaknesses and instances of noncompliance. The most significant findings and recommendations are summarized below.

County had inadequate policies and procedures over the preparation and review of its annual financial report—The County's Board of Supervisors and management depend on accurate financial information prepared in accordance with U.S. generally accepted accounting principles (GAAP) to fulfill their oversight responsibilities and to report accurate information to the public and agencies from which the County receives funding. However, the County lacked adequate internal control policies and procedures over the preparation of its annual financial report and had to correct several misstatements before it could be issued.

Recommendation

The County should develop and implement comprehensive written policies and procedures for preparing its annual financial report. These procedures should include instructions for compiling information and a thorough review to help ensure that the annual financial report is accurate and complete and prepared in accordance with GAAP.

County had inadequate policies and procedures over IT resources—The County's IT resources, which include its systems, network, infrastructure, and data, are vital to its daily operations. However, the County did not have adequate policies and procedures over its IT resources to sufficiently manage access, including preventing, detecting, and responding to unauthorized access, and to track, document, and test IT resource changes. The County also lacked a comprehensive up-to-date contingency plan to provide for the continuity of operations in the event of a disaster, system or equipment failure, or other interruption.

Recommendations

To help prevent and detect unauthorized access to its IT resources; prevent and detect unauthorized, inappropriate, and unintended changes to its IT resources; and ensure county operations can continue in the event of a disaster, system or equipment failure, or other interruption the County needs to update and implement policies and procedures over its IT resources to ensure they address the following:

- **User access**—A periodic, comprehensive review should be performed of all existing employee access accounts to help ensure that network and system access granted is needed and compatible with job responsibilities.
- **Change management processes**—For changes to its IT resources, a change management process should be established for each type of change, including emergency changes and other changes that might not follow the normal change management process. Further, all changes should follow the applicable change management process and should be appropriately documented.
- **Contingency planning**—The contingency plan should be updated at least annually for all critical information or when changes are made to IT resources, and updates to the plan should be communicated to key personnel.
- **IT standards and best practices**—IT policies and procedures should be reviewed against current IT standards and best practices, updated where needed, and implemented entity-wide, as appropriate.