

Santa Cruz County

Single Audit Report

Year Ended June 30, 2016



A Report to the Arizona Legislature

Debra K. Davenport
Auditor General





The Auditor General is appointed by the Joint Legislative Audit Committee, a bipartisan committee composed of five senators and five representatives. Her mission is to provide independent and impartial information and specific recommendations to improve the operations of state and local government entities. To this end, she provides financial audits and accounting services to the State and political subdivisions, investigates possible misuse of public monies, and conducts performance audits and special reviews of school districts, state agencies, and the programs they administer.

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Contact Information

Arizona Office of the Auditor General

2910 N. 44th St.

Ste. 410

Phoenix, AZ 85018

(602) 553-0333

www.azauditor.gov



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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

**Independent auditors' report on internal control over financial reporting and
on compliance and other matters based on an audit of basic financial
statements performed in accordance with *Government Auditing Standards***

Members of the Arizona State Legislature

The Board of Supervisors of
Santa Cruz 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 Santa Cruz County as of and for the year ended June 30, 2016, 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 29, 2017.

Internal control over financial reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not 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 and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the County's basic financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2016-01, 2016-03, and 2016-04 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2016-02 and 2016-05 to be significant deficiencies.

Compliance and other matters

As part of obtaining reasonable assurance about whether the County's basic financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* and that is described in the accompanying schedule of findings and questioned costs as item 2016-02.

County response to findings

Santa Cruz County's responses to the findings identified in our audit are presented in its corrective action plan at the end of this report. The County's responses were not subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on them.

Purpose of this report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the County's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Jay Zsorey, CPA
Financial Audit Director

March 29, 2017



DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

**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 the Uniform Guidance**

Members of the Arizona State Legislature

The Board of Supervisors of
Santa Cruz County, Arizona

Report on compliance for each major federal program

We have audited Santa Cruz County's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016. The County's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' responsibility

Our responsibility is to express an opinion on compliance for each of the County's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Basis for qualified opinion on the Homeland Security Grant Program

As described in the accompanying schedule of findings and questioned costs as item 2016-102, the County did not comply with the equipment and real property management compliance requirement for the Homeland Security Grant Program, CFDA number 97.067. Compliance with such requirements is necessary, in our opinion, for the County to comply with the requirements applicable to that program.

Qualified opinion on the Homeland Security Grant Program

In our opinion, except for the noncompliance described in the basis for qualified opinion paragraph, Santa Cruz County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Homeland Security Grant Program for the year ended June 30, 2016.

Unmodified opinion on each of the other major federal programs

In our opinion, Santa Cruz County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2016.

Other matters

The results of our auditing procedures disclosed an instance of noncompliance that is required to be reported in accordance with the Uniform Guidance and that is described in the accompanying schedule of findings and questioned costs as item 2016-101. Our opinion on each major federal program is not modified with respect to this matter.

Report on internal control over compliance

The County's management is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

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 weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2016-101 and 2016-102, that we consider to be material weaknesses.

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

Santa Cruz County response to findings

Santa Cruz County's responses to the findings identified in our audit are presented in its corrective action plan at the end of this report. The County's responses were not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on them.

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

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of Santa Cruz County as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the County's basic financial statements. We issued our report thereon dated March 29, 2017, that contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming our opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of the County's management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Jay Zsorey, CPA
Financial Audit Director

March 29, 2017





SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Summary of auditors' results

Financial statements

Type of auditors' report issued on whether the financial statements audited were prepared in accordance with generally accepted accounting principles Unmodified

Internal control over financial reporting

Material weaknesses identified? Yes

Significant deficiencies identified? Yes

Noncompliance material to the financial statements noted? No

Federal awards

Internal control over major programs

Material weaknesses identified? Yes

Significant deficiencies identified? None reported

Type of auditors' report issued on compliance for major programs

Unmodified for Schools and Roads—Grants to States (10.665) and the Airport Improvement Program (20.106); and qualified for the Homeland Security Grant Program (97.067)

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

Identification of major programs

CFDA number	Name of federal program or cluster
10.665	Schools and Roads—Grants to States
20.106	Airport Improvement Program
97.067	Homeland Security Grant Program

Dollar threshold used to distinguish between Type A and Type B programs \$750,000

Auditee qualified as low-risk auditee? No

Other matters

Auditee’s summary schedule of prior audit findings required to be reported in accordance with 2 CFR 200.511(b)? Yes

Financial statement findings

2016-01

The County should improve its policies and procedures to accurately record and report financial information in its financial statements

Criteria—The County should prepare its financial statements and related note disclosures in accordance with U.S. generally accepted accounting principles (GAAP). Accurate financial statements provide valuable information to those charged with governance, management, and other financial statement users to make important decisions about the County's financial operations.

Condition and context—The County did not prepare its financial statements in accordance with GAAP. Specifically, the County:

- Overstated criminal justice enhancement fund accounts receivable and unavailable revenue by \$141,888 due to an erroneous journal entry.
- Understated jail district fund accrued payroll and employee benefits and cash and investments and overstated general fund accrued payroll and employee benefits and cash and investments by \$32,953 because of a misclassification.
- Understated governmental activities capital assets by over \$1.6 million. Specifically, nondepreciable capital assets were understated by \$169,045 due to associated engineering costs not being included in the cost of a project, and depreciable capital assets were understated by \$1,515,015 primarily due to expenditures not being properly capitalized.

Effect—The County's financial statements were not initially prepared in accordance with GAAP. The County made recommended audit adjustments to the financial statements for all significant errors.

Cause—The County lacked comprehensive internal control policies and procedures needed to prepare accurate financial statements. Additionally, insufficient reviews and approvals were performed to ensure the accuracy of the financial statement schedules.

Recommendation—To help ensure that the County's annual financial report is accurate and prepared in accordance with GAAP, the County should:

- Develop and implement comprehensive written policies and procedures for compiling the information and preparing the financial statements. These procedures should include detailed instructions for reviewing and ensuring the accuracy of information entered into the accounting system, and obtaining information from the accounting system and information not readily available from the accounting system, but necessary for financial statement preparation.
- Require an employee who is independent of the person preparing the financial statements and knowledgeable of the County's operations and GAAP reporting requirements to review the statements and related note disclosures. This review should ensure that the amounts are accurate, properly supported, and presented in accordance with GAAP.

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

This finding is similar to prior-year finding 2015-01.

2016-02

The County Treasurer did not comply with state laws for apportioning interest earnings

Criteria—The County Treasurer’s Office is responsible for managing and investing millions of dollars in public monies. Therefore, the County Treasurer’s Office should ensure compliance with state interest apportionment laws specified in Arizona Revised Statutes, Titles 15 and 35.

Condition and context—The County Treasurer’s Office recorded and apportioned pooled interest earnings to pool participants when the interest was paid to the County Treasurer rather than when it was earned. Therefore, interest earnings were incorrectly apportioned to the pool participants based upon average daily balances of the month the interest was received instead of the average daily balances of the month the interest was earned as required by state laws.

Effect—The County Treasurer’s Office did not ensure that investment earnings were properly distributed to the various county funds and political subdivisions in accordance with state laws.

Cause—The County lacked comprehensive internal control policies and procedures over the apportionment of interest earnings.

Recommendation—The County Treasurer’s Office should develop and implement written policies and procedures to help ensure compliance with state laws for the apportionment of interest to investment pool participants. Those policies and procedures should include, at a minimum, detailed instructions for apportioning interest earnings to investment pool participants on at least a quarterly basis. In addition, the County Treasurer should apportion interest earned to investment pool participants based on their proportionate balances on deposit during the period such interest is earned and not on the proportionate balances during the period in which interest earnings are ultimately received.

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

This finding is similar to prior-year finding 2015-02.

2016-03

The County should improve access controls over its information technology resources

Criteria—Logical and physical access controls help to protect the County’s information technology (IT) resources, which include its systems, network, infrastructure, and data, from unauthorized or inappropriate access or use, manipulation, damage, or loss. Logical access controls also help to ensure that authenticated users access only what they are authorized to. Therefore, the County should have effective internal control policies and procedures to control access to its IT resources.

Condition and context—The County did not have adequate policies and procedures or consistently implement its policies and procedures to help prevent or detect unauthorized or inappropriate access to its IT resources.

Effect—There is an increased risk that the County may not prevent or detect unauthorized or inappropriate access or use, manipulation, damage, or loss of IT resources, including sensitive and confidential information.

Cause—The County had some policies and procedures in place but had not evaluated them against current IT standards and best practices.

Recommendation—To help prevent and detect unauthorized access or use, manipulation, damage, or loss to its IT resources, the County needs to update its logical and physical access policies and procedures over its IT resources. The information below provides guidance and best practices to help the County achieve this objective.

- **Review user access**—A periodic, comprehensive review should be performed of all existing employee accounts to help ensure that network and system access granted is needed and compatible with job responsibilities.
- **Remove terminated employees' access to its IT resources**—Employees' network and system access should immediately be removed upon their terminations.
- **Review contractor and other nonentity account access**—A periodic review should be performed on contractor and other nonentity accounts with access to an entity's IT resources to help ensure their access remains necessary and appropriate.
- **Improve network and system password policies**—Network and system password policies should be improved and ensure they address all accounts.
- **Manage remote access**—Security controls should be utilized for all remote access. These controls should include appropriate configuration of security settings such as configuration/connections requirements and the use of encryption to protect the confidentiality and integrity of remote sessions.
- **Restrict data center access**—A periodic review of physical access granted to the data center should be performed to ensure that it continues to be needed.
- **Implement 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. Further, staff should be trained on IT policies and procedures.

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

This finding is similar to prior-year finding 2015-03.

2016-04

The County should improve its configuration management process over its information technology resources

Criteria—A well-defined configuration management process, including a change management process, is needed to ensure that the County's information technology (IT) resources, which include its systems, network, infrastructure, and data, are configured securely and that changes to these IT resources do not adversely affect security or operations. IT resources are typically constantly changing in response to new, enhanced, corrected, or updated hardware and software capabilities and new security threats. The County should have effective written configuration management internal control policies and procedures to track and document changes made to its IT resources.

Condition and context—The County has written policies and procedures for managing changes to its IT resources; however, they lacked critical elements. Also, the County did not have policies and procedures to ensure IT resources were configured securely.

Effect—There is an increased risk that the County's IT resources may not be configured appropriately and securely and that changes to those resources could be unauthorized or inappropriate or could have unintended results without proper documentation, authorization, review, testing, and approval prior to being applied.

Cause—The County had some policies and procedures in place but had not evaluated them against current IT standards and best practices.

Recommendation—To help prevent and detect unauthorized, inappropriate, and unintended changes to its IT resources, the County needs to update its policies and procedures over its configuration management processes. The information below provides guidance and best practices to help the County achieve this objective.

- **Establish and follow change management processes**—For changes to 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.
- **Review proposed changes**—Proposed changes to IT resources should be reviewed for appropriateness and justification, including consideration of the change's security impact.
- **Document changes**—Changes made to IT resources should be logged and documented and a record should be retained of all change details, including a description of the change, the departments and systems impacted, the individual responsible for making the change, test procedures performed and the test results, security impact analysis results, change approvals at each appropriate phase of the change management process, and a post-change review.
- **Roll back changes**—Rollback procedures should be established that include documentation necessary to back out changes that negatively impact IT resources.
- **Test**—Changes should be tested prior to implementation, including performing a security impact analysis of the change.
- **Separate responsibilities for the change management process**—Responsibilities for developing and implementing changes to IT resources should be separated from the responsibilities of authorizing, reviewing, testing, and approving changes for implementation or, if impractical, performing a post-implementation review of the change to confirm the change followed the change management process and was implemented as approved.
- **Configure IT resources appropriately and securely**—The functionality of IT resources should be limited to ensure it is performing only essential services and maintaining appropriate and secure configurations for all systems.
- **Manage software installed on employee computer workstations**—For software installed on employee computer workstations, policies and procedures should be developed to address what software is appropriate and the process for requesting, approving, installing, monitoring, and removing software on employee computer workstations.
- **Implement 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. Further, staff should be trained on IT policies and procedures.

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

This finding is similar to prior-year finding 2015-03.

2016-05

The County should improve its contingency planning procedures for its information technology resources

Criteria—It is critical that the County have contingency planning procedures in place to provide for the continuity of operations and to help ensure that vital information technology (IT) resources, which include its systems, network, infrastructure, and data, can be recovered in the event of a disaster, system or equipment failure, or other interruption. Contingency planning procedures include having a comprehensive, up-to-date contingency plan; taking steps to facilitate activation of the plan; and having system and data backup policies and procedures.

Condition and context—The County's contingency plan lacked certain key elements related to restoring operations in the event of a disaster or other system interruption of its IT resources. In addition, the County did not perform regularly scheduled, comprehensive tests of its contingency plan. Furthermore, although the County was performing system and data backups, the County's data backups did not include all critical data, and the County did not have documented policies and procedures for securing and testing them to ensure they were operational and could be used to restore its IT resources.

Effect—The County risks not being able to provide for the continuity of operations, recover vital IT resources and data, and conduct daily operations in the event of a disaster, system or equipment failure, or other interruption, which could cause inaccurate or incomplete system and data recovery.

Cause—The County had some contingency planning processes in place but lacks a sufficiently documented recovery plan based on current IT standards and best practices to ensure that its contingency efforts can be relied on in the event they are needed.

Recommendation—To help ensure county operations continue in the event of a disaster, system or equipment failure, or other interruption, the County needs to further develop its contingency planning procedures. The information below provides guidance and best practices to help the County achieve this objective.

- **Update the contingency plan and ensure it includes all required elements to restore operations**—Contingency plans 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. The plan should include essential business functions and associated contingency requirements, including recovery objectives and restoration priorities and metrics as determined in the entity's business-impact analysis; contingency roles and responsibilities and assigned individuals with contact information; identification of critical information assets and processes for migrating to the alternative processing site; processes for eventual system recovery and reconstitution to return the IT resources to a fully operational state and ensure all transactions have been recovered; and review and approval by appropriate personnel. The contingency plan should also be coordinated with incident-handling activities and stored in a secure location, accessible to those who need to use it, and protected from unauthorized disclosure or modification.
- **Move critical operations to a separate alternative site**—Policies and procedures should be developed and documented for migrating critical IT operations to a separate alternative site for essential business functions, including putting contracts in place or equipping the alternative site to resume essential business functions, if necessary. The alternative site's information security safeguards should be equivalent to the primary site.

- **Test the contingency plan**—A process should be developed and documented to perform regularly scheduled tests of the contingency plan and document the tests performed and results. This process should include updating and testing the contingency plan at least annually or as changes necessitate, and coordinating testing with other plans of the entity such as its continuity of operations, cyber incident response, and emergency response plans. Plan testing may include actual tests, simulations, or table top discussions and should be comprehensive enough to evaluate whether the plan can be successfully carried out. The test results should be used to update or change the plan.
- **Train staff responsible for implementing the contingency plan**—An ongoing training schedule should be developed for staff responsible for implementing the plan that is specific to each user’s assigned role and responsibilities.
- **Backup systems and data**—Establish and document policies and procedures for testing IT system software and data backups to help ensure they could be recovered if needed. Policies and procedures should require system software and data backups to be protected and stored in an alternative site with security equivalent to the primary storage site. Backups should include user-level information, system-level information, and system documentation, including security-related documentation. In addition, critical information system software and security-related information should be stored at an alternative site or in a fire-rated container.

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

This finding is similar to prior-year finding 2015-04.

Federal award findings and questioned costs

2016-101

CFDA no. and name: Not applicable
Questioned costs: N/A

Criteria—In accordance with 2 Code of Federal Regulations (CFR) §200.510(b), the County must prepare a schedule of expenditures of federal awards (SEFA) for the period covered by the financial statements. At a minimum, the SEFA must:

- List individual federal programs by federal agency. For a cluster of programs, the SEFA must also provide the cluster name, list individual federal programs within the cluster of programs, and provide the applicable federal agency name.
- For federal awards received as a subrecipient, include the name of the pass-through entity and identifying number assigned by the pass-through entity.
- Provide total federal awards expended for each individual federal program and the CFDA number or other identifying number when the CFDA information is not available. For a cluster of programs, the SEFA must also provide the total for the cluster.
- Include the total amount provided to subrecipients from each federal program.

Condition and context—The County did not prepare an accurate and complete SEFA. Specifically, the County understated its federal award expenditures by \$427,960. In addition, the County failed to identify \$158,339 as being provided to subrecipients for two federal programs and made several mistakes in reporting the appropriate CFDA number and federal program title, the appropriate cluster names and totals, and the appropriate pass-through entity identifying information. The County's SEFA was adjusted for these errors.

Effect—The County's initial SEFA was not accurate and complete. This finding was not a result of internal control deficiencies of individual federal programs and, accordingly, did not have a direct and material effect on the reporting requirements over the County's major federal programs.

Cause—The County did not have effective policies and procedures in place to ensure that all federal monies, including monies passed through to subrecipients, were properly identified and reported on the SEFA.

Recommendation—To help ensure that the County prepares its SEFA in compliance with Uniform Guidance, the County should develop and implement an effective review process to ensure accurate and complete information is reported on the SEFA.

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

This finding is similar to prior year finding 2015-101.

2016-102

CFDA no. and name:	97.067 Homeland Security Grant Program
Award numbers and years:	14-AZDOHS-OPSG-140425-01, December 1, 2014 through December 31, 2015; 14-AZDOHS-OPSG-140425-02, December 1, 2014 through December 31, 2015; 15-AZDOHS-HSGP-150406-02, October 1, 2015 through December 31, 2016; 15-AZDOHS-OPSG-150417-01, January 1, 2016 through December 31, 2016
Federal agency:	U.S. Department of Homeland Security
Pass-through grantor:	Arizona Department of Homeland Security
Compliance requirement:	Equipment and real property management
Questioned costs:	None

Criteria—In accordance with 44 Code of Federal Regulations (CFR) §13.32 (c) and (d), and 2 CFR §200.313 (c) and (d), the County must maintain property records that include a description of the property; a serial number or other identification number; the source of funding for the property; who holds title; the acquisition date; cost of the property; percentage of federal participation in the project costs for the federal award under which the property was acquired; the location, use, and condition of the property; and any ultimate disposition data including the date of disposal and sale price of the property. In addition, the County must develop a control system to ensure adequate safeguards to prevent loss, damage, or theft of property purchased with federal funds. Further, the County must use equipment in the program or project for which it was acquired as long as needed, whether or not the project or program continues to be supported by the federal award. When no longer needed for the original program or project, the equipment may be used in other activities supported by the federal awarding agency.

Condition and context—The County did not maintain effective control and accountability for prior-year equipment and vehicle purchases made with federal monies. For the Homeland Security Grant Program, the County maintains 61 capital assets purchased with federal program monies currently valued at \$157,300. Specifically, the County's capital asset listing did not include a unique identifier, such as a tag number or serial number, for 12 capital assets with a total value of \$57,740. Further, auditors selected 11 capital assets for physical inspection, but the County was unable to locate three of these assets. Finally, for two vehicles selected, auditors found that the vehicles were being used for basic law enforcement services for the community and were no longer specifically dedicated for federal program use.

Effect—The County did not comply with federal regulations, and its failure to maintain control over capital assets purchased with federal grant monies could result in equipment and vehicles being lost, stolen, damaged, or not used for their intended purpose.

Cause—The County did not follow its policy for tagging equipment and ensuring that complete and accurate information for each asset is recorded in its capital asset listing. Further, the County was under the impression that after 3 years of ownership, the vehicles purchased with federal grant monies could be used for any local county law enforcement purpose.

Recommendation—To help ensure compliance with federal regulations and to help prevent loss, theft, damage or misuse of capital assets purchased with federal monies, the County should ensure that its policies are followed that require all equipment items to be properly inventoried, tagged and accounted for in its capital asset listing. Further, the County should establish policies to ensure that equipment is used in the program or project for which it was acquired as long as needed, whether or not the project or program continues to be supported by the federal award.

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

This finding is similar to prior year finding 2015-102.

COUNTY SECTION

Santa Cruz County
Schedule of expenditures of federal awards
Year ended June 30, 2016

Federal agency/CFDA number	Federal program name	Cluster title	Pass-through grantor	Pass-through grantor's numbers	Program expenditures	Amount provided to subrecipients
Department of Agriculture						
10 665	Schools and Roads—Grants to States	Forest Service Schools and Roads Cluster			\$ 930,674	
Department of Housing and Urban Development						
14 228	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii		Arizona Department of Housing	139-13	5,070	
Department of the Interior						
15 226	Payments in Lieu of Taxes				1,072,786	
15 227	Distribution of Receipts to State and Local Governments				770	
	Total Department of the Interior				<u>1,073,556</u>	
Department of Justice						
16 588	Violence Against Women Formula Grants		Arizona Governor's Office for Children, Youth and Families	ST-WSG-15-010115-19, ST-WSG-15-010115-19Y2	194,021	
16 738	Edward Byrne Memorial Justice Assistance Grant Program		Arizona Criminal Justice Commission	DC-16-032, DC-16-012	89,479	
	Total Department of Justice				<u>283,500</u>	
Department of Labor						
17 258	WIA/WIOA Adult Program	WIA/WIOA Cluster	Arizona Department of Economic Security	DI16-002111	133,985	
17 259	WIA/WIOA Youth Activities	WIA/WIOA Cluster	Arizona Department of Economic Security	DI16-002111	185,290	
17 278	WIA/WIOA Dislocated Worker Formula Grants	WIA/WIOA Cluster	Arizona Department of Economic Security	DI16-002111	118,386	
	<i>Total WIA/WIOA Cluster</i>				<u>437,661</u>	
17 274	YouthBuild		Pima County	CT-CS-15-020	311,876	79,750
	Total Department of Labor				<u>749,537</u>	<u>79,750</u>
Department of Transportation						
20 106	Airport Improvement Program		Arizona Department of Transportation	E6F1P, E5F1Z	1,394,833	
20 600	State and Community Highway Safety	Highway Safety Cluster	Arizona Governor's Office of Highway Safety	2015-AL-011, 2015-OP-026, 2015-OP-039, 2015-PT-059, 2016-AL-075, 2016-OP-020, 2016-PT-037, 2016-AL-038	17,802	
20 703	Interagency Hazardous Materials Public Sector Training and Planning Grants		Arizona Emergency Response Commission	HM-HMP-0454-14-01-00, HM-HMP-0513-15-01-00	2,572	
	Total Department of Transportation				<u>1,415,207</u>	
Environmental Protection Agency						
66 931	International Financial Assistance Projects Sponsored by the Office of International and Tribal Affairs				34,967	

Santa Cruz County
Schedule of expenditures of federal awards
Year ended June 30, 2016

Federal agency/CFDA number	Federal program name	Cluster title	Pass-through grantor	Pass-through grantor's numbers	Program expenditures	Amount provided to subrecipients
Department of Education						
84 002	Adult Education—Basic Grants to States		Arizona Department of Education	16FAEABE-1 ADULT 300-16B, 16FAEAPL-1 ADULT 300-16B, 16FAEAEF-1 ADULT 300-16B, 15FAECCR-570755-05A, 16FAEWIO-1 ADULT 300-05A, 16FAEWPL-1 ADULT 300-05A	147,750	
84 010	Title I Grants to Local Educational Agencies		Arizona Administrative Office of the Courts	KR16-0017	28,919	
84 027	Special Education—Grants to States	Special Education Cluster (IDEA)	Arizona Administrative Office of the Courts	KR16-0017, Q215F120378-4, 16FESSCG-SCC SCHOOL	40,732	
84 215	Fund for the Improvement of Education				398,340	
84 367	Supporting Effective Instruction State Grant		Arizona Administrative Office of the Courts	KR16-0017	5,511	
Total Department of Education					<u>621,252</u>	
Department of Health and Human Services						
93 008	Medical Reserve Corps Small Grant Program				1,594	
93 069	Public Health Emergency Preparedness		Arizona Department of Health Services	ADHS12-007896 Amendment 7	211,664	
93 074	Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements		Arizona Department of Health Services	ADHS12-007896 Amendment 6	26,400	
93 268	Immunization Cooperative Agreements		Arizona Department of Health Services	ADHS13-041547	78,589	\$ 78,589
93 539	PPHF Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance Financed in Part by Prevention and Public Health Funds		Arizona Department of Health Services	ADHS13-041547	167,450	
93 563	Child Support Enforcement		Arizona Department of Economic Security	ADES13-035445	83,158	
93 667	Social Services Block Grant				53,510	
93 912	Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement Program				6,592	
Total Department of Health and Human Services					<u>628,957</u>	<u>78,589</u>
Executive Office of the President						
95 001	High Intensity Drug Trafficking Areas Program		City of Tucson	HT15-2529, HT16-2628, HT15-2530, HT16-2629	529,981	
Department of Homeland Security						
97 042	Emergency Management Performance Grants		Arizona Department of Emergency and Military Affairs	EMW 2015-EP-000048	124,423	
97 047	Pre-Disaster Mitigation		Arizona Department of Emergency and Military Affairs	EMF-2016-PC000310	9,950	

Santa Cruz County
Schedule of expenditures of federal awards
Year ended June 30, 2016

Federal agency/CFDA number	Federal program name	Cluster title	Pass-through grantor	Pass-through grantor's numbers	Program expenditures	Amount provided to subrecipients
97 067	Homeland Security Grant Program		Arizona Department of Homeland Security	15-AZDOHS-HSGP- 150406-02, 14- AZDOHS-OPSG- 140425-01, 14- AZDOHS-OPSG- 140425-02, 15- AZDOHS-OPSG- 150417-01	475,772 <hr/> 610,145	<hr/>
	Total Department of Homeland Security				<hr/>	<hr/>
	Total expenditures of federal awards				\$ 6,882,846	\$ 158,339

Santa Cruz County
Notes to schedule of expenditures of federal awards
Year ended June 30, 2016

Note 1 - Basis of presentation

The accompanying schedule of expenditures of federal awards (schedule) includes Santa Cruz County's federal grant activity for the year ended June 30, 2016. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Note 2 - Summary of significant accounting policies

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

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

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2016 *Catalog of Federal Domestic Assistance*.

Note 4 - Indirect cost rate

The County elected to use the 10 percent de minimis indirect cost rate as covered in 2 CFR §200.414.

COUNTY RESPONSE



COUNTY MANAGER
SANTA CRUZ COUNTY

Jennifer K. St. John,
CPA

March 29, 2017

Debbie Davenport
Auditor General
2910 N. 44th St., Ste. 410
Phoenix, AZ 85018

Dear Ms. Davenport:

We have prepared the accompanying corrective action plan as required by the standards applicable to financial audits contained in *Government Auditing Standards* and by the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Specifically, for each finding we are providing you with the names of the contact people responsible for corrective action, the corrective action planned, and the anticipated completion date.

Sincerely,

Jennifer K. St. John, CPA
County Manager

Santa Cruz County
Corrective Action Plan
Year Ended June 30, 2016

Financial Statement Findings

2016-01

The County should improve its policies and procedures to accurately record and report financial information in its financial statements.

Contact Person: Mauricio Chavez, Administrative Services Director

Anticipated completion date: June 30, 2017

Corrective Action: The County will continue to work with the Auditor General's Office and the independent consultant the County has hired to improve the accuracy of the financial statements.

2016-02

The County Treasurer did not comply with state laws for apportioning interest income.

Contact Person: Liz Gutfahr, Treasurer

Anticipated completion date: June 30, 2019

Corrective Action: The County Treasurer's Office intends to change financial systems during fiscal year 2019. It is believed that this new system will allow the County Treasurer to apportion interest on a monthly or quarterly basis, as needed, for all investment accounts held by the Treasurer's Office.

2016-03

The County should improve access controls over its information technology resources.

Contact Person: Jennifer St. John, County Manager

Anticipated completion date: December 31, 2017

Corrective Action: The County has hired a new IT Director that will begin work in April 2017. He has previously been with a County that has been audited by the State of Arizona, Auditor General's Office and has successfully implemented many of these recommendations at his previous job. The County will continue to work with the Auditor General's Office to adequately address our access controls and the potential risks to our information technology resources.

Santa Cruz County
Corrective Action Plan
Year Ended June 30, 2016

2016-04

The County should improve its configuration management process over its information technology resources.

Contact Person: Jennifer St. John, County Manager

Anticipated completion date: December 31, 2018

Corrective Action: The County has hired a new IT Director that will begin work in April 2017. He has previously been with a County that has been audited by the State of Arizona, Auditor General's Office and has successfully implemented some of these recommendations at his previous job. A few of the bullets will be corrected with the purchase and implementation of the new hardware that the County bought in December 2016; however, the documentation piece of this finding will take much longer to implement. The County will continue to work with the Auditor General's Office to adequately address our configuration management process and the potential risks to our information technology resources.

2016-05

The County should improve its contingency planning procedures for its information technology resources.

Contact Person: Jennifer St. John, County Manager

Anticipated completion date: June 30, 2018

Corrective Action: The County will continue to improve its written procedures over our contingency plan, update the plan regularly, include all critical data in the backup, and test and document the recovery of data on a regular basis. In December 2016, the County purchased new hardware specifically for designing a new, off-site back-up system. Further, we have hired an IT Director that will start work in April 2017 that has previous experience designing, documenting, and implementing a contingency plan. We will continue to work with the Auditor General's IT staff to strengthen all of our procedures regarding the contingency plan. This practice will continue until the County adequately addresses the contingency plan in its entirety.

Santa Cruz County
Corrective Action Plan
Year Ended June 30, 2016

Federal Award Findings and Questioned Costs

2016-101

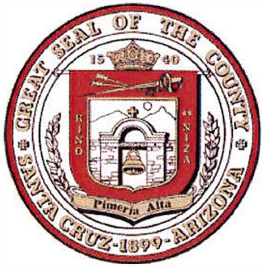
CFDA No. and Name: Not Applicable
Questioned Costs: N/A
Contact Person: Mauricio Chavez, Administrative Services Director
Anticipated completion date: June 30, 2017

The County will take greater care when preparing the Schedule of Expenditures of Federal Awards. We have hired an independent contractor to help ensure that policies and procedures are in place to capture all expenditures and potential subrecipients.

2016-102

CFDA No. and Name: 97.067 Homeland Security Grant Program
Award Numbers and Years: 14-AZDOHS-OPSG-140425-01, December 1, 2014 through December 31, 2015; 14-AZDOHS-OPSG-140425-02, December 1, 2014 through December 31, 2015; 15-AZDOHS-HSGP-150406-02, October 1, 2015 through December 31, 2016; 15-AZDOHS-OPSG-150417-01, January 1, 2016 through December 31, 2016
Contact Person: Mauricio Chavez, Administrative Services Director
Anticipated completion date: December 31, 2017

The County hired an additional accountant to focus on fixed assets in July 2014. Her focus has allowed her to greatly improve the County's fixed assets listing from F/Y 2014 to current but due to time constraints, she has not been able to go back and correct prior year errors in the County's assets listing. A physical inventory was performed during F/Y 2016 but due to this repeated finding, the County will perform another physical inventory during F/Y 2017.



COUNTY MANAGER

SANTA CRUZ COUNTY

Jennifer K. St. John,
CPA

March 29, 2017

Debbie Davenport

Auditor General

2910 N. 44th St., Ste. 410

Phoenix, AZ 85018

Dear Ms. Davenport:

We have prepared the accompanying summary schedule of prior audit findings as required by the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Specifically, we are reporting the status of audit findings included in the prior audit's schedule of findings and questioned costs. This schedule also includes the status of audit findings reported in the prior audit's summary schedule of prior audit findings that were not corrected.

Sincerely,

Jennifer K. St. John, CPA

County Manager

Santa Cruz County
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2016

Status of financial statement findings

The County should improve its policies and procedures to accurately record and report financial information in its financial statements.

Finding No.: 2015-01

Status: Not corrected

Due to staff turnover at the County management level, the County was unable to correct this prior year finding and prepare accurate financial statements. Each year, the County has made similar, but different errors in the financial reporting. The County will continue to work with the Auditor General's Office and the independent consultant the County has hired to improve the accuracy of the financial statements.

The County Treasurer did not comply with state laws for apportioning interest income.

Finding No.: 2015-02

Status: Not corrected

The County Treasurer did not apportion interest due to staffing and timing constraints. As the Treasurer intends to implement a new accounting system during fiscal year 2019, the County does not plan on implementing policies and procedures to apportion interest within the current system.

The County should improve its policies and procedures, its disaster recovery plan and its data backup procedures for its information technology resources.

Finding No.: 2015-03 and 2015-04

Status: Not corrected

The County's Information Technology (IT) Director retired in August 2016, about 5 months after the year ended June 30, 2015, financial findings were issued and therefore, the County did not have the proper staff or the time to implement the recommendations. The County has hired a new IT Director that will begin work in April 2017. He has previously been with a County that has been audited by the State of Arizona, Auditor General's Office and has successfully implemented many of these recommendations at his previous job. The County will continue to work with the Auditor General's Office to adequately address the County's potential risks over our information technology resources.

Status of federal award findings and questioned costs

Santa Cruz County
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2016

CFDA No.: 97.067 Homeland Security Grant Program

Finding No.: 2015-102, 2014-102 and 2013-104

Status: Partially corrected

The County hired an additional accountant in July 2014 and one of her duties was to ensure compliance of the fixed assets listing with federal and state regulations. A physical inventory was performed and the County's fixed assets listing was greatly improved to include the required information for assets purchased since F/Y 2014. Due to time constraints and a lack of resources, the County has been unable to provide all the required information on the assets older than F/Y 2014 and ensure all those older assets are still in the County's possession. Due to the repeated finding, the County will perform another physical inventory during F/Y 2017 to help ensure that the assets older than F/Y 2014 are properly tagged and accounted for.

CFDA No.: Not Applicable

Finding No.: 2015-101

Status: Not corrected

Due to staff turnover at the County management level, the County did not prepare an accurate and complete SEFA. The former SEFA preparer will work closely with the current SEFA preparer for F/Y 2017 to ensure a more accurate SEFA for the year ended June 30, 2017.

CFDA No.: 93.268 Immunization Cooperate Agreements

Finding No.: 2015-103

Status: Not corrected

Due to staff turnover at the County management level, the County did not implement subrecipient monitoring procedures during F/Y 2016. In the Fall 2016, County staff accompanied the Arizona Department of Health and Human Services (ADHHS) to Mariposa Community Health Center and was present when ADHHS performed their annual monitoring review. Further, the County obtained the ADHHS guidelines and questionnaire used to monitor Mariposa but the County did not perform its own subrecipient monitoring procedures during the fiscal year. For the fiscal year ended June 30, 2018, the County will implement and perform its own monitoring procedures.

Santa Cruz County
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2016

CFDA No.: 16.738 Edward Byrne Memorial Justice Assistance Grant Program
Finding No.: 2013-104
Status: No longer valid

This finding does not warrant further action because at least 2 years have passed since the County submitted the audit report in which the finding occurred to the Federal Audit Clearinghouse; the federal agency and applicable pass-through entity are not currently following up with the County on the audit finding; and a management decision pertaining to this finding was not issued.

CFDA No.: 10.665 Schools and Roads – Grants to States
Finding No.: 2015-104
Status: Fully corrected

CFDA No.: 17.274 YouthBuild
Finding No.: 2015-105
Status: Fully corrected

