

Santa Cruz County
Single Audit Reporting Package
Year Ended June 30, 2006

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**Independent Auditor's 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
Santa Cruz County, Arizona

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, 2006, which collectively comprise the County's basic financial statements, and have issued our report thereon dated January 26, 2007. We conducted our audit 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements and not to provide an opinion on internal control over financial reporting. However, we noted certain matters involving internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over financial reporting that, in our judgment, could adversely affect the County's ability to initiate, record, process, and report financial data consistent with the assertions of management in the basic financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items **06-01**, **06-03**, and **06-04**.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control over financial reporting would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item **06-04** to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Questioned Costs as item **06-02**.

This report is intended solely for the information and use of the members of the Arizona State Legislature, the Auditor General of the State of Arizona, the Board of Supervisors, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

April 27, 2007

**Independent Auditor's Report on Compliance with Requirements
Applicable to Each Major Program and on Internal Control over Compliance in
Accordance with OMB Circular A-133**

The Auditor General of the State of Arizona

The Board of Supervisors of
Santa Cruz County, Arizona

Compliance

We have audited the compliance of Santa Cruz County with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. 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. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

Except as discussed in the following paragraph, 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. Our audit does not provide a legal determination of the County's compliance with those requirements.

We were unable to obtain sufficient documentation supporting the compliance of Santa Cruz County with the WIA Cluster regarding allowable costs/cost principles, nor were we able to satisfy ourselves as to Santa Cruz County's compliance with those requirements by other auditing procedures.

As described in items **06-06** through **06-08** in the accompanying Schedule of Findings and Questioned Costs, the County did not comply with requirements regarding cash management and procurement that are applicable to its High Intensity Drug Trafficking Area program, the requirements regarding cash management that are applicable to its Homeland Security Grant Cluster and the requirements regarding reporting that are applicable to its WIA Cluster. Compliance with such requirements is necessary, in our opinion, for the County to comply with the requirements applicable to those programs.

In our opinion, except for the effects of such noncompliance, if any, as might have been determined had we been able to examine sufficient evidence regarding Santa Cruz County's compliance with the WIA Cluster regarding allowable costs/cost principles, and except for the noncompliance described in the preceding paragraph, Santa Cruz County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006. The results of our auditing procedures also disclosed an other instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and is described in the accompanying Schedule of Findings and Questioned Costs as item **06-05**.

Internal Control over Compliance

The County's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over compliance that, in our judgment, could adversely affect the County's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items **06-05** through **06-10**.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control over compliance would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items **06-06** through **06-10** to be material weaknesses.

Schedule of Expenditures of Federal Awards

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, 2006, and have issued our report thereon dated January 26, 2007. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the members of the Arizona State Legislature, the Auditor General of the State of Arizona, the Board of Supervisors, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

April 27, 2007, except for the
Schedule of Expenditures of Federal
Awards, for which the date is January 26, 2007

Santa Cruz County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2006

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number (Note 2)	Pass-Through Grantor's Number	Expenditures
U.S. Office of National Drug Control Policy			
High Intensity Drug Trafficking Area, passed through Pima County	07.16PSAP549	01-11-S-136288-1004 01-11-S-136217-1004	\$ 287,114
High Intensity Drug Trafficking Area, passed through Arizona Criminal Justice Commission	07.Unknown	HT16-06-1913 HT16-06-1914	315,802
Total U.S. Office of National Drug Control Policy			<u>602,916</u>
U.S. Department of Agriculture			
Schools and Roads – Grants to States, passed through the Arizona State Treasurer	10.665	None	35,751
Forest Service Grant	10.unknown		3,123
Total U.S. Department of Agriculture			<u>38,874</u>
U.S. Department of Housing and Urban Development			
Community Development Block Grants/State's Program passed through the Arizona Department of Housing	14.228	148-03	<u>49,802</u>
U.S. Department of the Interior			
Payments in Lieu of Taxes	15.226		<u>574,210</u>
U.S. Department of Justice			
Crime Victim Assistance, passed through the Arizona Criminal Justice Commission	16.575	VA-07-029	12,704
Crime Victim Compensation, passed through the Arizona Criminal Justice Commission	16.576	VC-06-061	12,747
Byrne Formula Grant Program, passed through the Arizona Criminal Justice Commission	16.579	PC-150-07, CRI-100-06	271,776
Rural Domestic Violence and Child Victimization Enforcement Grant Program, passed through the Governor's Office for Domestic Violence Prevention	16.589	RD-GRA-03-4091-03	110
Community Capacity Development Office, passed through the Arizona Criminal Justice Commission	16.595	2005-W0224-AZ-WS	62,793
Southwest Border Prosecution Initiative	16.unknown		39,099
Federal Equitable Sharing Program	16.unknown		49,127
Total U.S. Department of Justice			<u>448,356</u>
U.S. Department of Labor			
WIA Land Management	17.unknown		<u>9,430</u>
WIA Cluster:			
WIA Adult Program, passed through the Arizona Department of Economic Security	17.258	E5706012, E576012a	370,250
WIA Youth Program, passed through the Arizona Department of Economic Security	17.259	E5706012, E5706012a	474,243
WIA Dislocated Workers, passed through the Arizona Department of Economic Security	17.260	E5706012, E5706012a	329,086
WIA Dislocated Workers, passed through Pima County	17.260	E5704012, E5705012	34,376
Total WIA Cluster			<u>1,207,955</u>

See accompanying notes to schedule.

Santa Cruz County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2006

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number (Note 2)	Pass-Through Grantor's Number	Expenditures
Work Incentives Grant, passed through the Arizona Department of Economic Security	17.266	WI-13244-03-60	1,750
Total U.S. Department of Labor			<u>1,219,135</u>
U.S. Department of Transportation			
Airport Improvement Program	20.106		743,488
Highway Planning and Construction, passed through the Arizona Department of Transportation	20.205	KR04-0058TRN	1,327,104
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants, passed through the Governor's Office of Highway Safety	20.601	2006-PT-005	49,167
Total U.S. Department of Transportation			<u>2,119,759</u>
Environmental Protection Agency			
Regional Wetland Program Development Grants	66.461		<u>571</u>
U.S. Department of Education			
Adult Education-State Grant Program, passed through the Arizona Department of Education	84.002	07FAEABE-770755-02A	73,433
Title I Program for Neglected and Delinquent Children, passed through the Arizona Administrative Office of the Courts	84.013	28209	35,677
Special Education – Grants to States, passed through the Arizona Department of Education	84.027	H027A20007	9,703
Rehabilitation Services – Vocational Rehabilitation Grants to States, passed through the Arizona Department of Economic Security	84.126	E5324042	116,775
Rehabilitation Services – Service Projects, passed through the Arizona Department of Education	84.128	H128J050126	135,077
Safe and Drug-Free Schools and Communities – State Grants, passed through the Arizona Administrative Office of the Courts	84.186	28209	1,149
Fund for the Improvement of Education	84.215		349,201
Projects with Industry	84.234		58,458
State Grants for Innovative Programs, passed through the Arizona Administrative Office of the Courts	84.298	28209	19,524
Education Technology State Grants, passed through the Arizona Administrative Office of the Courts	84.318	28209	1,126
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334		1,008,789
Arts in Education	84.351		78,398
Arts in Education, passed through the Arizona Department of Education	84.351	U351C060097	93,670
Total Arts in Education			<u>172,068</u>
Reading First State Grants, passed through the Arizona Department of Education	84.357	06FSARS-670005-01A	2,017
Improving Teacher Quality – State Grants, passed through the Arizona Administrative Office of the Courts	84.367	28209	10,045
Total U.S. Department of Education			<u>1,993,042</u>
U.S. Department of Health and Human Services			
Centers for Disease Control and Prevention – Investigations And Technical Assistance, passed through the Arizona Department of Health Services	93.283	252043	441,545

See accompanying notes to schedule.

Santa Cruz County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2006

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number (Note 2)	Pass-Through Grantor's Number	Expenditures
Child Support Enforcement, passed through the Arizona Department of Economic Security	93.563	E7204023	70,682
Early Learning Fund	93.577		188,589
Social Services Block Grant, passed through the Southeastern Arizona Governments Organization	93.667	07-01	80,192
HIV Prevention Activities – Health-Department Based, passed through the Arizona Department of Health Services	93.940	HG352261	24,240
Preventive Health Services – Sexually Transmitted Diseases Control Grants, passed through the Arizona Department of Health Services	93.977	HG354251	5,600
Maternal and Child Health Services Block Grant to the States, passed through the Arizona Department of Health Services	93.994	HG461035	47,671
Total U.S. Department of Health and Human Services			<u>858,519</u>
U.S. Department of Homeland Security			
State and Local All Hazards Emergency Operations Planning, passed through the Arizona Department of Emergency and Military Affairs	97.051	None	16,999
Hazardous Materials Training Program, passed through the Arizona Department of Emergency and Military Affairs	97.020	None	22,823
Citizen Corps, passed through the Arizona Department of Emergency and Military Affairs	97.053	2ES00638	7,812
Total U.S. Department of Homeland Security			<u>47,634</u>
Homeland Security Grant Program Cluster			
U.S. Department of Justice:			
State Domestic Preparedness Equipment Support Program, passed through the Arizona Department of Emergency and Military Affairs (2003)	16.007	2003-MU-T3-0034	103,926
U.S. Department of Homeland Security:			
State Domestic Preparedness Equipment Support Program, passed through the Arizona Department of Emergency and Military Affairs (2004)	97.004	2004-GE-T4-0051	347,760
Emergency Management Performance Grants, passed through the Arizona Department of Emergency and Military Affairs (2004)	97.042	None	51,593
Homeland Security Grant Program, passed through the Arizona Department of Emergency and Military Affairs (2005)	97.067	2005-GE-T5-0030	232,107
Total U.S. Department of Homeland Security			<u>631,460</u>
Total Homeland Security Grant Program Cluster			<u>735,386</u>
Total Expenditures of Federal Awards			<u>\$ 8,688,204</u>

See accompanying notes to schedule.

Santa Cruz County
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2006

Note 1 - Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Santa Cruz 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 this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

Note 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 *2006 Catalog of Federal Domestic Assistance*. When no CFDA number had been assigned to a program, the two-digit federal agency identifier, a period, and the federal contract number were used. When there was no federal contract number, the two-digit federal agency identifier, a period, and the word "unknown" were used.

Note 3 - Subrecipients

The County did not provide any federal awards to subrecipients during the year ended June 30, 2006.

Santa Cruz County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2006

Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:

Unqualified

YES NO

Material weakness identified in internal control over financial reporting? X

Reportable condition identified not considered to be a material weakness? X

Noncompliance material to the financial statements noted? X

Federal Awards

Material weaknesses identified in internal control over major programs? X

Reportable conditions identified not considered to be material weaknesses? X

Type of auditors' report issued on compliance for major programs:
 Unqualified for all major programs except for High Intensity Drug
 Trafficking Area, WIA Cluster and Homeland Security Grant
 Program Cluster programs, which were qualified.

Any audit findings disclosed that are required to be reported in accordance with
 Circular A-133 (section .510[a])? X

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
07.16PSAP549/	
07.Unknown	High Intensity Drug Trafficking Area
15.226	Payments in Lieu of Taxes
93.283	Centers for Disease Control and Prevention – Investigations and Technical Assistance
20.106	Airport Improvement Program
20.205	Highway Planning and Construction
84.215	Fund for the Improvement of Education
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs
WIA Cluster:	
17.258	WIA Adult Program
17.259	WIA Youth Program
17.260	WIA Dislocated Workers

Santa Cruz County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2006

Financial Statement Findings

Item: 06-01

Subject: Additional reconciliations should be performed of general ledger accounts relating to federal and state grants and contracts.

General ledger accounts for federal and state contracts should be analyzed at least annually to ensure that revenues, transfers and intergovernmental receivables or deferred revenues are properly recorded. During fiscal year 2006, general ledger accounts relating to cost reimbursement federal programs were not analyzed to ensure that revenues equaled expenditures, when applicable. In addition, for several programs which required a County match of federal funding, transfers in to these funds were not reconciled to the total of expenditures reported on the financial reports submitted to the grantor less amount matched by the County.

Periodic reconciliations should be performed of all general ledger accounts relating to federal and state grants and contracts. This reconciliation should include a comparison of intergovernmental revenue versus expenditures for cost reimbursement programs, and a reconciliation of transfers in to required match of the program.

Item: 06-02

Subject: Annual adopted budgets should only include current year anticipated expenditures.

Arizona Revised Statutes §42-17151 prohibits the County from budgeting for future years expenditures from current year tax revenues. During fiscal year 2006, the County budgeted \$2.8 million for costs associated with the creation of a jail district, sheriff's office, courts and administrative buildings. This \$2.8 million budget included anticipated architectural design costs, project management fees, and future year expenditures related to these projects. Since this \$2.8 million budget included anticipated future year expenditures, the County is not in compliance with Arizona Revised Statutes §42-17151.

The County should develop budgeting policies and procedures that help ensure that only current year anticipated expenditures are included within the proposed budgets.

Item: 06-03

Subject: The Treasurer's office should improve controls over cash and investments.

The Treasurer's primary responsibility is to manage public and trust monies of the County and other political subdivisions. At June 30, 2006, the Treasurer's Office had been entrusted with approximately \$27 million in public monies. To fulfill the responsibilities of managing these monies, the Treasurer's Office should ensure adequate internal controls are followed; maintain adequate accounting records of receipts, disbursements, and cash balances; reconcile cash and investment journals and reports; and safeguard assets from misappropriation. However, the Treasurer's Office has not established essential internal controls such as separating employee

Santa Cruz County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2006

responsibilities and completely and accurately reconciling the Treasurer's Cash Journal to the Treasurer's Report and bank statements. The lack of accurate reconciliations resulted in unexplained differences at June 30, 2006. For example, the unreconciled difference between the Treasurer's Cash Journal and the Treasurer's Report was over \$217,000. In addition, outstanding checks totaling \$66,700, dating back to 1993 were not investigated so that payment on the original checks could be stopped and new checks could be issued.

To help strengthen controls and ensure accurate account balances for the County and other political subdivisions and to properly safeguard assets, the Treasurer's Office should perform the following:

- Separate responsibilities between employees so that the employees responsible for signing checks do not have access to cash receipts received in person or through the mail, prepare bank reconciliations, record cash transactions in the accounting records, have custody of unused checks, and mail completed checks. If responsibilities cannot be adequately separated because of small staff size, then a supervisor should review and approve the transactions and related reconciliations.
- Reconcile the Treasurer's Cash Journal to the Treasurer's Report and bank statements monthly and at year-end, and prepare written bank reconciliations.
- Identify and promptly investigate all reconciling items and, as necessary, propose appropriate correcting adjustments to the Treasurer's records or instruct the bank to correct its records.
- Record all transactions in the fiscal year in which they occurred.

Item: **06-04**

Subject: There is an insufficient segregation of accounting duties at the accommodation school.

There is an insufficient segregation of accounting duties relating to the County's accommodation school, as one individual is responsible for recording financial transactions and maintains custody of those assets being recorded. This finding was also reported as a federal compliance "internal control weakness;" see item **06-09**.

Management should be constantly mindful that the concentration of incompatible duties in a limited number of personnel could create control situations that would allow personnel to misappropriate assets. Management should consider taking steps to separate incompatible duties.

Santa Cruz County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2006

Federal Award Findings and Questioned Costs

Item: **06-05**

CFDA Number: 07.16PSAP549, 07.Unknown High Intensity Drug Trafficking Area

Grantor: U.S. Office of National Drug Control Policy, passed through Pima County and Arizona Criminal Justice Commission

Award Period: 10/1/04 through 9/30/06

Award Numbers: 01-11-S-136288-1004; 01-11-S-136217-1004

Questioned Costs: N/A

Reports submitted to the federal awarding agency should include all activity of the reporting period, be supported by underlying accounting records, and be fairly presented in accordance with program requirements. For October through June 2006 (nine of the twelve reports selected for testing), a total of \$32,065 was recorded in the general ledger relating to the Sheriff's office, but not included on any monthly financial report submitted to the grantor. This finding is a reportable condition and immaterial noncompliance with the program's reporting requirements

The County should follow established policies and procedures to ensure that reports are accurate and supported by the accounting records. Furthermore, the County should investigate these expenditures and, if allowable, seek reimbursement from the grantor.

Item: **06-06**

CFDA Number: 07.16PSAP549, 07.Unknown High Intensity Drug Trafficking Area

Grantor: U.S. Office of National Drug Control Policy, passed through Pima County and Arizona Criminal Justice Commission

Award Period: 10/1/04 through 9/30/06

Award Numbers: 01-11-S-136288-1004; 01-11-S-136217-1004

Questioned Costs: N/A

The U.S. Office of National Drug Control Policy, Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments, 21CFR §1403.36 (b)(1), requires that subgrantees use their own procurement procedures that reflect applicable state and local laws and regulations, provided that the procurements conform to applicable federal law and the standards identified in this section. During fiscal year 2006, the County entered into administrative services contracts totaling \$633,415, for which no appropriate procurement procedures were performed. During fiscal year 2006, \$112, 976 was expended by the County

Santa Cruz County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2006

on these contracts prior to the contracts being cancelled. The County also received an advance from the grantor totaling \$134,180, which included a receipt of \$175,716 in August 2006, less July 2006 contract expenditures of \$41,536. An additional \$71,440 was spent in October, November and December 2006, and the remaining \$62,740 was remitted back to the grantor in February '07. This finding is a material internal control weakness and material noncompliance with the program's procurement and cash management requirements.

The County's procurement policies and procedures should be followed and compliance with these requirements should be monitored by designated management level employees.

Item: 06-07

CFDA Number: 97.004 State Domestic Preparedness Equipment Support Program

Grantor: U.S. Department of Homeland Security, passed through the Arizona Department of Emergency and Military Affairs

Award Period: 10/1/03 through 6/30/06

Award Number: 2004-GE-T4-0051

Questioned Costs: N/A

Contract provisions stipulate that program funds are to be received from the grantor on a cost reimbursement basis. In August 2005, the County's accounting records indicated a cash balance of \$81,941 relating to the 2004 Homeland Security Grant. The County was unable to determine if the cash balance was the result of an actual advance of federal funds, or an error in the general ledger. This finding is a material internal control weakness and material noncompliance with the program's cash management requirements.

Policies and procedures should be strengthened to help ensure that receivables from grantors are properly recorded and that receipts of funds from the grantor are made on a cost reimbursement basis, when required.

Item: 06-08

CFDA Numbers: 17.258, 17.259, 17.260 WIA Cluster

Grantor: U.S. Department of Labor, passed through the Arizona Department of Economic Security and Pima County

Award Period: All Award Periods

Award Numbers: E5706012, E5706012a

Questioned Costs: \$41,332

Santa Cruz County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2006

Reports submitted to the federal awarding agency should include all activity of the reporting period, be supported by underlying accounting records, and be fairly presented in accordance with program requirements. A monthly financial report is required to be submitted to the grantor for each funding source relating to the WIA Cluster such as the Youth Program, Adult Program, Set-a-Side funds, Administration funds, Rapid Response funds and Dislocated Workers Program. All required monthly reports for these funding sources were examined. Of the 65 reports submitted during the fiscal year, monthly expenditures reported on 45 did not agree to the monthly expenditures recorded in the general ledger. Differences by month ranged from \$68 to \$27,105. Comparing total fiscal year reported expenditures for all programs to the total recorded in the general ledger for the corresponding reporting periods, resulted in a net reported amount in excess of the amounts in the general ledger of \$7,495. Documentation of the causes of the differences between reported expenditures and amount in the general ledger was not available. A breakdown of the cumulative differences for the County's fiscal year between the general ledger and the monthly financial reports for each funding source is as follows:

- Adult- FY '05: \$11,464 in reported expenditures less than the general ledger
- Adult- FY '06: \$4 in reported expenditures in excess of the general ledger
- Adult- PY '05: \$10,347 in reported expenditures in excess of the general ledger
- Admin-PY '05: \$5,351 in reported expenditures in excess of the general ledger
- Dislocated Workers- FY '06: \$3 in reported expenditures in excess of the general ledger
- Dislocated Workers- PY '05 \$18,847 in reported expenditures in excess of the general ledger
- Rapid Response- FY '06: \$22,373 in reported expenditures less than the general ledger
- Youth- PY '05: \$5,257 in reported expenditures in excess of the general ledger
- Youth-PY '06: \$1,523 in reported expenditures in excess of the general ledger

We were unable to determine the cause of the differences noted above, as such, we are questioning \$41,332 in costs, which corresponds to each of the amounts above for which reported expenditures exceeded the amounts in the general ledger. This finding is a material internal control weakness and material noncompliance with the program's reporting requirements.

To help ensure compliance with the reporting requirements, the County should follow established policies and procedures to ensure that reports are accurate and supported by the accounting records.

Item: 06-9

CFDA Numbers: 84.215 Fund for the Improvement of Education; 84.334 Gaining Early Awareness and Readiness for Undergraduate Programs

Grantor: U.S. Department of Education

Award Periods: 5/15/05 through 4/30/06; 9/1/05 through 8/31/06

Award Numbers: Q215S050001, Q215F041149, P334A050233

Santa Cruz County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2006

Questioned Costs: N/A

There is an insufficient segregation of accounting duties relating to the County's accommodation school, as one individual is responsible for recording financial transactions and maintains custody of those assets being recorded. This finding is a material internal control weakness relating to the program's allowable costs/cost principles requirements. This finding was also reported as a financial reporting "internal control weakness;" see item **06-04**.

Management should be constantly mindful that the concentration of incompatible duties in a limited number of personnel could create control situations that would allow personnel to misappropriate assets. Management should consider taking steps to separate incompatible duties.

Item: **06-10**

CFDA Number: 17.258, 17.259, 17.260 WIA Cluster

Grantor: U.S. Department of Labor, passed through the Arizona Department of Economic Security and Pima County

Award Period: All Award Periods

Award Numbers: E5706012, E5706012a

Questioned Costs: Unknown

The County's internal control system should be sufficient to achieve reasonable assurance that the costs charged to the WIA Cluster are allowable under federal law and contract provisions. County personnel have indicated that costs may have been incorrectly charged to the WIA Cluster, or costs that should have been charged to the WIA Cluster were charged to other programs. Subsequent to fiscal year 2006, County personnel determined that an additional review of costs relating to the WIA Cluster should be performed to ensure that all costs that should have been charged to the program were correctly charged, and that all costs that were charged to the program were allowable under federal guidelines and the contract agreements. As of the last day of audit fieldwork, this additional review had not been completed. As such, auditors' were unable to determine the extent of noncompliance, if any, with the WIA Cluster, regarding allowable costs/cost principles. This finding is a material internal control weakness.

A thorough review of costs charged to the WIA Cluster and other federal programs should be performed to determine the extent, if any, of noncompliance with allowable cost/cost principles. In addition, the internal controls system over the various federal programs, including the WIA Cluster, should be analyzed and modified as needed.

County Responses

**Santa Cruz County
Corrective Action Plan
Year Ended June 30, 2006**

Financial Statement Findings

Item: 06-01

Subject: Additional reconciliations should be performed of general ledger accounts relating to federal and state grants and contracts.

Contact Person: Jennifer St. John, Administrative Services Director

Anticipated Completion Date: June 30, 2008

Corrective Action: The County agrees this is a good recommendation; however, the labor involved to implement this recommendation goes well beyond our staffing levels and the likelihood of material misstatement to the financial statements or the Schedule of Federal Expenditures (SEFA) is minimal. Therefore, we do not feel that implementing this recommendation would be the most efficient use of staff time.

In August 2006, the County hired an additional accountant to monitor our Federal and State grants. We will try to assign this recommendation to that position on a limited basis in the future.

Item: 06-02

Subject: Annual adopted budgets should only include current year anticipated expenditures.

Contact Person: Jennifer St. John, Administrative Services Director

Anticipated Completion Date: March 1, 2007

Corrective Action: During the fiscal year 2007-2008 and all future year's budgets, the County will only budget for anticipated expenditures of that budget year as required by Arizona Revised Statute §42-17151.

Item: 06-03

Subject: The Treasurer's Office should improve controls over cash and investments.

Contact Person: Caesar Ramirez, Santa Cruz County Treasurer

Anticipated Completion Date: June 30, 2008

Corrective Action: The County has purchased a new tax package that will be implemented during fiscal year 2007-2008 and plans to purchase a new Treasurer's general ledger accounting package once testing is completed in December 2007. The County does not anticipate implementing the accounting package until fiscal year 2008-2009. Both these packages will provide a more efficient workflow within the limited staff located at the Treasurer's office. Further, as the systems become more automated, the County anticipates more timely and accurate reconciliations, adjustments, and recordings of all transactions. Finally, during the fiscal year 2007-2008 budget cycle the Treasurer's Office has received an additional employee that, once hired, should help with workflow efficiencies and segregation of duties.

**Santa Cruz County
Corrective Action Plan
Year Ended June 30, 2006**

Item: **06-04**

Subject: There is an insufficient segregation of accounting duties at the accommodation school.

Contact Person: Alfredo Velasquez, Santa Cruz County School Superintendent

Anticipated Completion Date: June 30, 2008

Corrective Action: The newly elected County School Superintendent is in the process of hiring an outside accounting firm to review the accommodation school's internal control policies and procedures, including but not limited to segregation of duties, and to recommend improvements within his school. In the interim, he has hired a Principal for the accommodation school and has assigned the Principal and Chief Deputy County School Superintendent additional duties to help alleviate the segregation of duties issues at the accommodation school.

**Santa Cruz County
Corrective Action Plan
Year Ended June 30, 2006**

Federal Award Findings and Questioned Costs

Item: 06-05

CFDA Number: 07.16PSAP549, 07.Unknown High Intensity Drug Trafficking Area

Subject: Reports submitted to granting agency did not agree to underlying accounting records.

Contact Person: Tony Estrada, Santa Cruz County Sheriff

Anticipated Completion Date: August 1, 2007

Corrective Action: The County is in the process of submitting these expenditures to the federal grantor for reimbursement. In the future, the County will take greater care in reporting all allowable expenditures to the federal grantor as the Finance Department is now reviewing the monthly financial reports submitted to the federal grantor.

Item: 06-06

CFDA Number: 07.16PSAP549, 07.Unknown High Intensity Drug Trafficking Area

Subject: The County did not follow established procurement guidelines and received advances of federal funds.

Contact Person: George Silva, Santa Cruz County Attorney

Anticipated Completion Date: June 30, 2007

Corrective Action: The Santa Cruz County Attorney's Office rendered an opinion that the County's procurement policy was followed and therefore the County feels that no federal, state, or local statutes or requirements were violated. In addition the County has been in contact with the Federal grantor throughout this situation and the Federal grantor has considered this matter closed.

The advance of federal funds was requested by our outside consultants without the County's knowledge. Once the advance was received, the Administrative Services Director for the County spoke to both the outside consultant to request something in writing from the federal grantor that allowed the County to have this advance and to Pima County who sent the advance. The County never received anything in writing from the federal grantor that allowed the advance so the County started working with Pima County to return the funds. The money was immediately returned once Santa Cruz County and Pima County agreed on the amount that was to be sent back.

Item: 06-07

CFDA Number: 97.004 State Domestic Preparedness Equipment Support Program

Subject: The County's accounting records indicated an unallowed advance of federal funds.

Contact Person: Louis Chaboya, Santa Cruz County Emergency Services Director

Anticipated Completion Date: June 30, 2007

**Santa Cruz County
Corrective Action Plan
Year Ended June 30, 2006**

Corrective Action: In July 2005, the County requested federal reimbursement for two purchase orders that were in the process of being paid by the County. For some reason, those purchase orders did not get paid until January 2006, resulting in an inadvertent advance of federal funds to the County. To prevent this inadvertent advance from occurring in the future, the County will begin to submit federal reimbursement requests on a monthly basis and use the underlying financial statements as the basis for reimbursement rather than the purchase order.

Item: **06-08**

CFDA Numbers: 17.258, 17.259, 17.260 WIA Cluster

Subject: Reports submitted to granting agency did not agree to underlying accounting records.

Contact Person: Greg Lucero, Santa Cruz County Manager

Anticipated Completion Date: July 1, 2006 (already corrected)

Corrective Action: Due to the problems noted in this finding but discovered by County staff in June 2006, the Finance Department took over the completion of federal reports for the WIA cluster in July 2006. Finance staff submits monthly reports to the grantor that balances the report, underlying financial records, and the drawdown of federal monies.

Item: **06-9**

CFDA Numbers: 84.215 Fund for the Improvement of Education; 84.334 Gaining Early Awareness and Readiness for Undergraduate Programs

Subject: There is an insufficient segregation of accounting duties at the accommodation school.

Contact Person: Alfredo Velasquez, Santa Cruz County School Superintendent

Anticipated Completion Date: June 30, 2008

Corrective Action: The newly elected County School Superintendent is in the process of hiring an outside accounting firm to review the accommodation school's internal control policies and procedures, including but not limited to segregation of duties, and to recommend improvements with his School. In the interim, he has hired a Principal for the accommodation school and has assigned the Principal and Chief Deputy County School Superintendent additional duties to help alleviate the segregation of duties issues at the accommodation school.

Item: **06-10**

CFDA Number: 17.258, 17.259, 17.260 WIA Cluster

Subject: Review of WIA Cluster expenditures should be completed.

Contact Person: Greg Lucero, Santa Cruz County Manager

**Santa Cruz County
Corrective Action Plan
Year Ended June 30, 2006**

Anticipated Completion Date: December 31, 2007

Corrective Action: In June 2006, the County requested an outside review of expenditures relating to WIA and WIA related grants. As stated in the finding, the review has not yet been completed but the County has fulfilled its fiduciary responsibility by requesting the review and reassigning management that was responsible for this grant. In addition, since May 2006 there have been two fiscal reviews on the WIA cluster or related grants by the State of Arizona, Department of Economic Security (DES), and there have only been unallowable expenditures associated to one program. These unallowable expenditures were investigated and resolved satisfactorily between Santa Cruz County and DES.

Santa Cruz County
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2006

Status of Prior Year Federal Award Findings and Questioned Costs

CFDA Number: 93.577 Early Learning Fund

Finding Number: **05-101**

Status: Not corrected

Corrective Action: In November 2006, a new County School Superintendent was elected. In the past six months since he has been in office, he has implemented many changes to strengthen internal controls, segregation of duties, and reporting deficiencies and is in the process of having an outside audit firm perform a review and recommend further controls, policies, and procedures. As the School Superintendent's Office did not request reimbursement for the duplicated expenditures, we feel this finding has been satisfactorily resolved and we will continue to take great care when reporting expenditures to our grantors.

CFDA Number: 07.14PSAP549, 07.15PSAP549 High Intensity Drug Trafficking Area

Finding Number: **05-102**

Status: Not Corrected

Corrective Action: Due to the continuing problems the County has faced with reporting expenditures to our grantors, the County hired an accountant in August 2006 to help assist departments with their monthly financial reports. This accountant has been reviewing the monthly reports submitted by the Sheriff's Office to the grantor since October 2006 so this finding should be corrected now.

CFDA Number: 07.14PSAP549, 07.15PSAP549 High Intensity Drug Trafficking Area

Finding Number: **05-103**

Status: Not Corrected

Corrective Action: Due to the continuing problems the County has faced with reporting expenditures to our grantors, the County hired an accountant in August 2006 to help assist departments with their monthly financial reports. This accountant has been reviewing the monthly reports submitted by the Sheriff's Office to the grantor since October 2006 so this finding should be corrected now.

CFDA Number: 93.283 Centers for Disease Control and Prevention-Investigations and Technical Assistance

Finding Number: **05-104**

Status: Corrected