

Santa Cruz County
Single Audit Reporting Package
Year Ended June 30, 2007

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Single Audit Reporting Package
Year Ended June 30, 2007

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Issued separately

Single Audit Section

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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, 2007, which collectively comprise the County's basic financial statements, and have issued our report thereon dated January 23, 2008. Our report was modified for an emphasis of a matter for the retroactive reporting of general infrastructure assets as part of the implementation of Governmental Accounting Standards Board Statement No. 34. 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 as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's

basic financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We consider items **07-02**, **07-03**, and **07-04** described in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the basic financial statements will not be prevented or detected by the County's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items **07-02**, **07-03**, and **07-04** to be material weaknesses.

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 **07-01**.

Santa Cruz County's responses to the findings identified in our audit are presented on pages 21 through 22. We did not audit the County's responses and, accordingly, we express no opinion on them.

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.



January 23, 2008

**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 (As Restated)**

The Auditor General of the State of Arizona

The Board of Supervisors of
Santa Cruz County, Arizona

Subsequent to the issuance of the June 30, 2007 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, dated January 23, 2008, it was determined that a weakness in the County's internal control system relating to nonrecurring grants resulted in certain expenditures being omitted from the originally issued Schedule of Expenditures of Federal Awards, as described more fully in Note 4 to that schedule. Due to these expenditures not being reported on the Schedule of Expenditures of Federal Awards, one major program, the Cooperating Technical Partners, CFDA 97.045, was not included as a major program in the originally issued auditor's report. This auditor's report is therefore being reissued to include the effects of that major federal program.

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, 2007. 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 **07-06**, **07-07**, **07-09** and **07-10** in the accompanying Schedule of Findings and Questioned Costs, the County did not comply with requirements regarding cash management, equipment and real property management, reporting and procurement that are applicable to its Fund for the Improvement of Education program, and the requirements regarding cash management and reporting that are applicable to its Gaining Early Awareness and Readiness for Undergraduate Programs program. 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, 2007.

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 the 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, 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the County's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A control deficiency in the County's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency,

or combination of control deficiencies, that adversely affects the County's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the County's internal control. We consider items **07-05** through **07-11** described in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over compliance.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the County's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs, items **07-05** through **07-11**, 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, 2007, and have issued our report thereon dated January 23, 2008. Our report was modified for an emphasis of a matter for the retroactive reporting of general infrastructure assets as part of the implementation of Governmental Accounting Standards Board Statement No. 34. 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.

Santa Cruz County's responses to the findings identified in our audit are presented on pages 23 through 25. We did not audit the County's responses and, accordingly, we express no opinion on them.

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.



January 23, 2008, except for the inclusion of the Cooperating Technical Partners Grant, as described in the first paragraph, and the effects and reasons of the restatement of the Schedule of Expenditures of Federal awards, as described in Note 4 to that schedule, as to which the date is July 28, 2009

Santa Cruz County
Schedule of Expenditures of Federal Awards (Restated, See Note 4)
Year Ended June 30, 2007

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 Arizona Criminal Justice Commission	07.Unknown	HT-16-06-1913 HT-16-06-1914 HT-17-07-1913 HT-17-07-1914	<u>\$ 493,071</u>
U.S. Department of Agriculture			
Schools and Roads – Grants to States, passed through the Arizona State Treasurer	10.665	None	<u>16,063</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	100-06	<u>561,686</u>
U.S. Department of the Interior			
Payments in Lieu of Taxes	15.226		<u>570,905</u>
U.S. Department of Justice			
Crime Victim Assistance, passed through the Arizona Criminal Justice Commission	16.575	VA-07-029	10,003
Crime Victim Compensation, passed through the Arizona Criminal Justice Commission	16.576	VC-07-061	6,041
Community Capacity Development Office, passed through the Arizona Criminal Justice Commission	16.595	2006-WS-06-110 2005-W0224-AZ-	184,186
Edward Byrne Memorial Justice Assistance Grant Program, Passed through the Arizona Criminal Justice Commission	16.738	PC-07-150 AC-07-200	287,696
Southwest Border Prosecution Initiative	16.Unknown		172,768
Federal Equitable Sharing Program	16.Unknown		112,465
Total U.S. Department of Justice			<u>773,159</u>
U.S. Department of Labor			
WIA Cluster:			
WIA Adult Program, passed through the Arizona Department of Economic Security	17.258	E5706012a, DE070303	190,562
WIA Youth Program, passed through the Arizona Department of Economic Security	17.259	E5706012a, DE070303	326,494
WIA Dislocated Workers, passed through the Arizona Department of Economic Security	17.260	E5706012a, DE070303	144,432
WIA Dislocated Workers, passed through Pima County	17.260	C-22-06-148-2	4,732
Total CFDA 17. 260			<u>149,164</u>
Total WIA Cluster			<u>666,220</u>

See accompanying notes to schedule.

Santa Cruz County
Schedule of Expenditures of Federal Awards (Restated, See Note 4)
Year Ended June 30, 2007

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	175
Incentive Grants - WIA Section 503, passed through the Arizona Department of Economic Security	17.267	DE07114001	924
Veterans Employment Program, passed through Pima County	17.802	1-69-S-139352-0706	19,951
Total U.S. Department of Labor			<u>687,270</u>
U.S. Department of Transportation			
Airport Improvement Program	20.106		1,178,684
Highway Planning and Construction, passed through the Arizona Department of Transportation	20.205	KR04-0058TRN	1,512,397
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants, passed through the Governor's Office of Highway Safety	20.601	2006-PT-005	16,633
Interagency Hazardous Materials Public Sector Training and Planning Grants, passed through the Arizona Department of Emergency and Military Affairs	20.703		5,348
Total U.S. Department of Transportation			<u>2,713,062</u>
Environmental Protection Agency			
Regional Wetland Program Development Grants	66.461		50,321
Brownfields Assessment and Cleanup Cooperative Agreements	66.818		4,839
Total Environmental Protection Agency			<u>55,160</u>
U.S. Department of Education			
Adult Education - State Grant Program, passed through the Arizona Department of Education	84.002	V002A040003	162,599
Title I Program for Neglected and Delinquent Children, passed through the Arizona Administrative Office of the Courts	84.013	28209	192
Special Education – Grants to States, passed through the Arizona Department of Education	84.027	H027A060007	12,274
Rehabilitation Services – Vocational Rehabilitation Grants to States, passed through the Arizona Department of Economic Security	84.126	E5324042	69,234
Rehabilitation Services – Service Projects, passed through the Arizona Department of Education	84.128	H128J050126-06	91,172
Safe and Drug-Free Schools and Communities – State Grants, passed through the Arizona Administrative Office of the Courts	84.186	28209	141
Fund for the Improvement of Education	84.215		777,857
Projects with Industry	84.234		3,800
Twenty First Century Community Learning Centers, Passed through the Arizona Department of Education	84.287	S287C0200004A	26,612
State Grants for Innovative Programs, passed through the Arizona Department of Education	84.298	S298A040003	54,661
Parental Assistance Centers, passed through the Chandler Education Foundation	84.310	None	10,436

See accompanying notes to schedule.

Santa Cruz County
Schedule of Expenditures of Federal Awards (Restated, See Note 4)
Year Ended June 30, 2007

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number (Note 2)	Pass-Through Grantor's Number	Expenditures
Education Technology State Grants, passed through the Arizona Administrative Office of the Courts	84.318	28209	88
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334		877,454
Arts in Education, passed through the Arizona Department of Education	84.351	U351C060097	128,627
Improving Teacher Quality – State Grants, passed through the Arizona Administrative Office of the Courts	84.367	28209	20,959
Improving Teacher Quality - State Grants, passed through the Arizona Department of Education	84.367	S367A60049	43,799
Total CFDA 84. 367			<u>64,758</u>
Total U.S. Department of Education			<u>2,279,905</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	HG754204 HG754204 HG754204	525,737
Child Support Enforcement, passed through the Arizona Department of Economic Security	93.563	E7204023	86,855
Voting Access for Individuals with Disabilities, Grants to States	93.617		185,403
Social Services Block Grant, passed through the Southeastern Arizona Governments Organization	93.667	07-01	105,100
Preventive Health Services – Sexually Transmitted Diseases Control Grants, passed through the Arizona Department of Health Services	93.977	HG354251	186,762
Maternal and Child Health Services Block Grant to the States, passed through the Arizona Department of Health Services	93.994	HG461035	40,572
Total U.S. Department of Health and Human Services			<u>1,130,429</u>
U.S. Department of Homeland Security			
Hazardous Materials Training Program, passed through the Arizona Department of Emergency and Military Affairs	97.020	None	5
Hazard Mitigation Grant	97.039		311,463
Cooperating Technical Partners	97.045		759,385
State and Local All Hazards Emergency Operations Planning, passed through the Arizona Department of Emergency and Military Affairs	97.051	None	5,348
Citizen Corps, passed through the Arizona Department of Emergency and Military Affairs	97.053	2ES00638	13,930
Total U.S. Department of Homeland Security			<u>1,090,131</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	16. 007	2003-MU-T3-0034	266,940
U.S. Department of Homeland Security			
State Domestic Preparedness Equipment Support Program, passed			

See accompanying notes to schedule.

Santa Cruz County
Schedule of Expenditures of Federal Awards (Restated, See Note 4)
Year Ended June 30, 2007

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number (Note 2)	Pass-Through Grantor's Number	Expenditures
through the Arizona Department of Emergency and Military Affairs Emergency Management Performance Grants, passed through the Arizona Department of Emergency and Military Affairs	97.004	2004-GE-T4-0051	625,059
Homeland Security Grant Program, passed through the Arizona Department of Emergency and Military Affairs	97.042	None	55,299
	97.067	2005-GE-T5-0030 2006-GE-T6-0007	453,624
Law Enforcement Terrorism Prevention Program, Passed through the Arizona Department of Emergency and Military Affairs	97.074	2006-GE-T6-0007	27,043
Total U.S. Department of Homeland Security			<u>1,161,025</u>
Total U.S. Department of Homeland Security Cluster			<u>1,427,965</u>
Total Expenditures of Federal Awards			<u><u>\$ 11,798,806</u></u>

See accompanying notes to schedule.

Santa Cruz County
Notes to Schedule of Expenditures of Federal Awards (Restated, See Note 4)
Year Ended June 30, 2007

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 *2007 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, 2007.

Note 4 - Restatement of Expenditures

Due to weaknesses in the County's internal controls relating to identifying nonrecurring grants, certain expenditures were omitted from the originally issued Schedule of Expenditures of Federal Awards. This schedule has therefore been restated to correct for these errors as follows:

Program Title	CFDA #	Restated Amount	Previous Reported Amount
Highway Planning and Construction	20.205	\$ 1,512,397	\$ 1,374,447
Hazard Mitigation Grant	97.039	311,463	-
Cooperating Technical Partners	97.045	759,385	-

Santa Cruz County
Schedule of Findings and Questioned Costs (As Restated)
Year Ended June 30, 2007

Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:

Unqualified

YES NO

Material weaknesses identified in internal control over financial reporting?

X

Significant deficiency identified not considered to be a material weakness?

 X
 (None Reported)

Noncompliance material to the financial statements noted?

X

Federal Awards

Material weaknesses identified in internal control over major programs?

X

Significant deficiency identified not considered to be material weaknesses?

 X
 (None Reported)

Type of auditor's report issued on compliance for major programs:

Unqualified for all major programs except for Gaining Early Awareness and Readiness for Undergraduate Programs, WIA Cluster and Fund for the Improvement of Education 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</u> <u>Number</u>	<u>Name of Federal Program or Cluster</u>
07.Unknown 14.228	High Intensity Drug Trafficking Area Community Development Block Grants/State's Program
16.595 16.738	Community Capacity Development Office Edward Byrne Memorial Justice Assistance Grant Program
WIA Cluster: 17.258 17.259 17.260	WIA Adult Program WIA Youth Program WIA Dislocated Workers
84.002 84.215 84.334	Adult Education- State Grant Program Fund for the Improvement of Education Gaining Early Awareness and Readiness for Undergraduate Programs
93.617	Voting Access for Individuals with Disabilities - Grants to States
97.045	Cooperating Technical Partners

Santa Cruz County
Schedule of Findings and Questioned Costs (As Restated)
Year Ended June 30, 2007

Homeland Security Grant Program Cluster:

16. 007	State Domestic Preparedness Equipment Support Program
97. 004	State Domestic Preparedness Equipment Support Program
97. 042	Emergency Management Performance Grants
97. 067	Homeland Security Grant Program
97. 074	Law Enforcement Terrorism Prevention Program

Dollar threshold used to distinguish between Type A and Type B programs: \$353,964

Auditee qualified as low-risk auditee? ___ X___

Other Matters

Auditee's Summary Schedule of Prior Audit Findings required to be reported in accordance with Circular A-133 (section . 315[b])? X ___

Santa Cruz County
Schedule of Findings and Questioned Costs (As Restated)
Year Ended June 30, 2007

Financial Statement Findings

Item: 07-01

Subject: Annual adopted budgets should include all sources of revenues as well as beginning fund balance.

To help ensure that only the needed amount of taxes are levied, Arizona Revised Statute §42-17151 requires that the County budget to expend all sources of revenues, as well as beginning fund balance. For fiscal year 2007, the County did not include the effects of accruals in the calculation of available resources when preparing the annual budget. As a result, the County's general fund budget did not include \$4,199,416 in beginning fund balance, in violation of the statute.

The County should develop budgeting policies and procedures that help ensure that all sources of revenues as well as beginning fund balance are budgeted to be expended in the current year.

Item: 07-02 (Repeat Finding)

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, 2007, the Treasurer's Office had been entrusted with approximately \$37 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 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, 2007. For example, the unreconciled difference between the Treasurer's Cash Journal and the Treasurer's Report, after \$1,175,000 in audit adjustments, was over \$17,743. In addition, outstanding checks totaling \$103,400, dating prior to December 31, 2006 and 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.

Santa Cruz County
Schedule of Findings and Questioned Costs (As Restated)
Year Ended June 30, 2007

- 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: **07-03** (Repeat Finding)

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

The accounting processes and procedures of the County's accommodation school have not been evaluated by County personnel to ensure that there is an adequate segregation of accounting duties. As a result, 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 **07-08**.

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: **07-04**

Subject: Controls should be strengthened to help ensure annual financial statements are in accordance with generally accepted accounting principles.

The County's system of internal controls should include policies and procedures to help ensure that the annual financial statements are in accordance with generally accepted accounting principles and the schedule of expenditures of federal awards is properly reported. For example, during the fiscal year 2007 audit, adjustments were proposed and recorded by the County to correctly classify expenditures, to adjust deferred revenue, and to adjust the balances affecting the County Treasurer's Investment Pool.

Procedures should be strengthened to help ensure that financial statements are in accordance with generally accepted accounting principles and the schedule of expenditure of federal awards is properly reported.

Santa Cruz County
Schedule of Findings and Questioned Costs (As Restated)
Year Ended June 30, 2007

Federal Award Findings and Questioned Costs

Item: **07-05**

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 Periods

Award Numbers: E5706012a, C-22-06-148-2, and DE070303

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. During fiscal year 2007, 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.

Item: **07-06**

CFDA Number: 84.334 Gaining Early Awareness and Readiness for Undergraduate Programs

Grantor: U.S. Department of Education

Award Periods: All Periods

Award Number: P334A050233-07

Questioned Costs: Unknown

Santa Cruz County
Schedule of Findings and Questioned Costs (As Restated)
Year Ended June 30, 2007

Reimbursements 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. In addition, procedures should be established to help ensure that cash drawdowns are requested for only those expenditures previously incurred. For all reimbursement requests submitted to the grantor during fiscal year 2007, the expenditures indicated for the specified period did not agree to the general ledger, as follows:

<u>Drawdown request period</u>	<u>Amount requested</u>	<u>Amount per general ledger</u>	<u>Difference</u>
7/1/06 through 8/11/06	\$ 31,866	\$ 30,968	\$ 898
7/1/06 through 8/11/06	63,732	-	63,732
8/11/06 through 9/22/06	142,270	108,220	34,050
9/25/06 through 11/03/06	159,220	125,067	34,153
11/06/06 through 12/22/06	98,972	197,071	(98,099)
12/23/06 through 2/15/07	64,039	99,161	(35,122)
2/15/07 through 4/6/07	113,719	64,088	49,631
4/7/07 through 5/4/07	82,759	19,590	63,169
5/7/07 through 6/29/07	70,793	133,693	(62,900)

Cash receipts were received coinciding with each of the above requested amounts during the fiscal year. County personnel indicated that requests for drawdowns would often be made by doubling the current actual expenditures in order to estimate cash needs for the future months. Total cash drawdowns received during the fiscal year exceed expenditures by \$49,512. However, reconciliations were not performed to ensure that all cash drawdowns were supported by actual expenditures incurred, or to indicate that some of the cash drawdowns received in fiscal year 2007 related to unreimbursed amounts for fiscal year 2006. This finding is a material internal control weakness and a material noncompliance with the program's cash management and reporting requirements.

Policies and procedures should be implemented to help ensure that all cost reimbursement requests are properly supported by actual expenditures incurred and recorded in the general ledger.

Item: **07-07**

CFDA Number: 84.215 Fund for the Improvement of Education

Grantor: U.S. Department of Education

Award Periods: All Periods

Award Number: Q215F041149-05

Questioned Costs: Unknown

Reimbursements 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. In addition, procedures should be established to help

Santa Cruz County
Schedule of Findings and Questioned Costs (As Restated)
Year Ended June 30, 2007

ensure that cash drawdowns are requested for only those expenditures previously incurred. For all reimbursement requests submitted to the grantor during fiscal year 2007, the expenditures indicated for the specified period did not agree to the general ledger, as follows:

<u>Drawdown request period</u>	<u>Amount requested</u>	<u>Amount per general ledger</u>	<u>Difference</u>
7/1/06 through 8/11/06	\$ 80,499	\$ 78,551	\$ 1,948
8/11/06 through 9/22/06	206,393	158,880	47,513
9/25/06 through 11/03/06	147,987	124,238	23,749
11/06/06 through 12/22/06	69,677	59,270	10,407
12/23/06 through 2/15/07	90,779	76,531	14,248
2/15/07 through 4/6/07	59,963	68,669	(8,706)
4/7/07 through 5/4/07	78,557	94,697	(16,140)
5/7/07 through 6/29/07	110,106	216,620	(106,514)

Cash receipts were received coinciding with each of the above requested amounts during the fiscal year. County personnel indicated that requests for drawdowns would often be made by doubling the current actual expenditures in order to estimate cash needs for the future months. The total amount requested for the above periods is less than total expenditures for the year by \$33,495. However, reconciliations were not performed to ensure that all cash drawdowns were supported by actual expenditures incurred, or to indicate that some of the cash drawdowns received in fiscal year 2007 related to unreimbursed amounts for fiscal year 2006. This finding is a material internal control weakness and a material noncompliance with the program's cash management and reporting requirements.

Policies and procedures should be implemented to help ensure that all cost reimbursement requests are properly supported by actual expenditures incurred and recorded in the general ledger.

Item: 07-08

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: All Periods

Award Numbers: Q215F041149-05, P334A050233-07

Questioned Costs: Unknown

The accounting processes and procedures of the County's accommodation school have not been evaluated by County personnel to ensure that there is an adequate segregation of accounting duties. As a result, 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 programs' allowable costs/cost principles requirements.

Santa Cruz County
Schedule of Findings and Questioned Costs (As Restated)
Year Ended June 30, 2007

This finding was also reported as a financial reporting internal control material weakness, see item **07-03**.

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: **07-09**

CFDA Number: 84.215 Fund for the Improvement of Education

Grantor: U.S. Department of Education

Award Periods: All Periods

Award Number: Q215F041149-05

Questioned Costs: Unknown

CFR Title 45 Part 92.31 requires that for equipment purchased with federal funds, detailed inventory listings must be maintained which include a description of the equipment, a serial number or other identifying number, the source of the property, who holds title, the acquisition date and cost, percentage of federal participation, location, use and condition and any ultimate disposition data. Further, a physical inventory must be taken and reconciled to the property records every two years. The Accommodation School, which administers the Fund for the Improvement of Education program, does not maintain proper inventory records and does not perform required inventories of equipment purchased with grant funds. This finding is a material weakness in internal control and a material noncompliance with the program's equipment and real property management requirements.

Detailed inventory listings containing all required information for equipment acquired with federal funds should be maintained. In addition, a physical inventory should be taken every two years and reconciled to the inventory listings.

Item: **07-10**

CFDA Number: 84.215 Fund for the Improvement of Education

Grantor: U.S. Department of Education

Award Periods: All Periods

Award Number: Q215F041149-05

Questioned Costs: Unknown

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Schedule of Findings and Questioned Costs (As Restated)
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County policy and state and federal guidelines require procurement procedures that help ensure full and open competition. During prior fiscal years, the Accommodation School entered into two consulting services contracts for its Fund for the Improvement of Education program, for which proper procurement procedures were not followed or for which documentation of the procedures could not be located. A total of approximately \$139,617 was paid to these vendors during fiscal year 2007. This finding is a material weakness in internal controls and a material noncompliance with the program's procurement requirements.

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

Item: **07-11**

CFDA Number: 97.045

Program: Cooperating Technical Partners

Grantor: U.S. Department of Homeland Security

Award Year: 7/1/06 – 6/30/07

Award Number: 2005-44-5515RB-9092-4101-D

Questioned Costs: Not Applicable

According to OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, the County is required to identify in its accounts, all federal awards expended. This Circular also requires the award identification to include, as applicable, the CFDA title and number, the award number and years, the name of the federal granting agency, and the name of the pass through entity.

The County did not identify the Cooperating Technical Partners grant (CFDA 97.045, \$759,385) in its fiscal year 2007 originally issued schedule of expenditures of federal awards, which resulted in an originally issued OMB Circular A-133 audit which did not include these expenditures as a major federal program. As a result, a reissuance of the OMB Circular A-133 Single Audit reports was necessary. This finding is a material weakness in internal controls.

The County should identify in its accounts all federal awards received and expended, as well as the federal programs under which they were received and perform a thorough review of its general ledger to ensure that the schedule of expenditures of federal awards is complete and accurate.

County Responses

**Santa Cruz County
Corrective Action Plan
Year Ended June 30, 2007**

Financial Statement Findings

Item: **07-01**

Subject: Annual adopted budgets should include all sources of revenues as well as beginning fund balance.

Contact Person: Jennifer St. John, Administrative Services Director

Anticipated Completion Date: July 31, 2008

Corrective Action: During the fiscal year 2008-2009 budget preparation, the County will estimate all year- end accruals and include those estimated year-end accrual amounts as part of beginning fund balance at July 1, 2008. This will help ensure that our budget is prepared properly and in accordance with generally accepted accounting principles and Arizona Revised Statutes §42-17151.

Item: **07-02**

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

Contact Person: Caesar Ramirez, Santa Cruz County Treasurer

Anticipated Completion Date: December 31, 2008

Corrective Action: The County purchased a new tax package that is scheduled to be implemented during fiscal year 2007-2008 and a new Treasurer's general ledger accounting package scheduled to be implemented during the first quarter of 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, the County hired an additional staff person for the Treasurer's Office that has helped with workflow efficiencies and segregation of duties.

Item: **07-03**

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: September 30, 2008

Corrective Action: The current School Superintendent took office in December 2006. Since then he has hired a Chief Deputy at the County School Superintendent's Office to help with the segregation of duties at the Accommodation School which only employs one clerical position (i.e., a Business Manager). Just recently, the Business Manager resigned so the School Superintendent is in the process of reassigning those duties, previously performed by the Business Manager at the Accommodation School, to the County School Superintendent's Office personnel. In the interim, every Accommodation School transaction is approved by an individual who has no authority to initiate transactions and monthly reconciliations are performed by a third

**Santa Cruz County
Corrective Action Plan
Year Ended June 30, 2007**

party who can not initiate or approve transactions. Further, custody of the assets is controlled by an individual who can not record financial transactions. Once the duties from the Business Manager are reassigned to County School personnel, there will be an added layer of segregation at the Accommodation School.

Item: 07-04

Subject: Controls should be strengthened to help ensure annual financial statements are in accordance with generally accepted accounting principles.

Contact Person: Jennifer St. John, Administrative Services Director

Anticipated Completion Date: N/A

Corrective Action: Due to the limited staff employed by the County and limited resources available, County staff prepares the financial statements to the best of our abilities in accordance with generally accepted accounting principles. While we will continue to try to improve our preparation of the financial statements, the adjustments made by the auditors are difficult to make in a timely manner due to limited staff time and knowledge base.

**Santa Cruz County
Corrective Action Plan
Year Ended June 30, 2007**

Federal Award Findings and Questioned Costs

Item: **07-05**

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

Anticipated Completion Date: April 30, 2008

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 staff who were responsible for the grant. Further, additional monies were transferred from the County's General Fund into the applicable WIA funds that were determined by County staff to contain unallowable or over expended funds.

Item: **07-06**

CFDA Number: 84.334 Gaining Early Awareness and Readiness for Undergraduate Programs

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

Contact Person: Alfredo Velasquez, Santa Cruz County School Superintendent

Anticipated Completion Date: June 30, 2008

Corrective Action: The duty of preparing these reimbursements for the accommodation school has been reassigned to County School Superintendent personnel due to a resignation at the Accommodation School. As such, County School Superintendent staff is undergoing training by the Accommodation School's software personnel in order to better understand the accounting software and its capabilities. Further, in February 2008, the County and the Accommodation School entered into an Intergovernmental Agreement so that the County could assist the Accommodation School, with its limited resources and staff, in the preparation of the annual budgets, financial reports, monthly grant reimbursements, etc. Finally, staff will research the reimbursements requested during fiscal year 2006-2007 and if monies have been drawdown in excess of actual expenditures for the same time period, the money will be refunded back to the Federal grantor.

Item: **07-07**

CFDA Number: 84.215 Fund for the Improvement of Education

**Santa Cruz County
Corrective Action Plan
Year Ended June 30, 2007**

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

Contact Person: Alfredo Velasquez, Santa Cruz County School Superintendent

Anticipated Completion Date: June 30, 2008

Corrective Action: The duty of preparing these reimbursements for the Accommodation School has been reassigned to County School Superintendent personnel due to a resignation at the Accommodation School. As such, County School Superintendent staff is undergoing training by the Accommodation School's software personnel in order to better understand the accounting software and its capabilities. Further, in February 2008, the County and the Accommodation School entered into an Intergovernmental Agreement so that the County could assist the Accommodation School, with its limited resources and staff, in the preparation of the annual budgets, financial reports, monthly grant reimbursements, etc. Finally, staff will research the reimbursements requested during fiscal year 2006-2007 and if monies have been drawdown in excess of actual expenditures for the same time period, the money will be refunded back to the Federal grantor.

Item: **07-08**

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

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

Contact Person: Alfredo Velasquez, Santa Cruz County School Superintendent

Anticipated Completion Date: September 30, 2008

Corrective Action: The current School Superintendent took office in December 2006. Since then he has hired a Chief Deputy at the County School Superintendent's Office to help with the segregation of duties at the Accommodation School which only employs one clerical position (i.e., a Business Manager). Just recently, the Business Manager resigned so the School Superintendent is in the process of reassigning those duties, previously performed by the Business Manager at the Accommodation School, to the County School Superintendent's Office personnel. In the interim, every Accommodation School transaction is approved by an individual who has no authority to initiate transactions and monthly reconciliations are performed by a third party who can not initiate or approve transactions. Further, custody of the assets is controlled by an individual who can not record financial transactions. Once the duties from the Business Manager are reassigned to County School personnel, there will be an added layer of segregation at the Accommodation School.

Item: **07-09**

CFDA Number: 84.215 Fund for the Improvement of Education

Subject: Detailed inventory listings of assets acquired with federal funds were not maintained.

**Santa Cruz County
Corrective Action Plan
Year Ended June 30, 2007**

Contact Person: Alfredo Velasquez, Santa Cruz County School Superintendent

Anticipated Completion Date: June 30, 2008

Corrective Action: The Program Director for this grant will perform a physical inventory and develop a detailed inventory of equipment purchased with this grant. The inventory listing will include all applicable information as required by CFR Title 45 Part 92. 31.

Item: **07-10**

CFDA Number: 84.215 Fund for the Improvement of Education

Subject: The County's procurement policy was not followed.

Contact Person: Contact Person: Alfredo Velasquez, Santa Cruz County School Superintendent

Anticipated Completion Date: March 31, 2008

Corrective Action: These contracts were put in place prior to the School Superintendent being elected into Office in December 2006. As of January 2008, each Program Director has been given an Accommodation School Procurement Rules and Regulations binder which contains the School's procurement policies in accordance with the Uniform System of Financial Records for Arizona School Districts and ARS Title 15. In addition, the Chief Deputy and School Superintendent are reviewing each expenditure transaction for compliance with the procurement policy.

Item: **07-11**

CFDA Number: 97.045 Cooperating Technical Partners

Subject: The County did not identify and present all grants on the schedule of expenditures of federal awards.

Contact Person: Jennifer St. John, Administrative Services Director

Anticipated Completion Date: June 30, 2009

Corrective Action: The grant that was omitted was a one time award that did not require an Intergovernmental Agreement and subsequently was not picked up on the schedule of expenditures of federal awards in fiscal year 2007 or 2008. The County has hired a grant accountant whose sole responsibility is to monitor and report expenditures for federal grants. We have also tightened internal controls in an effort to identify and report all federal grants on the schedule of expenditures of federal awards.

Additionally, the County has implemented internal controls to the best of our ability with the limited staff and resources available. As stated previously, County staff was not aware of this one time grant award and therefore, would not have known to record a receivable at year end. Nevertheless, we have put in place additional internal controls and will continue to improve those controls in order to provide reliable financial data to our users.

Santa Cruz County
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2007

Status of Prior Year Federal Award Findings and Questioned Costs

CFDA Number: 93.577 Early Learning Fund

Finding Number: **05-101**

Status: Corrected

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

Finding Number: **05-102**

Status: Corrected

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

Finding Number: **05-103** and **06-05**

Status: Not Corrected

Corrective Action: Sheriff's Office personnel have been working closely with the pass through agency to correct these reports. The discrepancy lies within the overtime records. The Task Force consists of agents from numerous different entities and it has been difficult to receive the supporting documentation, from each entity, required by the grant for the reimbursement of overtime. We expect these reports to be corrected in March 2008. Further, in August 2006, the County hired a grant accountant to assist departments with their monthly financial reports. In addition, this accountant is now reviewing the monthly financial reports submitted to the pass through agency by the Sheriff's Office.

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

Finding Number: **06-06**

Status: Corrected

CFDA Number: 97.004 State Domestic Preparedness Equipment Support Program

Finding Number: **06-07**

Status: Not Corrected

Corrective Action: The County is still in the process of investigating the expenditures related to this reimbursement. Once the investigation is complete, the County will adjust the financial records to properly record the reimbursement in the fund which originally paid the expenditures. Since this finding, the County has submitted federal reimbursement requests on a monthly basis with the underlying financial statements as the basis for reimbursement and this error has not occurred again.

Santa Cruz County
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2007

CFDA Number: 17.258, 17.259, 17.260 WIA Cluster

Finding Number: **06-08**

Status: Corrected

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

Finding Number: **06-09**

Status: Not Corrected

Corrective Action: The current School Superintendent took office in December 2006. Since then he has hired a Chief Deputy at the County School Superintendent's Office to help with the segregation of duties at the Accommodation School which only employs one clerical position (i.e., a Business Manager). Just recently, the Business Manager resigned so the School Superintendent is in the process of reassigning those duties, previously performed by the Business Manager at the Accommodation School, to the County School Superintendent's Office personnel. In the interim, every Accommodation School transaction is approved by an individual who has no authority to initiate transactions and monthly reconciliations are performed by a third party who can not initiate or approve transactions. Further, custody of the assets is controlled by an individual who can not record financial transactions. Once the duties from the Business Manager are reassigned to County School personnel, there will be an added layer of segregation at the Accommodation School.

CFDA Number: 17.258, 17.259, 17.260 WIA Cluster

Finding Number: **06-10**

Status: Not Corrected

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 the grant. Further, additional monies were transferred from the County's General Fund into the applicable WIA funds that were determined by County staff to contain unallowable or over expended funds.