



## REPORT HIGHLIGHTS FINANCIAL AND SINGLE AUDITS

### Subject

Santa Cruz County issues financial statements and a schedule of expenditures of federal awards annually. The County is responsible for preparing its statements and schedule, maintaining strong internal controls, demonstrating accountability for its use of public monies, and complying with federal program requirements. As the auditors, our job is to determine whether the County has met its responsibilities.

### Our Conclusion

The information in the County's financial statements is fairly stated in all material respects and the Schedule of Expenditures of Federal Awards (SEFA) is fairly stated in all material respects in relation to these financial statements. A summary of this information is presented on page 2. However, auditors identified internal control weaknesses and noncompliance with financial reporting, State laws, and federal program requirements, the most significant of which are summarized on this page.



# 2010

Year Ended June 30, 2010

## Summary of Audit Findings

For the financial statement audit, auditors identified internal control weaknesses over financial reporting and noncompliance with state laws. For the federal compliance audit, auditors tested 8 federal programs under the guidelines established by the Single Audit Act and noted the County did not always have adequate internal controls and did not always comply with certain federal program requirements. The Single Audit Report includes further details and auditor recommendations to help correct the deficiencies noted. The most significant are summarized below.

**Financial Reporting Process**—The County lacked internal control policies and procedures needed to prepare accurate and timely financial statements and its schedule of federal expenditures. Therefore, the County did not submit its Single Audit Reporting Package to the federal clearinghouse by the required deadline of March 31, 2011.

**Treasurer's Procedures**—The County Treasurer's Office is responsible for managing and investing over \$58 million in deposits and investments that are held for Santa Cruz County and other political subdivisions like school districts. However, the Office lacked comprehensive written internal control policies and procedures over investing, managing, recording, tracking, and reconciling those deposits and investments, exposing them to potential misuse and loss.

**Procurement Policies**—The County did not have adequate internal control policies and procedures to comply with state laws. The County violated state bidding requirements when it purchased vehicles costing over \$203,000 for the federal Homeland Security Grant Program without obtaining competitive sealed bids. This resulted in noncompliance with the federal procurement requirements.

**Capital Assets Procedures**—The County lacked adequate controls to ensure that its infrastructure was properly

reported and to ensure that equipment was properly safeguarded. The County had not performed a physical inventory of equipment since 2006 and did not always properly tag its equipment. Because of the lack of controls over equipment, the County did not comply with federal equipment requirements for two federal programs, the High Intensity Drug Trafficking Areas and Homeland Security Grant Program.

**Auction Procedures**—Auditors identified \$16,187 in seized vehicle auction proceeds that were not deposited into the County's anti-racketeering revolving fund bank account or recorded on its financial statements. Of these monies, the County inappropriately spent \$1,649 on food and beverages, including \$30 of alcohol and did not have any information or receipts to support the other \$14,537.

**Computer System Controls**—The County did not have adequate internal control policies and procedures over access and database management for its New World financial system and did not have a disaster recovery plan.

**Board Approval of Transfers**—The County did not comply with state laws requiring the County Board of Supervisors' approval of transfers of monies between budget items.

# Summary of Financial Information

Santa Cruz County combines and reports its financial balances and activities in two basic financial statements that provide readers with a broad overview of the County's finances in a manner similar to a private sector business. Those statements and the County's Schedule of Expenditures of Federal Awards are summarized below:

**Statement of Net Assets**—This statement reports all of Santa Cruz County's assets, liabilities, and net assets. Net assets, the difference between assets and liabilities, are reported in three major categories:

- Invested in capital assets, net of related debt, shows the equity in land, buildings, equipment, and infrastructure.
- Restricted net assets shows the net resources that must be used for restricted purposes as specified by other governments and external parties.
- Unrestricted net assets shows the net resources available for general operations.

**Statement of Activities**—This statement shows how net assets changed during the year. Revenues are reported as either program revenues (those generated by or dedicated to a specific program) or general revenues (taxes and revenues raised for general purposes). Additionally, revenues and expenses are reported as either governmental activities (principally supported by taxes and intergovernmental revenues) or business-type activities (principally supported by user fees and charges). The County's net assets decreased by \$409,000 during the fiscal year.

**Schedule of Expenditures of Federal Awards**—The County's governmental activities expenses included \$7,664,000 million in federal awards expended. This included \$1,325,000 in American Reinvestment and Recovery Act federal awards.

Condensed Statement of Net Assets Governmental and Business-Type Activities As of June 30, 2010 (In Thousands)	
<b>Assets</b>	
Current assets	\$ 36,307
Capital assets, net	127,826
Total assets	164,133
<b>Current liabilities</b>	
Current liabilities	6,605
Long-term liabilities	58,997
Total liabilities	65,602
<b>Net assets</b>	
Invested in capital assets, net of related debt	77,008
Restricted	6,013
Unrestricted	15,510
Total net assets	\$ 98,531

Condensed Statement of Activities Governmental and Business-Type Activities As of June 30, 2010 (In Thousands)	
<b>Program revenues</b>	
Governmental activities	\$17,700
Business-type activities	630
<b>General revenues</b>	
Governmental activities	27,204
Business-type activities	18
Total revenues	45,552
<b>Expenses</b>	
Governmental activities	45,399
Business-type activities	562
Total expenses	45,961
Change in net assets	(409)
Net assets—beginning, as restated	98,940
Net assets—ending	\$98,531

Condensed Schedule of Expenditures of Federal Awards by Grantor Agency Year Ended June 30, 2010 (In Thousands)	
Education	\$1,807
Labor	1,314
Homeland Security	1,135
Justice	927
Other	2,481
Total federal expenditures	\$7,664

TO OBTAIN  
MORE INFORMATION

The County's Single  
Audit Report  
is available at:  
[www.azauditor.gov](http://www.azauditor.gov)

Contact person:  
Donna Miller  
(602) 553-0333

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Year Ended June 30, 2010