



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Single Audit

Santa Cruz County

Year Ended June 30, 2010



Debra K. Davenport
Auditor General

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Santa Cruz County
Single Audit Reporting Package
Year Ended June 30, 2010

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Report Issued Separately

Comprehensive Annual Financial Report



DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

**Independent Auditors' Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Basic Financial
Statements Performed in Accordance with *Government Auditing Standards***

Members of the Arizona State Legislature

The Board of Supervisors of
Santa Cruz County, Arizona

We have audited 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, 2010, which collectively comprise the County's basic financial statements, and have issued our report thereon dated August 5, 2011. 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the County's basic financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 10-01 through 10-04 to be material weaknesses.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 10-05 through 10-09 to be significant deficiencies.

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 instances of noncompliance that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying Schedule of Findings and Questioned Costs as items 10-01, 10-06, and 10-08.

Santa Cruz County's responses to the findings identified in our audit are presented on pages 29 through 34. 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 Board of Supervisors, management, others within the County, 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.

Jay Zsorey, CPA
Financial Audit Director

August 5, 2011



DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

**Independent Auditors' Report on Compliance with Requirements
That Could Have a Direct and Material Effect on Each Major Program
and on Internal Control over Compliance in Accordance with OMB Circular A-133**

Members of the Arizona State Legislature

The Board of Supervisors of
Santa Cruz County, Arizona

Compliance

We have audited Santa Cruz County's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. The County's major federal programs are identified in the Summary of Auditors' 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.

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.

As described in items 10-103 and 10-104 in the accompanying Schedule of Findings and Questioned Costs, the County did not comply with requirements regarding Equipment and Real Property Management and Procurement and Suspension and Debarment that are applicable to its Homeland Security Grant Cluster major federal program and Equipment and Real Property Management that are applicable to its High Intensity Drug Trafficking Area major federal 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 noncompliance described in the preceding paragraph, Santa Cruz County complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133, and that are described in the accompanying Schedule of Findings and Questioned Costs as items 10-101, 10-102, and 10-105.

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 to determine the 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, 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 was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 10-101 through 10-104 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 10-105 to be a significant deficiency.

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, 2010, and have issued our report thereon dated August 5, 2011. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the County's basic

financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by 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 29 through 34. 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 Board of Supervisors, management, others within the County, 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.

Jay Zsorey, CPA
Financial Audit Director

October 25, 2011, except for the
Schedule of Expenditures of Federal
Awards, for which the date is August 5, 2011.

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Santa Cruz County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2010

Federal Grantor/Program Title/ Pass-Through Grantor	CFDA Number	Pass-Through Grantor's Number	Expenditures
U.S. Office of National Drug Control Policy			
High Intensity Drug Trafficking Areas, passed through City of Tucson	07.unknown	HT18-08-1914, HT19-09-1914, HT20-10-1914, HT18-08-1913, HT19-09-1913, HT20-10-1913	<u>\$ 557,832</u>
U.S. Department of Agriculture			
Schools and Roads Cluster: Secure Payments for States and Counties Containing Federal Lands, passed through the Arizona State Treasurer	10.665	None	<u>568,041</u>
U.S. Department of Housing and Urban Development			
CDBG State—Administered Small Cities Program Cluster: Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii, passed through the Arizona Department of Housing	14.228	129-09	<u>72,932</u>
U.S. Department of the Interior			
Payments in Lieu of Taxes	15.226		<u>322,344</u>
U.S. Department of Justice			
Crime Victim Assistance, passed through the Arizona Criminal Justice Commission	16.575	VA-10-029	13,690
Crime Victim Compensation, passed through the Arizona Criminal Justice Commission	16.576	VC-10-061	6,299
ARRA—STOP Violence Against Women Formula Grants, passed through the Governor's Office for Children, Youth and Families	16.588	ST-REC-09-1059-10	84,486
Community Capacity Development Office, passed through the Arizona Criminal Justice Commission	16.595	2007-WS-Q7-0125, 2008-WS-QX-0071, 2009-WS-QX-0073	129,747
State Criminal Alien Assistance Program	16.606		118,180
Bulletproof Vest Partnership Program	16.607		7,863
ARRA—Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories, passed through the Arizona Criminal Justice Commission	16.803	DC-10-012, DC-10-038	371,311
ARRA—Edward Byrne Memorial Justice Assistance Grant Program/Grants to Units of Local Government, passed through the City of Nogales	16.804	2009-SB-B9-2831	10,456

(Continued)

See accompanying notes to schedule.

Santa Cruz County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2010
(Continued)

Federal Grantor/Program Title/ Pass-Through Grantor	CFDA Number	Pass-Through Grantor's Number	Expenditures
ARRA—Combating Criminal Narcotics Activity Stemming from the Southern Border of the United States Competitive Grant	16.809		\$ 42,694
ARRA—Assistance to Rural Law Enforcement to Combat Crime and Drugs Competitive Grant Program	16.810		<u>142,695</u>
Total U.S. Department of Justice			<u>927,421</u>
U.S. Department of Labor			
WIA Cluster:			
WIA Adult Program, passed through the Arizona Department of Economic Security	17.258	DE081296001, DE101051001	325,909
ARRA—WIA Adult Program, passed through the Arizona Department of Economic Security	17.258	DE091210001	<u>140,152</u>
Total WIA Adult Program			<u>466,061</u>
WIA Youth Activities, passed through the Arizona Department of Economic Security	17.259	DE081296001, DE101051001	211,800
ARRA—WIA Youth Activities, passed through the Arizona Department of Economic Security	17.259	DE091210001	<u>246,529</u>
Total WIA Youth Activities			<u>458,329</u>
WIA Dislocated Workers, passed through the Arizona Department of Economic Security	17.260	DE081296001, DE101051001	76,441
ARRA—WIA Dislocated Workers, passed through the Arizona Department of Economic Security	17.260	DE091210001	<u>105,561</u>
Total WIA Dislocated Workers			<u>182,002</u>
Total WIA Cluster			<u>1,106,392</u>
Incentive Grants—WIA Section 503, passed through the Arizona Department of Economic Security	17.267	DE101051001, DE081296001, DE070303001	92,274
H-1B Job Training Grants, passed through Pima County	17.268	01-69-S-140387-0707	78,628
Community Based Job Training, passed through Pima County	17.269	01-69-S-140387-0707	36,424
Veterans' Employment Program, passed through Pima County	17.802	01-69-S-139352-0706	103
Staff to Board	17.unknown		<u>97</u>
Total U.S. Department of Labor			<u>1,313,918</u>
U.S. Department of Transportation			
Airport Improvement Program	20.106		231,683

(Continued)

See accompanying notes to schedule.

Santa Cruz County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2010
(Continued)

Federal Grantor/Program Title/ Pass-Through Grantor	CFDA Number	Pass-Through Grantor's Number	Expenditures
Highway Safety Cluster:			
State and Community Highway Safety, passed through the Governor's Office of Highway Safety	20.600	2010-PT-062, 2010-PT-063, 2010-410-015	\$ 15,291
Total U.S. Department of Transportation			<u>246,974</u>
U.S. Department of Environmental Protection Agency			
ARRA—Brownfields Assessment and Cleanup Cooperative Agreements	66.818		<u>129,299</u>
U.S. Department of Energy			
ARRA—Energy Efficiency and Conservation Block Grant Program	81.128		<u>19,987</u>
U.S. Department of Education			
Adult Education—Basic Grants to States, passed through the Arizona Department of Education	84.002	10FAEABE-070755-03A, 10FAEAEF-070755-04A	72,443
Title I, Part A Cluster:			
Title I Grants to Local Educational Agencies, passed through the Arizona Administrative Office of the Courts	84.010	IGA 29831	2,935
Title I Grants to Local Educational Agencies, passed through the Arizona Department of Education	84.010	S010A090003	16,847
ARRA—Title I Grants to Local Educational Agencies	84.389		<u>10,051</u>
Total Title I, Part A Cluster			<u>29,833</u>
Special Education Cluster (IDEA):			
Special Education—Grants to States, passed through the Arizona Department of Education	84.027	IGA 29831, H027A080007, H027A050007	46,535
ARRA—Special Education—Grants to States, passed through the Arizona Supreme Court	84.391	KR10-0027	<u>18,997</u>
Total Special Education Cluster			<u>65,532</u>
Safe and Drug-Free Schools and Communities—National Programs, passed through the Arizona Administrative Office of the Courts	84.184	Q184E070054	138,641
Safe and Drug-Free Schools and Communities—State Grants, passed through the Arizona Administrative Office of the Courts	84.186	IGA 29831	38
Twenty-First Century Community Learning Centers, passed through the Arizona Department of Education	84.287	S287C0200009A	44,797
Parental Information and Resource Centers, passed through the Chandler Education Foundation	84.310	U310A060070	103,641

(Continued)

See accompanying notes to schedule.

Santa Cruz County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2010
(Continued)

Federal Grantor/Program Title/ Pass-Through Grantor	CFDA Number	Pass-Through Grantor's Number	Expenditures
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	P334A050233-07	\$ 782,159
Arts in Education, passed through the Arizona Department of Education	84.351	U351C060097-08	235,583
Rural Education Achievement Program	84.358		32,247
Improving Literacy through School Libraries	84.364		239,201
Improving Teacher Quality State Grants, passed through the Arizona Administrative Office of the Courts	84.367	IGA 29831	5,043
Improving Teacher Quality State Grants, passed through the Arizona Department of Education	84.367	S367A60049	<u>57,480</u>
Total Improving Teacher Quality State Grants			<u>62,253</u>
Total U.S. Department of Education			<u>1,806,638</u>
U.S. Department of Health and Human Services			
Public Health Emergency Preparedness, passed through the Arizona Department of Health Services	93.069	HG754204	82,527
Immunization Cluster:			
Immunization Grants, passed through the Arizona Department of Health Services	93.268	HG854295	119,550
ARRA—Immunization, passed through the Arizona Department of Health Services	93.712	HG854295	<u>13,050</u>
Total Immunization Cluster			<u>132,600</u>
Centers for Disease Control and Prevention—Investigations and Technical Assistance, passed through the Arizona Department of Health Services	93.283	HG754204	224,580
Child Support Enforcement, passed through Arizona Department of Economic Security	93.563	E7205023	46,380
Social Services Block Grant, passed through the Southeastern Arizona Governments Organization	93.667	10-1	<u>77,811</u>
Total U.S. Department of Health and Human Services			<u>563,898</u>
U.S. Department of Homeland Security			
Emergency Management Performance Grants, passed through the Arizona Department of Emergency and Military Affairs	97.042	2009 EMPG	38,080
Homeland Security Grant Program Cluster:			
Homeland Security Grant Program, passed through the Arizona Department of Homeland Security	97.067	333403-08, 444402-01, 444409-02, 555402-01 555428-01, 555428-02 555428-03	<u>1,097,035</u>
Total Homeland Security Grant Program Cluster			<u>1,097,035</u>
Total U.S. Department of Homeland Security			<u>1,135,115</u>
Total Expenditures of Federal Awards			<u>\$ 7,664,399</u>

See accompanying notes to schedule.

Santa Cruz County
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2010

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 2010 *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, 2010.

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Santa Cruz County
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2010

Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:		Unqualified	
Internal control over financial reporting:		Yes	No
Material weaknesses identified?		<u> X </u>	<u> </u>
Significant deficiencies identified?		<u> X </u>	<u> </u>
Noncompliance material to the financial statements noted?		<u> </u>	<u> X </u>

Federal Awards

Internal control over major programs:			
Material weaknesses identified?		<u> X </u>	<u> </u>
Significant deficiencies identified?		<u> X </u>	<u> </u>
Type of auditors' report issued on compliance for major programs: Unqualified for all major programs except for the High Intensity Drug Trafficking Areas and Homeland Security Grant Cluster programs, which were qualified.			
Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (section .510[a])?		<u> X </u>	<u> </u>

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
07.unknown	High Intensity Drug Trafficking Areas Schools and Roads Cluster:
10.665	Secure Payments for States and Counties Containing Federal Lands
15.226	Payments in Lieu of Taxes
16.588	ARRA—STOP Violence Against Women Formula Grants
16.803	ARRA—Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories
16.810	ARRA—Assistance to Rural Law Enforcement to Combat Crime and Drugs Competitive Grant Program
17.258	WIA Cluster: WIA Adult Program

Santa Cruz County
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2010

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
17.259	WIA Youth Activities
17.260	WIA Dislocated Workers
	Homeland Security Grant Program Cluster:
97.067	Homeland Security Grant Program

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Yes No

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
Year Ended June 30, 2010

Financial Statement Findings

10-01

The County Treasurer should improve controls over deposits and investments

Criteria: The County Treasurer's Office is responsible for managing and investing millions of dollars in public monies. Therefore, the County Treasurer's office must safeguard these public monies, promote overall operating efficiency and effectiveness, and ensure compliance with applicable debt agreements and state deposit and investment laws specified in Arizona Revised Statutes §§15 and 35.

Condition and context: At June 30, 2010, the County Treasurer had approximately \$58 million in deposits and investments that included \$31 million for Santa Cruz County and another \$27 million for other political subdivisions, such as school districts. However, the Treasurer's Office did not have comprehensive written internal control policies and procedures that adequately controlled the process over investing, managing, recording, and tracking deposits and investments held for both the County and political subdivisions. Specifically auditors noted that the County Treasurer's Office:

- Did not reconcile cash and investments balances included in its accounting system to the various financial institutions that hold deposits and investments for the County Treasurer.
- Had not recorded in its accounting records deposits of more than \$592,000 that had been deposited into its servicing bank account. Of these deposits, over \$500,000 were wire transfers made within the last 12 months, but a small portion was deposited up to 10 years ago.
- Did not record interest earned on its pooled investments based on average monthly balances when the interest was earned as required by state laws. Instead, interest was recorded up to several months after it was earned, and the apportioned interest amounts were based on individual entities' average balances when the interest was apportioned rather than when it was earned.
- Did not always distinguish within its accounting records whether individual entities' accounts included pooled or unpooled deposits and investments, including separately identifying restricted monies such as loan proceeds.
- Did not have formal policies for registering warrants. At June 30, 2010, the County Treasurer registered and invested pool participants' monies in \$2,945,159 of warrants for a school district with a deficit cash position in the County Treasurer's investment pool, but had no formal policies to ensure the registration process was conducted in accordance with state statutes and had no formal policies to ensure investment pool participants received appropriate interest based on their position in the investment pool during the period the warrants were registered.

Effect: The Treasurer's Office was at risk of exposing public monies to misuse and potential loss and did not ensure that investment earnings were properly distributed to the various county funds and political subdivisions in accordance with state laws. This finding is both a material weakness in internal control over financial reporting and instances of noncompliance.

Santa Cruz County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2010

Cause: The County Treasurer's office lacked comprehensive internal control policies and procedures.

Recommendation: The County Treasurer's Office should develop and implement policies and procedures to help ensure that deposits and investments are adequately safeguarded, promote overall operating efficiency and effectiveness, and ensure compliance with state laws. Those policies and procedures should include, at a minimum, detailed instructions for:

- Recording all deposit and investment activities in the accounting records.
- Reconciling pooled investment account and unpooled account balances to those balances reported by the various financial institutions, including investigating and resolving differences in a timely manner.
- Apportioning interest earnings to pooled investment accounts on at least a quarterly basis and determining the amounts to be apportioned based on pooled average monthly balances when the amounts were earned.
- Organizing the accounting records so that pooled investment account balances, deposits, and withdraws can be distinguished from unpooled accounts.
- Following requirements that monies are invested, recorded, and transferred in compliance with state laws and debt agreements.
- Registering warrants, including collecting and allocating interest from the investment in them.

This finding is similar to a prior-year finding.

10-02

The County should improve its procedures over revenue recognition and year-end accruals

Criteria: Generally accepted accounting principles require that governmental fund grant revenues be recorded only when they become both measurable and available. Grant revenues are considered measurable and available when the County has met all applicable eligibility requirements, and they are collected within 60 days after fiscal year-end. Any revenues received after 60 days past fiscal year-end should be deferred.

Condition and context: The County spent over \$10 million in grant monies during fiscal year 2010; however, it did not have adequate policies and procedures to monitor grant awards to determine if all applicable eligibility requirements were met for earning grant revenues and to determine whether revenues were received within 60 days after fiscal year-end. At fiscal year-end, the County recorded grant revenues and receivables in amounts equal to the negative cash positions of grant programs even though the collection of the revenues was not within 60 days or was not probable. The County did not always qualify to receive grant revenues to reimburse its grant expenditures because it may have spent monies in excess of the grant budget or the period to receive reimbursement under the grant had expired. In addition, when revenues were received more than 60 days after fiscal year-end, the County did not properly record the amounts as deferred revenues.

Santa Cruz County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2010

Effect: The County overstated its governmental funds' intergovernmental revenue and understated deferred revenue by more than \$1,100,000 and overstated receivables by more than \$260,000. The County made recommended audit adjustments to prevent the financial statements from being materially misstated for these errors, including restating beginning balances. This finding is a material weakness in internal control over financial reporting.

Cause: The County did not have adequate policies and procedures in place to monitor its grant awards to determine whether grant revenues were both measurable and available and to properly report receivables and revenues or deferred revenues as applicable.

Recommendation: The County should establish and implement adequate written policies and procedures over revenue recognition and year-end accruals. Specifically, these procedures should require close monitoring of grant award activities to ensure that all recorded revenues were both measurable and available at fiscal year-end and that revenues are deferred if they are not received within 60 days after fiscal year-end.

10-03

The County should improve procedures over capital asset reporting and stewardship

Criteria: The County should have effective internal controls over capital asset reporting to accurately record and depreciate its infrastructure capital assets. In addition, the County should safeguard its capital assets and maintain a reliable capital assets listing to ensure proper reporting of capital assets in its financial statements

Condition and context: Infrastructure capital assets comprise \$31 million, or 25 percent, of the County's capital assets. However, the County lacked policies and procedures to monitor its infrastructure assets to ensure that all assets were properly recorded and depreciated. Specifically, auditors noted that the County:

- Did not record donated roads for three subdivisions, including the related land rights-of-way.
- Did not record all road improvements made to existing infrastructure assets.
- Never calculated and reported depreciation for certain infrastructure assets such as unpaved roads.
- Miscalculated depreciation on its infrastructure assets. For example, the County depreciated assets for periods longer than their useful lives, resulting in negative infrastructure capital asset values. Also, the County depreciated certain road improvements as a separate infrastructure asset rather than increasing the value of the benefited roads and depreciating the improved road over its new useful life.

In addition, auditors noted that the County had not performed a physical inventory of equipment since fiscal year 2006 and did not always properly tag capital assets to prevent theft or misuse.

Santa Cruz County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2010

Effect: Auditors estimated that the County's June 30, 2010, land and infrastructure capital asset balances were understated by \$192,000 and \$2,692,000, respectively, and accumulated depreciation was understated by \$948,000. Also, fiscal year 2010 depreciation expense was understated by \$228,000. In addition, the County's capital assets were exposed to potential theft or misuse. This finding is a material weakness in internal control over financial reporting.

Cause: The County lacked sufficient internal control policies and procedures to properly record and depreciate its infrastructure assets and to ensure that capital assets were appropriately safeguarded.

Recommendation: To help ensure the County's capital assets are properly reported in the financial statements and to safeguard the County's capital assets against theft or misuse, the County should:

- Assign an individual the responsibility to regularly monitor infrastructure activity to ensure that all infrastructure assets and improvements are properly recorded and depreciated.
- Ensure that all county capital assets are properly tagged.
- Dedicate sufficient resources to perform a physical inventory of equipment at least every 2 years and reconcile the inventory results to the County's capital assets listing.

10-04

The County should improve its procedures to prepare accurate and timely financial statements

Criteria: The County must issue accurate and timely financial statements to satisfy the audit requirements imposed by federal and state laws, regulations, grants, contracts, and long-term debt covenants.

Condition and context: The County took 14 months after year-end to issue its financial statements.

Effect: The federal reporting deadline for the County's Single Audit Reporting Package was March 31, 2011; however, the County did not issue its Single Audit Reporting Package until October 2011. This finding is a material weakness in internal control over financial reporting.

Cause: The County lacked comprehensive internal control policies and procedures needed to prepare accurate financial statements and issue them in a timely manner.

Recommendation: To help ensure that the financial statements are prepared accurately and issued in a timely manner, the County should:

- Develop and follow comprehensive written policies and procedures for compiling the information and preparing the financial statements and accompanying notes. These procedures should include detailed instructions for obtaining information from the accounting system, as well as obtaining information not readily available from the accounting system but necessary for financial statement preparation.
- Dedicate appropriate resources and assign employees specific responsibilities and establish completion dates to help meet the Single Audit Reporting Package federal reporting deadline of March 31, 9 months after fiscal year-end.

Santa Cruz County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2010

- Require an employee not responsible for financial statement preparation to review the statements and accompanying notes. This review should ensure that the amounts are accurate and properly supported and the financial statements are presented in accordance with generally accepted accounting principles.

This finding is similar to a prior-year finding.

10-05

The County should strengthen controls over its financial information systems

Criteria: The County's computerized systems process and store information that is vital to its daily operations. Therefore, it is imperative that the County establish written internal control policies and procedures over computerized operations to help prevent or detect unauthorized use, damage, intentional misstatement or disclosure, loss, and unintended or unauthorized changes.

Condition and context: Auditors found internal control deficiencies over the County's computerized financial information systems. Specifically, auditors noted that the County:

- Did not require users to change their passwords on a regular basis.
- Did not review system-generated security reports, especially those detailing activities of super-users. These reports help identify unauthorized attempts to access the computer system and monitor users' access.
- Did not encrypt backup tapes of critical computer data to prevent unauthorized access.
- Did not have written policies and procedures over system access and database management.

Effect: The County's financial data was exposed to risk. For example, ineffective password controls increase the risk of unauthorized system access. In addition, failure to monitor security reports prevents the detection of unauthorized attempts to gain access to critical computer systems and data. Further, backup data that is not encrypted exposes the data to unintended use if accessed by unauthorized users. This finding is a significant deficiency in internal control over financial reporting.

Cause: According to the County, it lacked the resources to establish internal control policies and procedures to ensure security over its New World computer financial system and its sensitive financial data.

Recommendation: The County should establish and implement adequate written policies and procedures over system access and database management. Specifically, these controls should include requiring users to change their passwords regularly. In addition, security reports produced by the computer system, especially those detailing activities of super-users, should be reviewed regularly, and unauthorized access attempts should be investigated. Finally, all critical backup data should be encrypted to safeguard the data from unauthorized use.

This finding is similar to a prior-year finding.

Santa Cruz County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2010

10-06

The County should comply with laws governing sales of asset forfeitures

Criteria: Arizona Revised Statutes (A.R.S.) §13-2314.03 require that all monies obtained from the sale of seized assets be deposited into the County's anti-racketeering revolving fund. The A.R.S. and the U.S. Department of Justice's *Guide to Equitable Sharing for State and Local Law Enforcement Agencies* provides permissible uses for those monies.

Condition and context: The County did not have adequate policies and procedures in place to ensure that all monies collected from its seized vehicle auctions were deposited into the County's anti-racketeering revolving fund. Specifically, auditors noted three auctions were held in fiscal year 2010, and auction proceeds totaling \$16,187 were not deposited. From the amounts not deposited, the County purchased \$1,649 of food and beverages, including \$30 of alcohol, for individuals who worked the auctions, and the County could not provide support detailing what happened to the remaining \$14,537 of auction proceeds. Further, these auction-related revenues and expenditures were not recorded in the County's financial accounting system or reported in its financial statements.

Effect: The County was subject to misuse and possible theft of public monies and noncompliance with A.R.S. §13-2314.03 and the U.S. Department of Justice's *Guide to Equitable Sharing for State and Local Law Enforcement Agencies*. Those regulations do not permit the purchase of food or beverages, including alcohol, with anti-racketeering monies. In addition, the revenues and expenditures associated with the auctions were not recorded in the County's accounting records. This finding is both a significant deficiency in internal control over financial reporting and an instance of noncompliance.

Cause: The County did not have adequate policies and procedures to monitor auctions of seized assets to ensure all auction proceeds were deposited into the County's anti-racketeering fund, used for allowable purposes, and properly recorded in accounting records.

Recommendation: The County should develop and implement adequate policies and procedures over the sale of seized assets and the use of those proceeds. The policies and procedures should require that all seized asset auction proceeds be deposited directly into the County's anti-racketeering fund and only be used for authorized purposes. In addition, the County should require an employee not involved in the auction process to perform a reconciliation of auction proceeds to amounts deposited into the County's anti-racketeering fund and ensure the amounts were properly recorded in the accounting records.

This finding is similar to a prior-year finding.

10-07

The County should develop, implement, and test a disaster recovery plan

Criteria: To help ensure the continuity of operations and that electronic data files are not lost in the event of a system or equipment failure or other interruption, the County should have a documented and tested disaster recovery plan for its significant computer systems.

Santa Cruz County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2010

Condition and context: The County did not have a written and tested disaster recovery plan for its New World financial system.

Effect: The disruption of services, in the event of a system or equipment failure or other interruption could result in significant harm or inconvenience to the County and its citizens. In addition, inadequate disaster recovery controls subject the County to risks that can result in inaccurate or incomplete financial or management information, expensive recovery efforts, and financial losses. This finding is a significant deficiency in internal control over financial reporting.

Cause: According to the County, because of a lack of resources, a formal disaster recovery plan had not been developed.

Recommendation: The County should develop a disaster recovery plan for its New World financial system. At a minimum, the County's plan for computer disaster recovery should include the following:

- A risk analysis identifying and prioritizing critical applications to determine which applications should be recovered first.
- A listing of current employees assigned to disaster teams, including telephone numbers.
- Employee assignments and responsibilities.
- A designated alternative computer facility or arrangements with vendors to support hardware and software requirements.
- Details of off-site storage locations and availability of information stored at these locations.
- A list of procedures for processing critical transactions, including forms or other documents to use.
- Restoration procedures for backup media such as tapes and servers.
- Documentation of overall testing strategies, testing frequencies, and disaster plan test results.

This finding is similar to a prior-year finding.

10-08

The County should ensure all transfers are approved by the County Board of Supervisors

Criteria: Arizona Revised Statutes §42-17106(B) requires that transfers of monies between budget items must be approved by a majority of the County Board of Supervisors at a public meeting.

Condition and context: The County had not developed and implemented policies and procedures to ensure that all transfers of monies between budget items were approved by the County Board of Supervisors. Auditors noted that the County transferred over \$233,000 between county funds without approval by the County Board of Supervisors.

Effect: The County did not comply with state laws requiring the County Board of Supervisors approval of transfers of monies between budget items. This finding is both a significant deficiency in internal control over financial reporting and an instance of noncompliance.

Santa Cruz County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2010

Cause: The County does not have formal policies or procedures that require the County Board of Supervisors to review and approve all transfers of monies between budget items.

Recommendation: To help ensure compliance with A.R.S. §42-17106(B) and prevent the County from spending money for a purpose not included in its budget, the County should develop and implement policies and procedures that require the County Board of Supervisors to review and approve all transfers of monies between budget items.

This finding is similar to a prior-year finding.

10-09

The County should improve procurement procedures

Criteria: County procurement policy requires county departments to obtain three written price quotations from vendors when making purchases between \$15,000 and \$35,000.

Condition and context: For one of three purchases tested between \$15,000 and \$35,000, the county department did not obtain the required written price quotations from vendors.

Effect: The County did not comply with its procurement policy and could have paid more than necessary for goods and services. This finding is a significant deficiency in internal control over financial reporting.

Cause: The County did not have adequate procedures that required departments to obtain the necessary price quotations prior to purchasing goods and services.

Recommendation: To help ensure compliance with its procurement policy, the County should establish adequate procedures to ensure that county departments obtain three written price quotations from vendors when making purchases between \$15,000 and \$35,000.

Santa Cruz County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2010

Federal Award Findings and Questioned Costs

10-101

CFDA No.: Not applicable

Questioned Cost: N/A

Criteria: OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, §.320, requires the County to submit its Single Audit Reporting Package to the federal clearinghouse no later than 9 months after fiscal year-end.

Condition and context: The federal reporting deadline for the County's Single Audit Reporting Package was March 31, 2011. However, the County did not issue its Single Audit Reporting Package until October 2011.

Effect: The late submission affects all federal programs the County administered. This finding is a material weakness in internal control over compliance and noncompliance with OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, §.320. However, this finding does not result in a deficiency in internal control over compliance or noncompliance for the individual federal programs since this was not caused by the programs' administration.

Cause: As discussed in item 10-04, the late completion of the County's financial statements contributed to the late submission of its Single Audit Reporting Package.

Recommendation: The County should improve its financial reporting process so that it can submit its Single Audit Reporting Package to the federal clearinghouse no later than 9 months after fiscal year-end.

This finding is similar to a prior-year finding.

10-102

CFDA No.: Not applicable

Questioned Cost: N/A

Criteria: In accordance with OMB Circular A-133, §.300 the County is required to identify, in its accounts, all federal awards received and expended and the federal programs under which they were received, and prepare appropriate financial statements, including a Schedule of Expenditures of Federal Awards (SEFA). The SEFA should report federal award expenditures in accordance with generally accepted accounting principles (GAAP). In addition, OMB Circular A-133, §.310(b), requires the SEFA to include the Catalog of Federal Domestic Assistance (CFDA) title and number, amount expended, name of the federal awarding agency, and, if applicable, name and identifying number of the pass-through grantor for each of the County's federal awards.

Further, in accordance with OMB Circular A-133, recipients of ARRA funding must separately identify the expenditures for federal awards under the Recovery Act on the SEFA.

Santa Cruz County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2010

Condition and context: The County did not properly identify federal awards in its records and accounting system so that it could prepare an accurate and complete SEFA. Specifically, auditors noted the County incorrectly reported expenditures or other required information for 16 of its federal programs; three of these programs' expenditures were improperly included on the SEFA. Specifically, the County understated its federal award expenditures by a net amount of approximately \$209,836. The County's SEFA was adjusted for these errors.

Effect: This finding is a material weakness in internal control over compliance and noncompliance with OMB Circular A-133 reporting requirements. However, this finding does not result in a deficiency in internal control over compliance or noncompliance for the individual federal programs since this was not caused by the programs' administration.

Cause: The County did not have effective policies and procedures in place to ensure that federal monies were identifiable in its accounting system and properly recorded on the SEFA, nor were controls effective to ensure that all federal program information was correctly reported on the SEFA.

Recommendation: To help ensure that the County prepares its SEFA in compliance with OMB Circular A-133, the County should develop and implement control procedures to verify transactions are entered into the County's computer system accurately and develop an effective review process to ensure accurate information on the SEFA.

This finding is similar to a prior-year finding.

Santa Cruz County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2010

10-103

CFDA No.: 07.unknown **High Intensity Drug Trafficking Area (HIDTA)**

U.S. Office of National Drug Control Policy

Passed through the City of Tucson

Award Year: October 1, 2007 through September 30, 2009

January 1, 2009 through December 31, 2010

January 1, 2010 through December 31, 2011

Award Numbers: HT18-08-1913, HT19-09-1913, HT20-10-1913, HT18-08-1914, HT19-09-1914, HT20-10-1914

Homeland Security Program Cluster

CFDA No.: 97.067 **Homeland Security Grant Program**

U.S. Department of Homeland Security

Passed through the Arizona Department of Homeland Security

Award Year: July 1, 2007 through July 31, 2009

October 1, 2008 through September 30, 2009

October 1, 2008 through December 31, 2009

October 1, 2008 through March 31, 2010

November 1, 2008 through October 31, 2009

October 1, 2008 through September 30, 2010

October 1, 2009 through September 30, 2010

October 1, 2009 through March 31, 2011

Award Numbers: 07-AZDOHS-HSGP-333403-03, 07-AZDOHS-HSGP-333403-05, 07-AZDOHS-HSGP-333403-06, 07-AZDOHS-HSGP-333403-08, 08-AZDOHS-HSGP-444402-01, 08-AZDOHS-HSGP-444409-01, 08-AZDOHS-HSGP-444409-02, 08-AZDOHS-HSGP-444409-03, 09-AZDOHS-HSGP-555402-01, 09-AZDOHS-OPSG-555428-01, 09-AZDOHS-OPSG-555428-02, 09-AZDOHS-OPSG-555428-03

Equipment and Real Property Management

Questioned Cost: N/A

Criteria: For the HIDTA program and Homeland Security Grant Program, the grant agreements state that the County must comply with applicable federal regulations, which includes 21 Code of Federal Regulations (CFR) §1403.32 and 44 CFR §13.32, respectively. These federal regulations require that a physical inventory of property must be taken and reconciled with the property records at least once every 2 years. In addition, a control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property.

Condition and context: The County did not maintain accountability for property acquired with federal grant monies. Specifically, equipment purchased with HIDTA and Homeland Security monies was not tagged or otherwise identifiable. In addition, the County did not perform a physical inventory of capital assets in the last 2 years. Further, the County included items on the capital asset listing that were not capital assets, such as training and labor costs. Finally, the HIDTA program's capital asset listing did not agree with the capital asset records maintained by the County's Finance Department.

Santa Cruz County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2010

Effect: Failure to maintain control over equipment purchased with federal grant monies can result in equipment being lost, stolen, or misused and cause noncompliance with federal regulations. This finding is a material weakness in internal control over compliance and material noncompliance with the HIDTA and Homeland Security programs' equipment and real property management requirements.

Cause: The County lacked a sufficient capital assets policy and instructions for how and when a physical inventory should be performed. Also, the County did not follow its policy for tagging equipment.

Recommendation: To help ensure compliance with federal regulations and to help prevent loss, theft, or misuse of capital assets purchased with federal monies, the County should establish policies and procedures that require a physical inventory of equipment be performed every 2 years and reconcile the inventory results to the County's capital assets listing. Also, the County should ensure that its policies are followed that all equipment items be properly tagged.

This finding is similar to a prior-year finding.

10-104

Homeland Security Program Cluster

CFDA No.: 97.067 **Homeland Security Grant Program**

U.S. Department of Homeland Security

Passed through the Arizona Department of Homeland Security

Award Year: July 1, 2007 through July 31, 2009

October 1, 2008 through September 30, 2009

October 1, 2008 through December 31, 2009

October 1, 2008 through March 31, 2010

November 1, 2008 through October 31, 2009

October 1, 2008 through September 30, 2010

October 1, 2009 through September 30, 2010

October 1, 2009 through March 31, 2011

Award Numbers: 07-AZDOHS-HSGP-333403-03, 07-AZDOHS-HSGP-333403-05, 07-AZDOHS-HSGP-333403-06, 07-AZDOHS-HSGP-333403-08, 08-AZDOHS-HSGP-444402-01, 08-AZDOHS-HSGP-444409-01, 08-AZDOHS-HSGP-444409-02, 08-AZDOHS-HSGP-444409-03, 09-AZDOHS-HSGP-555402-01, 09-AZDOHS-OPSG-555428-01, 09-AZDOHS-OPSG-555428-02, 09-AZDOHS-OPSG-555428-03

Procurement and Suspension and Debarment

Questioned Cost: \$203,655

Criteria: Homeland Security Grant Program regulations require the County to comply with state laws and the County's policies when purchasing goods and services. Arizona Revised Statutes (A.R.S.) §§41-2533 and 41-2535 and county policy require purchases exceeding \$35,000 to be awarded by competitive sealed bidding and do not allow purchases to be divided or fragmented to circumvent the competitive sealed bidding process.

Condition and context: The County did not obtain competitive sealed bids when it made a combined purchase of five vehicles totaling \$160,935 and when it purchased additional equipment for those vehicles totaling \$42,720.

Santa Cruz County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2010

Effect: The County did not comply with the applicable laws governing procurement of goods. This finding is a material weakness in internal control over compliance and material noncompliance with procurement requirements.

Cause: The County was not aware that it was required to obtain competitive sealed bids for the combined vehicle purchase.

Recommendation: The County should ensure that its procurement policies are readily available and that they clearly explain when competitive sealed bids are required.

This finding is similar to a prior-year finding.

10-105

Homeland Security Program Cluster

CFDA No.: 97.067 **Homeland Security Grant Program**

U.S. Department of Homeland Security

Passed through the Arizona Department of Homeland Security

Award Year: July 1, 2007 through July 31, 2009

October 1, 2008 through September 30, 2009

October 1, 2008 through December 31, 2009

October 1, 2008 through March 31, 2010

November 1, 2008 through October 31, 2009

October 1, 2008 through September 30, 2010

October 1, 2009 through September 30, 2010

October 1, 2009 through March 31, 2011

Award Numbers: 07-AZDOHS-HSGP-333403-03, 07-AZDOHS-HSGP-333403-05, 07-AZDOHS-HSGP-333403-06, 07-AZDOHS-HSGP-333403-08, 08-AZDOHS-HSGP-444402-01, 08-AZDOHS-HSGP-444409-01, 08-AZDOHS-HSGP-444409-02, 08-AZDOHS-HSGP-444409-03, 09-AZDOHS-HSGP-555402-01, 09-AZDOHS-OPSG-555428-01, 09-AZDOHS-OPSG-555428-02, 09-AZDOHS-OPSG-555428-03

Allowable Costs/Cost Principles and Reporting

Questioned Cost: \$23,294

Criteria: The Arizona Department of Homeland Security requires that reimbursement requests be based on actual incurred expenditures for allowable costs and that the expenditures are supported by the County's accounting records.

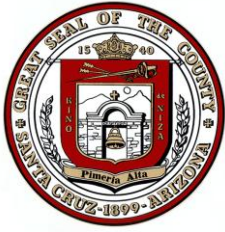
Condition and context: The County did not have adequate procedures in place to ensure that financial reports requesting reimbursement for expenditures were independently reviewed for accuracy and approved prior to submitting them to the Arizona Department of Homeland Security. Specifically, four of six reimbursement requests tested did not indicate that they were independently reviewed and approved. Also, reimbursement requests included overtime expenditures that were based on budgeted amounts, resulting in the County receiving \$23,294 more than the actual overtime expenditures.

Santa Cruz County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2010

Effect: The County improperly completed reimbursement requests and received \$23,294 more than was actually expended. This finding is a significant deficiency in internal control over compliance and noncompliance with the program's allowable costs/cost principles and reporting compliance requirements.

Cause: The County had not established internal control procedures to ensure that reimbursement requests were properly reviewed and approved. In addition, county personnel were not aware that they had completed the reimbursement requests incorrectly, and review of the requests was not sufficient to detect the errors.

Recommendation: The County should establish procedures to ensure reimbursement requests are completed based on actual expenditures and are independently reviewed and approved to ensure that requests are in compliance with program requirements. In addition, any federal reimbursements that were not based on actual expenditures should be refunded to the Arizona Department of Homeland Security.



**ADMINISTRATIVE SERVICES
SANTA CRUZ COUNTY**

Jennifer K. St. John, CPA
Director

October 17, 2011

Ms. Debbie Davenport, Auditor General
State of Arizona, Office of the Auditor General
2910 North 44th Street, Suite 410
Phoenix, AZ 85018

Dear Ms. Davenport:

The accompanying Corrective Action Plan has been prepared as required by the U. S. Office of Management and Budget Circular A-133. Specifically, we are providing you with the names of the contact persons responsible for corrective action, the corrective action planned, and the anticipated completion date for each audit finding included in the current year's Schedule of Findings and Questioned Costs.

Sincerely,

Jennifer K. St. John, CPA
Administrative Services Director

**Santa Cruz County
Corrective Action Plan
Year Ended June 30, 2010**

Financial Statement Findings

Item: 10-01

Subject: The County Treasurer should improve controls over deposits and investments.

Contact Person: Caesar Ramirez, Santa Cruz County Treasurer

Anticipated Completion Date: June 30, 2012

Corrective Action: The Treasurer's Office will assign personnel to accurately record financial transactions on a timely basis and a separate employee to reconcile cash and investments recorded within the accounting system to the bank statements received from the various financial institutions. Further, the Office will distinguish between pooled and unpooled deposits and investments within our accounting records. While the Treasurer's Office does not have formal policies in place for registering warrants and charging appropriate interest, we will take greater care in the future to register warrants and apportion interest in accordance with State Statutes.

Item: 10-02

Subject: The County should improve its procedures over revenue recognition and year-end accruals.

Contact Person: Jennifer St. John, Administrative Services Director

Anticipated Completion Date: June 30, 2011

Corrective Action: For the fiscal year ended June 30, 2011, the County properly accrued revenues received within the 60 day period and properly deferred revenues received after 60 days from the fiscal year end.

Item: 10-03

Subject: The County should improve procedures over capital asset reporting and stewardship.

Contact Person: Jennifer St. John, Administrative Services Director

Anticipated Completion Date: June 30, 2012

Corrective Action: The County will hire temporary personnel to do a physical capital asset inventory as required by Statute during the Spring 2012. This inventory will allow the County to update its capital asset listing and correct many, if not all of the errors listed in this finding.

Item: 10-04

Subject: The County should improve its procedures to prepare accurate and timely financial statements.

Contact Person: Jennifer St. John, Administrative Services Director

Anticipated Completion Date: June 30, 2011

**Santa Cruz County
Corrective Action Plan
Year Ended June 30, 2010**

Corrective Action: The County will take greater care when producing the financial statements for the fiscal year ended June 30, 2011, and submit all required financial information to the Auditor General's Office in a timely manner so the financials and Single Audit can be issued by March 31, 2012.

Item: **10-05**

Subject: The County should strengthen controls over its financial information systems.

Contact Person: Raul Mavis, Information Technology Director

Anticipated Completion Date: December 31, 2011

Corrective Action: The County is working with our software provider to develop written policies and procedures over system access and management and to establish procedures that require password changes on a regular basis. Information technology staff will immediately begin to review security reports generated by the accounting system on a weekly basis, security statements will be updated to include proper security practices and signed by all County personnel, and backup tapes containing critical computer data will be encrypted by December 31, 2011.

Item: **10-06**

Subject: The County should comply with laws governing sales of asset forfeitures.

Contact Person: George Silva, County Attorney

Anticipated Completion Date: December 31, 2011

Corrective Action: The County will take greater care in depositing all monies received during the auction and provide all backup documentation for monies received and returned during the auction. Further, the County will implement internal control procedures over future asset forfeiture auctions to ensure that auction proceeds are used only for authorized purposes. Finally, the anti-racketeering revolving fund was reimbursed for the \$30 alcohol purchase.

Item: **10-07**

Subject: The County should develop, implement, and test a disaster recovery plan.

Contact Person: Raul Mavis, Information Technology Director

Anticipated Completion Date: December 31, 2011

Corrective Action: The County is working with Cochise County to backup all critical financial data at Cochise County every night so that in the case of a disaster, staff can travel to Cochise County and have access to our accounting system and the most accurate financial information.

Item: **10-08**

Subject: The County should ensure all transfers are approved by the County Board of Supervisors.

Contact Person: Jennifer St. John, Administrative Services Director

**Santa Cruz County
Corrective Action Plan
Year Ended June 30, 2010**

Anticipated Completion Date: June 30, 2011

Corrective Action: The majority of these transfers were transfers of monies between funds due to miscodings that occurred in a prior fiscal year. These transfers are immaterial in nature and generally not budgeted as the error is not found until subsequent fiscal years. Finance will take all unbudgeted transfers, in total, before the Board of Supervisors for the fiscal year ended June 30, 2011, to have the transfers approved.

Item: **10-09**

Subject: The County should improve procurement procedures.

Contact Person: Jennifer St. John, Administrative Services Director

Anticipated Completion Date: Immediately

Corrective Action: The County will take greater care when purchasing goods and services to help ensure that each purchase complies with Federal and State laws and County policy.

**Santa Cruz County
Corrective Action Plan
Year Ended June 30, 2010**

Federal Award Findings and Questioned Costs

Item: **10-101**

CFDA Number: Not applicable.

Subject: The County should submit its Single Audit to the federal clearinghouse in a timely manner.

Contact Person: Jennifer St. John, Administrative Services Director

Anticipated Completion Date: June 30, 2011

Corrective Action: The County will submit all required financial information to the Auditor General's Office so that the fiscal year 2011 Single Audit can be issued by March 31, 2012.

Item: **10-102**

CFDA Number: Not applicable.

Subject: The County should prepare an accurate and complete SEFA.

Contact Person: Jennifer St. John, Administrative Services Director

Anticipated Completion Date: March 31, 2012

Corrective Action: The County will take greater care when preparing the Schedule of Expenditures of Federal Awards (SEFA) to include all federal awards and expenditures, for the fiscal year ended June 30, 2011.

Item: **10-103**

CFDA Number: 07.unknown High Intensity Drug Trafficking Area (HIDTA)
97.067 Homeland Security Grant Program

Subject: The County should improve procedures over capital assets.

Contact Person: Jennifer St. John, Administrative Services Director

Anticipated Completion Date: June 30, 2012

Corrective Action: The County will hire temporary personnel to do a physical capital asset inventory as required by Statute during the Spring 2012. This inventory will allow the County to update its capital asset listing and correct many, if not all of the errors listed in this finding.

Item: **10-104**

CFDA Number: 97.067 Homeland Security Grant Program

Subject: The County should improve procurement procedures.

**Santa Cruz County
Corrective Action Plan
Year Ended June 30, 2010**

Contact Person: Jennifer St. John, Administrative Services Director

Anticipated Completion Date: Immediately

Corrective Action: The County will take greater care when purchasing goods and services to help ensure that each purchase complies with Federal and State laws and County policy.

Item: **10-105**

CFDA Number: 97.067 Homeland Security Grant Program

Subject: The County should request reimbursements based on actual allowable expenditures recorded in the County's accounting records.

Contact Person: Jennifer St. John, Administrative Services Director

Anticipated Completion Date: June 30, 2011

Corrective Action: The County will take greater care to only request reimbursement from the Federal grantor for allowable expenditures that are properly recorded and supported within the County's financial records.



**ADMINISTRATIVE SERVICES
SANTA CRUZ COUNTY**

Jennifer K. St. John, CPA
Director

October 17, 2011

Ms. Debbie Davenport, Auditor General
State of Arizona, Office of the Auditor General
2910 North 44th Street, Suite 410
Phoenix, AZ 85018

Dear Ms. Davenport:

The accompanying Summary Schedule of Prior Audit Findings has been prepared as required by U.S. Office of Management and Budget Circular A-133. Specifically, we are reporting the status of audit findings included in the prior audit's Schedule of Findings and Questioned Costs related to federal awards. This schedule also includes audit findings reported in the prior audit's Summary Schedule of Prior Audit Findings that were not corrected.

Sincerely,

Jennifer K. St. John, CPA
Administrative Services Director

Santa Cruz County
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2010

Status of Prior Year Federal Award Findings and Questioned Costs

CFDA Number: Not applicable

Finding Number: **09-101**

Status: Not Corrected

Corrective Action Plan: The County will submit all required financial information to the Auditor General's Office so that the fiscal year 2011 Single Audit can be issued by March 31, 2012.

CFDA Number: Not applicable

Finding Number: **09-102 and 08-08**

Status: Not Corrected

Corrective Action Plan: The County will take greater care when preparing the Schedule of Expenditures of Federal Awards (SEFA) to include all federal awards and expenditures, for the fiscal year ended June 30, 2011.

CFDA Number: 07.unknown High Intensity Drug Trafficking Area (HIDTA)
97.067 Homeland Security Grant Program
97.074 Law Enforcement Terrorism Prevention Program

Finding Number: **09-103**

Status: Not Corrected

Corrective Action Plan: The County will hire temporary personnel to do a physical capital asset inventory as required by Statute during the Spring 2012. This inventory will allow the County to update its capital asset listing and correct many, if not all of the errors listed in this finding.

CFDA Number: 97.067 Homeland Security Grant Program
97.074 Law Enforcement Terrorism Prevention Program

Finding Number: **09-104**

Status: Not Corrected

Corrective Action Plan: The County will take greater care when purchasing goods and services to help ensure that each purchase complies with Federal and State laws and County policy.