



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Single Audit

Santa Cruz County

Year Ended June 30, 2011



Debra K. Davenport
Auditor General

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Santa Cruz County
Single Audit Reporting Package
Year Ended June 30, 2011

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Report Issued Separately

Comprehensive Annual Financial Report

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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

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

Members of the Arizona State Legislature

The Board of Supervisors of
Santa Cruz County, Arizona

We have audited 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, 2011, which collectively comprise the County's basic financial statements, and have issued our report thereon dated May 3, 2012. Our report was modified as to consistency because of the implementation of Governmental Accounting Standards Board Statement No. 54. 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

The County's management is responsible for establishing and maintaining effective 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 described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and 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 11-01 through 11-04 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 11-05 through 11-07 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 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 11-01.

Santa Cruz County's responses to the findings identified in our audit are presented on pages 31 through 36. 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

May 3, 2012



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, 2011. 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 11-103 through 11-107 and 11-109 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 High Intensity Drug Trafficking Areas, State Fiscal Stabilization Fund Cluster, and Homeland Security Cluster programs; Activities Allowed or Unallowed and Allowable Costs/Cost Principles that are applicable to its ARRA—Recovery Act—State and Local Law Enforcement Assistance Program: Combating Criminal Narcotics Activity Stemming from the Southern Border of the United States Competitive Grant Program; and Eligibility that is applicable to its State Criminal Alien Assistance 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, because of the effects of the noncompliance described in the preceding paragraph, Santa Cruz County did not comply in all material respects with the compliance requirements referred to above that are applicable to its ARRA—Recovery Act—State and Local Law Enforcement Assistance Program: Combating Criminal Narcotics Activity Stemming from the Southern Border of the United States Competitive Grant Program. Also, in our opinion, except for the noncompliance described in the preceding paragraph for the High Intensity Drug Trafficking Areas, State Criminal Alien Assistance Program, State Fiscal Stabilization Fund Cluster, and Homeland Security Cluster, 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 other major federal programs for the year ended June 30, 2011. 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 11-101, 11-102, 11-108, and 11-110.

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 11-103 through 11-107 and 11-109 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 deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 11-101, 11-102, 11-108, and 11-110 to be significant deficiencies.

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, 2011, and have issued our report thereon dated May 3, 2012. Our report was modified as to consistency because of the implementation of Governmental Accounting Standards Board Statement No. 54. 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 31 through 36. 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

June 27, 2012, except for the
Schedule of Expenditures of Federal
Awards, for which the date is May 3, 2012

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Santa Cruz County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2011

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 the City of Tucson	07.unknown	HT19-09-2715, HT20-10-1913, HT20-10-1914, HT20-10-2715, HT21-11-1913, HT21-11-1914	<u>\$ 568,699</u>
U.S. Department of Agriculture			
Schools and Roads Cluster: Schools and Roads—Grants to States, passed through the Arizona State Treasurer	10.665	None	<u>1,212,729</u>
U.S. Department of Housing and Urban Development			
CDBG—State-Administered CDBG Cluster: Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii, passed through the Arizona Department of Housing	14.228	119-10/120-10, 129-09	<u>945,949</u>
U.S. Department of the Interior			
Payments in Lieu of Taxes	15.226		<u>777,268</u>
U.S. Department of Justice			
Crime Victim Assistance, passed through the Arizona Criminal Justice Commission	16.575	VA-11-029	27,747
Crime Victim Compensation, passed through the Arizona Criminal Justice Commission	16.576	VA-11-061	16,690
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, II-IGA-11-2121-01	101,853
Community Capacity Development Office, passed through the Arizona Criminal Justice Commission	16.595	2009-WS-QX-0073	66,201
State Criminal Alien Assistance Program	16.606		103,383
Bulletproof Vest Partnership Program	16.607		2,164
JAG Program Cluster:			
ARRA—Recovery Act—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	271,262

(Continued)

See accompanying notes to schedule.

Santa Cruz County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2011
(Continued)

Federal Grantor/Program Title/ Pass-Through Grantor	CFDA Number	Pass-Through Grantor's Number	Expenditures
ARRA—Recovery Act—Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to Units of Local Government, passed through the City of Nogales	16.804	016-000-20-99	\$ 324
Total JAG Program Cluster			<u>271,586</u>
ARRA—Recovery Act—State and Local Law Enforcement Assistance Program: Combating Criminal Narcotics Activity Stemming from the Southern Border of the United States Competitive Grant Program	16.809		132,746
ARRA—Assistance to Rural Law Enforcement to Combat Crime and Drugs Competitive Grant Program	16.810		<u>238,009</u>
Total U.S. Department of Justice			<u>960,379</u>
U.S. Department of Labor			
WIA Cluster:			
WIA Adult Program, passed through the Arizona Department of Economic Security	17.258	DE111013001, DE101051001	337,424
WIA Youth Activities, passed through the Arizona Department of Economic Security	17.259	DE111013001, DE101051001	357,425
WIA Dislocated Workers, passed through the Arizona Department of Economic Security	17.260	DE111013001, DE101051001	<u>201,448</u>
Total WIA Cluster			<u>896,297</u>
Incentive Grants—WIA Section 503, passed through the Arizona Department of Economic Security	17.267	DE111013001, DE101051001	24,763
Community Based Job Training, passed through Pima County	17.269	01-69-S-140387-0707	<u>61,176</u>
Total U.S. Department of Labor			<u>982,236</u>
U.S. Department of Energy			
ARRA—Energy Efficiency and Conservation Block Grant Program, passed through the Arizona Department of Commerce Energy Office	81.128	IO16-10-50, PDP 60-02/09	<u>81,352</u>
U.S. Department of Education			
Adult Education—Basic Grants to States, passed through the Arizona Department of Education	84.002	11FAEABE-170755-02A, 11FAEAEF-170755-01A	44,291

(Continued)

See accompanying notes to schedule.

Santa Cruz County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2011
(Continued)

Federal Grantor/Program Title/ Pass-Through Grantor	CFDA Number	Pass-Through Grantor's Number	Expenditures
Title I, Part A Cluster:			
Title I Grants to Local Educational Agencies, passed through the Arizona Administrative Office of the Courts	84.010	IGA KR10-0027	\$ 19,454
Title I Grants to Local Educational Agencies, passed through the Arizona Department of Education	84.010	11FAATTI-170012-03A	<u>9,098</u>
Total Title I, Part A Cluster			<u>28,552</u>
Special Education Cluster (IDEA):			
Special Education—Grants to States, passed through the Arizona Department of Education	84.027	IGA KR10-0027, H027A080007, 11-FESSCG-170740-02A	22,024
ARRA—Special Education—Grants to States, passed through the Arizona Supreme Court	84.391	IGA KR10-0027	<u>16,585</u>
Total Special Education Cluster			<u>38,609</u>
Twenty-First Century Community Learning Centers, passed through the Arizona Department of Education	84.287	S287C0200009A	3,535
Parental Information and Resource Centers, passed through the Chandler Education Foundation	84.310	U310A060070	99,539
Gaining Early Awareness and Readiness for Undergraduate Programs, passed through the Arizona Department of Education	84.334	P334A050233-11	692,639
Arts in Education, passed through the Arizona Department of Education	84.351	U351C060097-08	110,486
Rural Education, passed through the Arizona Department of Education	84.358	S358A106923	17,312
Improving Literacy through School Libraries	84.364		127,620
Improving Teacher Quality State Grants, passed through the Arizona Administrative Office of the Courts	84.367	IGA KR10-0027	6,119
Improving Teacher Quality State Grants, passed through the Arizona Department of Education	84.367	12FAAPD3-270740-01A, 11FAATII-170012-04A	<u>31,778</u>
Total Improving Teacher Quality State Grants			<u>37,897</u>
State Fiscal Stabilization Fund Cluster:			
ARRA—State Fiscal Stabilization Fund (SFSF)—Education State Grants, Recovery Act, passed through the Governor's Office of Economic Recovery	84.394	11FAASFF-170012-01A	3,918

(Continued)

See accompanying notes to schedule.

Santa Cruz County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2011
(Continued)

Federal Grantor/Program Title/ Pass-Through Grantor	CFDA Number	Pass-Through Grantor's Number	Expenditures
ARRA—State Fiscal Stabilization Fund (SFSF)—Government Services, Recovery Act, passed through the Governor's Office of Economic Recovery	84.397	OER-11-IGA-GS-37, OER-11-IGA-GS-14, OER-11-IGA-GS-172	\$ 1,718,792
Total State Fiscal Stabilization Fund Cluster			<u>1,722,710</u>
ARRA—Education Jobs Fund, passed through the Arizona Department of Education	84.410	11FAAEJB-170012-02A	4,221
Total U.S. Department of Education			<u>2,927,411</u>
U.S. Department of Health and Human Services			
Medical Reserve Corps Small Grant Program, passed through the National Association of County and City Health Officials	93.008	MRC 10 1874	1,121
Public Health Emergency Preparedness, passed through the Arizona Department of Health Services	93.069	HG754204	57,222
Immunization Cluster:			
Immunization Grants, passed through the Arizona Department of Health Services	93.268	HG854295	113,675
Total Immunization Cluster			<u>113,675</u>
Centers for Disease Control and Prevention—Investigations and Technical Assistance, passed through the Arizona Department of Health Services	93.283	HG754204	186,885
Child Support Enforcement, passed through the Arizona Department of Economic Security	93.563	28995	72,539
Social Services Block Grant, passed through the Southeastern Arizona Government Organization	93.667	11-1	87,043
Total U.S. Department of Health and Human Services			<u>518,485</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	40,980
Homeland Security Cluster:			
Homeland Security Grant Program, passed through the Arizona Department of Homeland Security	97.067	555402-01, 777402-01, 555428-01, 555428-02, 555428-03, 777431-01, 777431-02	964,540
Total Homeland Security Cluster			<u>964,540</u>
Total U.S. Department of Homeland Security			<u>1,005,520</u>
Total Expenditures of Federal Awards			<u>\$ 9,980,028</u>

See accompanying notes to schedule.

Santa Cruz County
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2011

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 2011 *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, 2011.

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Santa Cruz County
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2011

Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unqualified		
	Yes	No	
Internal control over financial reporting:			
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:			
<p>Unqualified for all major programs except for the High Intensity Drug Trafficking Areas, State Criminal Alien Assistance Program, State Fiscal Stabilization Fund Cluster, and Homeland Security Cluster, which were qualified, and except for ARRA—Recovery Act—State and Local Law Enforcement Assistance Program: Combating Criminal Narcotics Activity Stemming from the Southern Border of the United States Competitive Grant Program, which was adverse.</p>			
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	Schools and Roads—Grants to States
	CDBG—State-Administered CDBG Cluster:
14.228	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii
16.606	State Criminal Alien Assistance Program

Santa Cruz County
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2011

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
16.809	ARRA—Recovery Act—State and Local Law Enforcement Assistance Program: Combating Criminal Narcotics Activity Stemming from the Southern Border of the United States Competitive Grant Program
84.351	Arts in Education State Fiscal Stabilization Fund Cluster:
84.394	ARRA—State Fiscal Stabilization Fund (SFSF)—Education State Grants, Recovery Act
84.397	ARRA—State Fiscal Stabilization Fund (SFSF)—Government Services, Recovery Act
97.067	Homeland Security Cluster: 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, 2011

Financial Statement Findings

11-01

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, 2011, the County Treasurer had approximately \$49 million in deposits and investments that included \$25 million for Santa Cruz County and another \$24 million for other political subdivisions, such as school districts. However, the County Treasurer's Office did not have 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 to the various financial institutions that hold deposits and investments for the Treasurer's Office.
- Had not recorded in its accounting records deposits of more than \$4.2 million that had been deposited into its servicing bank account. Of these deposits, over \$4.1 million were wire transfers made within the last 12 months, but the remaining \$0.1 million was deposited up to 7 years ago.
- Did not apportion pooled interest earnings to pool participants based on average monthly balances as required by state laws.
- 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.

Effect: The County 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.

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

Recommendation: The County Treasurer's Office should develop and implement written 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 all account balances held by the County Treasurer to those balances reported by the various financial institutions, including investigating and resolving differences in a timely manner.

Santa Cruz County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2011

- 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.
- Organizing the accounting records so that pooled investment account balances, deposits, and withdrawals can be distinguished from unpooled accounts.
- Following requirements that monies are invested, recorded, and transferred in compliance with state laws and debt agreements.

This finding is similar to a prior-year finding.

11-02

The County should improve its procedures over year-end grant receivables and accounts payable

Criteria: In order to produce accurate financial statements, the County must record receivables for grant monies owed to it by other governmental entities and record accounts payable for amounts it owes to outside vendors for goods and services received but not yet paid for. However, grant receivables should be recorded only when the County meets all applicable eligibility requirements. Eligibility requirements generally include spending monies on allowable costs and requesting reimbursement within the time period specified by the grant provisions.

Condition and context: At year-end, the County made significant errors when recording grant receivables. Specifically, the County did not meet the eligibility requirements for certain amounts recorded as grant receivables and failed to record a grant receivable when all eligibility requirements were met. In addition, at year-end, the County did not record a significant accounts payable transaction. These errors resulted in auditor adjustments to the County's financial statement amounts.

Effect: The County overstated its governmental funds' receivables and deferred revenues by \$1,053,614 and understated its governmental funds' expenditures and accounts payable by \$252,159.

Cause: The County did not have adequate policies and procedures in place to determine and properly record fiscal year-end grant receivables and accounts payable.

Recommendation: The County should establish and implement adequate written policies and procedures over determining and recording fiscal year-end grant receivables and accounts payable. Specifically, these procedures should require close monitoring of grant award activities to ensure that grant receivables are recorded only when all applicable eligibility requirements have been met. In addition, policies should require a thorough review of purchase transactions occurring near fiscal year-end to ensure that expenditures and accounts payable are recorded when goods and services are received prior to year-end but paid for after year-end.

This finding is similar to a prior-year finding.

Santa Cruz County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2011

11-03

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 its land and infrastructure capital assets, including depreciation. 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 \$30 million, or 23 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.

Effect: Auditors estimated that the County's June 30, 2011, land and infrastructure capital asset balances were understated by \$192,000 and \$2,998,000, respectively, and accumulated depreciation was understated by \$2,411,000. Also, fiscal year 2011 depreciation expense was understated by \$251,000. In addition, the County's capital assets were exposed to potential theft or misuse.

Cause: The County lacked sufficient internal control policies and procedures to properly record its land and infrastructure assets, including depreciation, 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.

This finding is similar to a prior-year finding.

Santa Cruz County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2011

11-04

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 11 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, 2012; however, the County did not issue its Single Audit Reporting Package until June 2012.

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.
- 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.

11-05

The County should strengthen controls over its financial information system

Criteria: The County's computerized financial information system processes and stores information that is vital to its daily operations. Therefore, it is imperative that the County establish written internal control policies and procedures over operations of its financial information system 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 financial information system. Specifically, auditors noted that the County did not review system-generated security

Santa Cruz County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2011

reports, especially those detailing activities of super-users. These reports help identify unauthorized attempts to access the computer system and monitor users' access. Further, the County 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, failure to monitor security reports prevents the detection of unauthorized attempts to gain access to critical computer systems and data.

Cause: According to the County, it lacked the resources to establish internal control policies and procedures to ensure security over its financial information 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, security reports produced by the financial information system, especially those detailing activities of super-users, should be reviewed regularly, and unauthorized access attempts should be investigated.

This finding is similar to a prior-year finding.

11-06

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 system interruption, the County should have a documented and tested disaster recovery plan for its computer systems.

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

Effect: The disruption of services, in the event of a system or equipment failure or other system 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.

Cause: According to the County, it lacked the resources to develop a formal disaster recovery plan.

Recommendation: The County should develop a disaster recovery plan for its financial information system. At a minimum, the County's disaster recovery plan 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.

Santa Cruz County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2011

- 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 and servers.
- Documentation of overall testing strategies, testing frequencies, and disaster plan test results.

This finding is similar to a prior-year finding.

11-07

The County should improve procurement procedures

Criteria: County procurement policy generally requires competitive sealed bidding to be used for all purchases above \$35,000 and requires three written price quotations to be obtained from vendors when making purchases between \$15,000 and \$35,000.

Condition and context: For one of three purchases tested above \$35,000, the County did not utilize competitive sealed bidding. In addition, for one of three purchases tested between \$15,000 and \$35,000, the County 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.

Cause: The County did not have adequate procedures to ensure that competitive sealed bidding was used or price quotations were obtained, as necessary, prior to purchasing goods and services.

Recommendation: To help ensure compliance with its procurement policy, the County should establish adequate procedures to ensure competitive sealed bidding is used when required for purchases over \$35,000 and at least three written price quotations from vendors are obtained when making purchases between \$15,000 and \$35,000.

This finding is similar to a prior-year finding.

Federal Award Findings and Questioned Costs

11-101

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, 2012. However, the County did not issue its Single Audit Reporting Package until June 2012.

Santa Cruz County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2011

Effect: The late submission affects all federal programs the County administered.

Cause: As discussed in items 11-02, 11-03, 11-04, and 11-102, the County lacked comprehensive internal control policies and procedures needed to prepare accurate financial statements and issue them in a timely manner.

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.

11-102

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.

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 understated its federal award expenditures by approximately \$10,969 and other required information for ten of its federal programs. The County's SEFA was adjusted for these errors.

Effect: The County did not comply with OMB Circular A-133 reporting requirements.

Cause: The County did not have effective policies and procedures in place to ensure that all 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, 2011

11-103

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

U.S. Office of National Drug Control Policy

Passed through the City of Tucson

Award Period: January 1, 2009 through December 31, 2010

January 1, 2010 through December 31, 2011

January 1, 2011 through December 31, 2012

Award Numbers: HT19-09-2715, HT20-10-1913, HT20-10-1914, HT20-10-2715, HT21-11-1913,
HT21-11-1914

State Fiscal Stabilization Fund Cluster

CFDA No.: 84.394 **ARRA—State Fiscal Stabilization Fund (SFSF)—Education State Grants, Recovery Act**

CFDA No.: 84.397 **ARRA—State Fiscal Stabilization Fund (SFSF)—Government Services Recovery Act**

U.S. Department of Education

Passed through the Governor's Office of Economic Recovery

Award Period: July 1, 2010 through September 30, 2011

Award Numbers: OER-11-IGA-GS-14, OER-11-IGA-GS-172, OER-11-IGA-GS-37

Homeland Security Cluster

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

U.S. Department of Homeland Security

Passed through the Arizona Department of Homeland Security

Award Period: October 1, 2009 through October 31, 2010

October 1, 2010 through September 30, 2011

October 1, 2009 through March 31, 2011

October 1, 2009 through September 30, 2010

October 1, 2010 through March 31, 2012

October 1, 2010 through December 31, 2011

Award Numbers: 09-AZDOHS-HSGP-555402-01, 09-AZDOHS-CCP-777402-01, 09-AZDOHS-OPSG-555428-01, 09-AZDOHS-OPSG-555428-02, 09-AZDOHS-OPSG-555428-03, 10-AZDOHS-OPSG-777431-01, 10-AZDOHS-OPSG-777431-02

Equipment and Real Property Management

Questioned Cost: N/A

Criteria: For the HIDTA, State Fiscal Stabilization Fund (SFSF), and Homeland Security Grant programs, 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 equipment purchased with federal grant monies. Specifically, equipment purchased with HIDTA, SFSF, and Homeland Security monies was not tagged or otherwise identifiable. In addition, the County did not perform a physical inventory of capital

Santa Cruz County
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Year Ended June 30, 2011

assets in the last 2 years. Finally, the HIDTA program's capital asset listing did not agree with the capital asset records maintained by the County's Finance Department.

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.

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 require all equipment items be properly tagged.

This finding is similar to a prior-year finding.

11-104

State Fiscal Stabilization Fund Cluster

CFDA No.: 84.394 **ARRA—State Fiscal Stabilization Fund (SFSF)—Education State Grants, Recovery Act**

CFDA No.: 84.397 **ARRA—State Fiscal Stabilization Fund (SFSF)—Government Services Recovery Act**

U.S. Department of Education

Passed through the Governor's Office of Economic Recovery

Award Period: July 1, 2010 through September 30, 2011

Award Numbers: OER-11-IGA-GS-14, OER-11-IGA-GS-172, OER-11-IGA-GS-37

Procurement and Suspension and Debarment

Questioned Cost: \$306,427

Criteria: State Fiscal Stabilization Fund 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 the County's 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. Further, in accordance with 44 CFR §13.35, the County must verify that contracts over \$25,000 are not granted to an entity that has been suspended or debarred from doing business with the federal government.

Condition and context: The County did not obtain competitive sealed bids when it made combined purchases totaling \$306,427. In addition, the County did not establish policies and procedures to verify that vendors being awarded contracts to provide goods or services over \$25,000 and paid for with federal monies had not been suspended or debarred, or otherwise excluded, from federal contracts. However, auditors noted that no contracts were awarded to suspended or debarred entities.

Effect: The County could enter into a contract that is not the most advantageous to the County and could make payments to suspended or debarred vendors.

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Cause: The County did not have adequate procedures to ensure that competitive sealed bids were obtained. In addition, it lacked policies, procedures, and knowledge of the suspension and debarment compliance requirements.

Recommendation: The County should ensure that its procurement policies are readily available and that they clearly explain when competitive sealed bids are required. Further, the County should establish policies and procedures to verify that vendors have not been suspended or debarred prior to awarding contracts over \$25,000 in federal monies and retain documentation of this determination. This may be accomplished by checking the Excluded Parties List System, obtaining a certification from the vendor, or adding a clause or condition to the contract.

11-105

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

U.S. Office of National Drug Control Policy

Passed through the City of Tucson

Award Period: January 1, 2009 through December 31, 2010

January 1, 2010 through December 31, 2011

January 1, 2011 through December 31, 2012

Award Numbers: HT19-09-2715, HT20-10-1913, HT20-10-1914, HT20-10-2715, HT21-11-1913,

HT21-11-1914

Procurement and Suspension and Debarment

Questioned Cost: \$25,500

Criteria: In accordance with 21 CFR §§1403.36(b)(1) and (9), the County should follow its procedures for procuring goods or services and ensure sufficient records are maintained to detail the significant history of a procurement. Further, in accordance with 21 CFR §1403.35, the County must verify that contracts over \$25,000 are not granted to an entity that has been suspended or debarred from doing business with the federal government.

Condition and context: The County did not always follow its procurement policies and procedures for obtaining written price quotations. Specifically, for four of four transactions subject to procurement requirements during the fiscal year, auditors noted the County did not obtain the required written price quotations or document why quotations could not be obtained for facility rental services totaling \$25,500. In addition, the County did not establish policies and procedures to verify that vendors being awarded contracts to provide goods and services over \$25,000 and paid for with federal monies had not been suspended or debarred or otherwise excluded, from federal contracts. However, auditors noted that no payments were made to suspended or debarred vendors.

Effect: The County could enter into a contract that is not the most advantageous to the County and could make payments to suspended or debarred vendors.

Cause: The County did not effectively monitor purchases to ensure departments obtain required quotes or document the rationale for selecting a vendor. In addition, it does not have policies and procedures in place to verify whether vendors have been suspended or debarred.

Santa Cruz County
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Year Ended June 30, 2011

Recommendation: The County should establish effective monitoring procedures to ensure departments follow its purchasing policies and procedures to obtain required quotations or to document why quotations could not be obtained. Further, the County should establish policies and procedures to verify that vendors have not been suspended or debarred prior to awarding contracts over \$25,000 in federal monies and retain documentation of this determination. This may be accomplished by checking the Excluded Parties List System, obtaining a certification from the vendor, or adding a clause or condition to the contract.

11-106

Homeland Security Cluster

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

U.S. Department of Homeland Security

Passed through the Arizona Department of Homeland Security

Award Period: October 1, 2009 through October 31, 2010

October 1, 2010 through September 30, 2011

October 1, 2009 through March 31, 2011

October 1, 2009 through September 30, 2010

October 1, 2010 through March 31, 2012

October 1, 2010 through December 31, 2011

Award Numbers: 09-AZDOHS-HSGP-555402-01, 09-AZDOHS-CCP-777402-01, 09-AZDOHS-OPSG-555428-01, 09-AZDOHS-OPSG-555428-02, 09-AZDOHS-OPSG-555428-03, 10-AZDOHS-OPSG-777431-01, 10-AZDOHS-OPSG-777431-02

Procurement and Suspension and Debarment

Questioned Cost: \$35,728

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 the County's 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. Further, in accordance with 44 CFR §13.35, the County must verify that contracts over \$25,000 are not granted to an entity that has been suspended or debarred from doing business with the federal government.

Condition and context: The County did not obtain competitive sealed bids to purchase radios, night vision goggles, and other equipment totaling \$35,728. Instead, they followed the procurement policy for the lower threshold purchases of obtaining three written quotes for goods. In addition, the County did not establish policies and procedures to verify that vendors being awarded contracts to provide goods or services over \$25,000 and paid for with federal monies had not been suspended or debarred, or otherwise excluded, from federal contracts. However, auditors noted that no contracts were awarded to suspended or debarred entities.

Effect: The County could enter into a contract that is not the most advantageous to the County and could make payments to suspended or debarred vendors.

Santa Cruz County
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Year Ended June 30, 2011

Cause: The County did not have adequate procedures to ensure that competitive sealed bids were obtained. In addition, it lacked policies, procedures, and knowledge of the suspension and debarment compliance requirements.

Recommendation: The County should ensure that its procurement policies are readily available and that they clearly explain when competitive sealed bids are required. Further, the County should establish policies and procedures to verify that vendors have not been suspended or debarred prior to awarding contracts over \$25,000 in federal monies and retain documentation of this determination. This may be accomplished by checking the Excluded Parties List System, obtaining a certification from the vendor, or adding a clause or condition to the contract.

This finding is similar to a prior-year finding.

11-107

CFDA No.: 16.809 **ARRA—Recovery Act—State and Local Law Enforcement Assistance Program:
Combating Criminal Narcotics Activity Stemming from the Southern Border of the United
States Competitive Grant Program**

U.S. Department of Justice

Award Period: July 1, 2009 through June 30, 2012

Award Numbers: 2009-SS-B9-0004

Activities Allowed or Unallowed, Allowable Costs/Cost Principles

Questioned Cost: \$50,227

Criteria: The U.S. Department of Justice, Office of Justice Programs Financial Guide, and 2 CFR Part 225, Appendix B, Section 8h, requires the County to certify or confirm that employee compensation charged to federal programs represents a reasonable distribution of employees' actual time and effort worked on federal programs. In addition, the County should have strong internal controls for monitoring payroll expenditures incurred in federal programs and require all employees working on federal programs and their direct supervisors to certify their time charged to the program.

Condition and context: During fiscal year 2011, the County paid three employees a total of \$121,255 under the Combating Criminal Narcotic Activity Stemming from the Southern Border of the United States Competitive Grant. During the period of November 5, 2010 through June 30, 2011, the County improperly paid a total of \$50,227 to one of these county employees; however, this employee was not approved by the program administrator and did not work for the program.

Effect: The County made unallowable federal charges and improper grant payments to an employee.

Cause: The County made a coding error on the employee's payroll forms, and the program administrator did not review grant program expenditures to ensure they were allowable.

Recommendation: The County should establish policies and procedures to require the grant program administrator to review and approve payroll forms, time sheets, and payroll expenditures for all employees whose wages are being charged to the federal program.

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11-108

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

U.S. Office of National Drug Control Policy

Passed through the City of Tucson

Award Period: January 1, 2009 through December 31, 2010

January 1, 2010 through December 31, 2011

January 1, 2011 through December 31, 2012

Award Numbers: HT19-09-2715, HT20-10-1913, HT20-10-1914, HT20-10-2715, HT21-11-1913,
HT21-11-1914

CFDA No.: 16.606 **State Criminal Alien Assistance Program**

U.S. Department of Justice

Award Period: July 1, 2010 through June 30, 2011

Award Numbers: 2010-H4517-AZ-AP

CFDA No.: 16.809 **ARRA—Recovery Act—State and Local Law Enforcement Assistance Program:
Combating Criminal Narcotics Activity Stemming from the Southern Border of the United
States Competitive Grant Program**

U.S. Department of Justice

Award Period: July 1, 2009 through June 30, 2012

Award Number: 2009-SS-B9-0004

Allowable Costs/Cost Principles

Questioned Cost: N/A

Criteria: The County should have adequate internal controls over human resources and payroll policies and procedures to ensure that employee compensation charged to federal programs is properly supported by records and represents employees' actual time and effort worked on federal programs. Specifically 2 CFR Part 225, Appendix B, Section 8h, requires the County to certify or confirm that employee compensation charged to federal programs represents a reasonable distribution of employees' actual time and effort worked on federal programs.

Condition and context: The County did not always approve employee time sheets to certify the employees' time and effort. Specifically, auditors noted that the following time sheets were not approved by the supervisor:

- One employee time sheet out of four tested was not certified for the SCAAP program.
- Two employee time sheets out of four tested were not certified for the HIDTA program.
- One employee time sheet out of two tested was not approved for the NARC program.

Effect: The County did not comply with the applicable payroll certification regulations for these grant programs. Auditors were able to perform additional auditing procedures to determine that the employees were authorized to work on the federal program, except for the NARC program employee as reported in item 11-107.

Santa Cruz County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2011

Cause: The County did not always effectively monitor individual departments to ensure time sheets were properly reviewed and approved as required by county policy and procedures.

Recommendation: To help ensure that employee compensation charged to federal programs is allowable and documented, the County should have adequate internal controls to monitor and verify that employee compensations charged to federal programs represent employees' actual time and effort spent on federal programs. In addition, the employee's supervisor should review and approve the certification.

11-109

CFDA No.: 16.606 **State Criminal Alien Assistance Program**

U.S. Department of Justice

Award Period: July 1, 2010 through June 30, 2011

Award Numbers: 2010-H4517-AZ-AP

Eligibility and Reporting

Questioned Cost: \$21,798

Criteria: The State Criminal Alien Assistance Program (SCAAP) Guidelines specify that applications to receive federal monies include only the salaries paid to correctional officers without the associated benefits. Also, these guidelines specify that in order for inmates to be eligible for the program, they must meet certain requirements, including being convicted of a felony or second misdemeanor for violations of state or local law, within the reporting period.

Condition and context: The County's SCAAP application incorrectly included the benefit amounts associated with its correctional officers' salaries, which overstated the reported amount by \$383,886. The application also incorrectly included an inmate who did not meet the program's eligibility requirements. Specifically, 1 out of 25 inmates tested had not been convicted of a felony or second misdemeanor within the reporting period.

Effect: Due to the application reporting errors, the County received an overaward of \$21,798 because the SCAAP award amount was calculated based on the overstated amounts reported on the application. It was not practical to extend our auditing procedures sufficiently to determine the amount of questioned costs, if any, that may have resulted from the ineligible inmate reported on the application.

Cause: The County did not have policies and procedures in place to ensure that the Program's application information was reviewed for accuracy prior to the application being submitted to the U.S. Department of Justice.

Recommendation: To help ensure that application information submitted to the U.S. Department of Justice is accurate and in compliance with the Program's guidelines, the County should implement policies and procedures that require someone who is knowledgeable about the guidelines to review and approve application information before it is submitted.

Santa Cruz County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2011

11-110

Homeland Security Cluster

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

U.S. Department of Homeland Security

Passed through the Arizona Department of Homeland Security

Award Period: October 1, 2009 through October 31, 2010

October 1, 2010 through September 30, 2011

October 1, 2009 through March 31, 2011

October 1, 2009 through September 30, 2010

October 1, 2010 through March 31, 2012

October 1, 2010 through December 31, 2011

Award Numbers: 09-AZDOHS-HSGP-555402-01, 09-AZDOHS-CCP-777402-01, 09-AZDOHS-OPSG-555428-01, 09-AZDOHS-OPSG-555428-02, 09-AZDOHS-OPSG-555428-03, 10-AZDOHS-OPSG-777431-01, 10-AZDOHS-OPSG-777431-02

Reporting

Questioned Cost: N/A

Criteria: In accordance with 44 CFR Subpart C 13.20(b)(3), the County should maintain an effective internal control system to adequately separate accounting responsibilities in the financial reporting process.

Condition and context: The County did not have adequate procedures in place to ensure that the 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, two of six reimbursement requests tested did not indicate that they were independently reviewed and approved. Although the reports were not reviewed, auditors found that the amounts reported agreed with the County's accounting records.

Effect: Without an independent review and approval, the County could report incorrect amounts for reimbursement.

Cause: The County did not follow internal control procedures to ensure that financial reports requesting reimbursement for expenditures were properly reviewed and approved.

Recommendation: The County should establish procedures to ensure all federal financial reports are properly reviewed and approved for completeness and accuracy before they are submitted to the Arizona Department of Homeland Security.

This finding is similar to a prior-year finding.

County Responses



ADMINISTRATIVE SERVICES
SANTA CRUZ COUNTY

Jennifer K. St. John, CPA
Director

June 20, 2012

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 standards applicable to financial audits contained in *Government Auditing Standards*, and by U. S. Office of Management and Budget Circular A-133. Specifically, we are providing you with the corrective action planned for the financial reporting findings and the names of the contact persons responsible for corrective action, the corrective action planned, and the anticipated completion date for each federal 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, 2011**

Financial Statement Findings

Item: 11-01

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

Contact Person: Caesar Ramirez, Santa Cruz County Treasurer

Anticipated Completion Date: October 1, 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.

Item: 11-02

Subject: The County should improve its procedures over year-end grant receivables and accounts payables.

Contact Person: Jennifer St. John, Administrative Services Director

Anticipated Completion Date: June 30, 2012

Corrective Action: The County will take greater care to properly record grant receivables and accounts payables at June 30, 2012.

Item: 11-03

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 performed a physical capital asset inventory as required by Statute in late Spring 2012. This inventory will allow the County to update its capital asset listing and correct many of the errors listed in this finding. In addition, the County will take greater care to properly calculate depreciation expense on all its assets.

Item: 11-04

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, 2012

**Santa Cruz County
Corrective Action Plan
Year Ended June 30, 2011**

Corrective Action: The County will take greater care when producing the financial statements for the fiscal year ended June 30, 2012, 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, 2013.

Item: 11-05

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

Contact Person: Raul Mavis, Information Technology Director

Anticipated Completion Date: January 1, 2012

Corrective Action: The County is working with our software provider to develop written policies and procedures over operations of our accounting system. Information technology staff already reviews security reports generated by the accounting system on a weekly basis.

Item: 11-06

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

Contact Person: Raul Mavis, Information Technology Director

Anticipated Completion Date: October 1, 2012

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: 11-07

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, 2011**

Federal Award Findings and Questioned Costs

Item: 11-101

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, 2012

Corrective Action: The County will submit all required financial information to the Auditor General's Office so that the fiscal year 2012 Single Audit can be issued by March 31, 2013.

Item: 11-102

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, 2013

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, 2012.

Item: 11-103

CFDA Number: 07.unknown High Intensity Drug Trafficking Area (HIDTA)
84.394 ARRA—State Fiscal Stabilization Fund (SFSF)—Education State Grants,
Recovery Act
84.397 ARRA—State Fiscal Stabilization Fund (SFSF)—Government Services
Recovery Act
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 performed a physical capital asset inventory as required by Statute in late Spring 2012. This inventory will allow the County to update its capital asset listing and correct many of the errors listed in this finding.

**Santa Cruz County
Corrective Action Plan
Year Ended June 30, 2011**

Item: 11-104

CFDA Number: 84.394 ARRA—State Fiscal Stabilization Fund (SFSF)—Education State Grants,
Recovery Act
84.397 ARRA—State Fiscal Stabilization Fund (SFSF)—Government Services
Recovery Act

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.

Item: 11-105

CFDA Number: 07.unknown High Intensity Drug Trafficking Area (HIDTA)

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.

Item: 11-106

CFDA Number: 97.067 Homeland Security Grant Program

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.

Item: 11-107

CFDA Number: 16.809 ARRA – Recovery Act – State and Local Law Enforcement Assistance Program:
Combating Criminal Narcotics Activity Stemming from the Southern Border of the United
States Competitive Grant Program

Subject: The County should confirm employee compensation charged to federal programs.

**Santa Cruz County
Corrective Action Plan
Year Ended June 30, 2011**

Contact Person: George Silva, County Attorney

Anticipated Completion Date: January 1, 2012

Corrective Action: The County found this error prior to the 2011 Single Audit testwork and corrected it in January 2012; however, for all future grants and grant charges, the County will take greater care to only charge and request reimbursement from the Federal grantor for allowable expenditures that are properly recorded and supported within the County's financial records.

Item: 11-108

CFDA Number: 07.unknown High Intensity Drug Trafficking Area (HIDTA)
16.606 State Criminal Alien Assistance Program
16.809 ARRA—Recovery Act – State and Local Law Enforcement Assistance Program:
Combating Criminal Narcotics Activity Stemming from the Southern Border of the United
States Competitive Grant Program

Subject: The County should confirm employee compensation charged to federal programs.

Contact Person: Jennifer St. John, Administrative Services Director

Anticipated Completion Date: July 1, 2012

Corrective Action: The County will take greater care when approving and reviewing employee timesheets to ensure that charges made to federal programs are proper and allowable.

Item: 11-109

CFDA Number: 16.606 State Criminal Alien Assistance Program

Subject: The County should improve controls over federal applications.

Contact Person: Jennifer St. John, Administrative Services Director

Anticipated Completion Date: July 1, 2012

Corrective Action: The County will take greater care when completing applications for federal grant awards to ensure that only allowable costs are included in the application.

Item: 11-110

CFDA Number: 97.067 Homeland Security Grant Program

Subject: The County should improve segregation of duties over the Homeland Security Grant Program.

Contact Person: Jennifer St. John, Administrative Services Director

Anticipated Completion Date: January 1, 2012

Corrective Action: Effective immediately, the Administrative Services Director will review and approve the financial reports prepared by the Sheriff's Office requesting reimbursement for this grant.



ADMINISTRATIVE SERVICES
SANTA CRUZ COUNTY

Jennifer K. St. John, CPA
Director

June 20, 2012

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, 2011

Status of Prior Year Federal Award Findings and Questioned Costs

CFDA Number: Not applicable

Finding Number: **10-101 and 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 2012 Single Audit can be issued by March 31, 2013.

CFDA Number: Not applicable

Finding Number: **10-102, 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, 2012.

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: **10-103 and 09-103**

Status: Not Corrected

Corrective Action Plan: The County hired temporary personnel to do a physical capital asset inventory as required by Statute in late 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: **10-104 and 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.

CFDA Number: 97.067 Homeland Security Grant Program

Finding Number: **10-105**

Status: Partially Corrected

Corrective Action Plan: 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. Further, effective immediately, the Administrative Services Director will review and approve the financial reports prepared by the Sheriff's Office requesting reimbursement for this grant.