



REPORT HIGHLIGHTS

FINANCIAL STATEMENT AND SINGLE AUDITS

Our Conclusion

Santa Cruz County is responsible for preparing annual financial statements and a schedule of expenditures of federal awards, maintaining effective internal controls, and being accountable for its use of public monies. Our Office is responsible for auditing the County's financial statements, schedule, and major federal programs annually. A summary of the financial statements and schedule of expenditures of federal awards is presented to the right.

Based on our audits, we issued reports that included our opinions on the County's financial statements and its schedule of expenditures of federal awards and reports on its internal control and compliance over financial reporting and major federal programs. The information in the County's fiscal year 2012 financial statements and schedule of expenditures of federal awards is reliable. Our reports identified internal control weaknesses and instances of noncompliance over major federal programs. These findings are summarized on the following pages.



2012

Year Ended June 30, 2012

Condensed financial information

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

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

Statement of activities—This statement reports all revenues, expenses, and the year's change in net assets. Revenues include program revenues—those generated by or dedicated to a specific program—or general revenues, such as taxes raised for general purposes. It also reports revenues and expenses as either governmental activities—primarily supported by taxes and grant monies—or business-type activities—primarily supported by user fees and charges. During fiscal year 2012, net assets decreased by \$2.6 million, or 2.6 percent, as compared to an increase of \$1.5 million, or 1.6 percent, in fiscal year 2011.

Schedule of expenditures of federal awards—During fiscal year 2012, the County expended almost \$6.2 million in federal awards. The County's federal award expenditures decreased by \$3.8 million, or 38.2 percent, compared to fiscal year 2011.

Condensed statement of net assets Governmental and business-type activities As of June 30, 2012 (In thousands)

Assets	
Current assets	\$ 35,596
Capital assets, net of depreciation	<u>134,024</u>
Total assets	<u>169,620</u>
Liabilities	
Current	2,551
Noncurrent	<u>67,726</u>
Total liabilities	<u>70,277</u>
Net assets	
Invested in capital assets, net of related debt	70,075
Restricted	17,730
Unrestricted	<u>11,538</u>
Total net assets	<u>\$ 99,343</u>

Condensed statement of activities Governmental and business-type activities For the year ended June 30, 2012 (In thousands)

Program revenues	
Governmental activities	\$ 18,234
Business-type activities	968
General revenues	
Governmental activities	26,286
Business-type activities	<u>100</u>
Total revenues	<u>45,588</u>
Expenses	
Governmental activities	47,371
Business-type activities	<u>833</u>
Total expenses	<u>48,204</u>
Change in net assets	<u>(2,616)</u>
Net assets—beginning, as restated	<u>101,959</u>
Net assets—ending	<u>\$ 99,343</u>

Condensed schedule of expenditures of federal awards by grantor agency For the year ended June 30, 2012 (In thousands)

U.S. Department of the Interior	\$ 962
U.S. Department of Justice	953
U.S. Department of Labor	884
U.S. Department of Homeland Security	671
Executive Office of the President	654
U.S. Department of Education	638
Other	<u>1,402</u>
Total federal expenditures	<u>\$6,164</u>

Summary of audit findings and recommendations

For the financial statement audit, we found nine internal control weaknesses over financial reporting. For the federal compliance audit, we tested seven federal programs under the major program guidelines established by the Single Audit Act and noted that for six of its programs the County did not always have adequate internal controls and did not always comply with federal program requirements. Our Single Audit Reporting Package contains further details to help the County correct these deficiencies. The most significant findings and recommendations are summarized below.

Improvements needed for timely and accurate financial reporting

- The County did not submit its Single Audit Reporting Package to the federal clearinghouse by the required March 31, 2013, deadline. Further, the draft financial statements received by auditors were not accurate and were not prepared in accordance with generally accepted accounting principles. The County corrected its draft financial statements for all significant errors, many of which are presented in the following bullet points.
- The County Treasurer's Office had not established policies and procedures for investing, managing, recording, and tracking deposits and investments. This deficiency resulted in an overstatement of \$2.2 million in the cash and investments account balance.
- The County did not properly control, safeguard, and report capital assets in its financial statements. This deficiency resulted in an understatement totaling \$4.8 million in land, construction equipment, and vehicles; \$2.7 million in associated accumulated depreciation; and \$319,000 in associated depreciation expense.
- The County did not always recognize revenue in the appropriate period, which led to misstatements totaling almost \$1.5 million in various receivables, liabilities, and revenues, including taxes, intergovernmental revenues, and grants and contributions.
- The County did not recognize significant expenditures for goods and services received but not paid for by June 30, 2012. This deficiency led to misstatements totaling \$617,800 in accounts payable, cash and investments, and expenditures.
- The County did not always deposit receipts from landfill fees in a timely manner and did not reconcile the receipts with deposits on a daily basis, resulting in a risk of exposing public monies to misuse and potential loss.

Recommendations

To improve internal controls over financial reporting, the County should:

- Develop and implement comprehensive written policies and procedures for compiling and preparing financial statement information. Further, the County should dedicate appropriate resources and assign employees specific financial reporting responsibilities. Finally, the County should require an employee who is not responsible for financial statement preparation to review the financial statement information to ensure that amounts are presented in accordance with generally accepted accounting principles.
- Develop and implement written policies and procedures to help ensure that deposits and investments are adequately safeguarded, properly accounted for, and accurately reported in its financial statements.
- Develop and implement written policies and procedures for controlling, safeguarding, and recording capital assets and associated depreciation.
- Develop and implement written policies and procedures for recording revenue.
- Develop and implement written policies and procedures for recording expenditures at year-end.
- Develop and implement written policies and procedures for the receipt and deposit of landfill fees. These policies and procedures should require daily reconciliations between landfill receipts and cash received and timely deposits of landfill fees.
- Provide periodic training to county employees on new and existing policies and procedures to help ensure compliance.

Noncompliance with federal program requirements

- The County did not maintain effective control and accountability for equipment purchased with federal monies. Equipment was not always tagged or otherwise identified and properly recorded on the County's capital assets listing. Also, a physical inventory was not adequately performed; therefore, auditors could not rely on its results. These deficiencies resulted in the County's noncompliance with federal capital assets regulations over six federal grant programs.
- The County did not always follow its procurement policies and procedures for obtaining written and verbal price quotations for purchases totaling \$56,869 made with federal monies in three grant programs.
- The County paid certain employees \$302,711 in federal monies but did not certify or confirm semiannually that the employees' actual time and effort was spent on the applicable grant program's activities. The County paid these salaries and related expenditures from federal monies based on a predetermined, before-the-fact determination. This deficiency affected expenditures made from four federal grant programs.
- The County did not always accurately prepare its federal financial reports for one federal grant program. We noted errors in five of six reports examined, including understatements of current period expenditures by amounts ranging between \$40,700 and \$45,900 and overstatements of cumulative expenditures by amounts ranging between \$2,200 and \$88,800. Consequently, the information used by the federal grantor for analysis and program monitoring was inaccurate.

Recommendations

To improve controls over the County's federal programs and help ensure compliance with federal requirements, the County should:

- Develop and implement policies and procedures that require a complete and timely physical inventory of equipment be performed. The County should also ensure that established policies are followed that require all equipment items be tagged and accounted for in its capital assets listing.
- Develop and implement monitoring procedures to ensure departments follow established purchasing policies and procedures.
- Develop and implement policies and procedures to help ensure department personnel comply with time and effort certification requirements.
- Develop and implement policies and procedures to help ensure all reports are prepared in accordance with federal financial reporting instructions.
- Provide periodic training to county employees on new and existing policies and procedures to help ensure compliance.



Santa Cruz County

Copies of the County's Comprehensive Annual
Financial Report and Single Audit Report
are available at: www.azauditor.gov
Contact person:
Victoria Fisher (602) 553-0333

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Year Ended June 30, 2012