



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Single Audit

Santa Cruz County

June 30, 2002



Debra K. Davenport
Auditor General

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Santa Cruz County, Arizona
Single Audit Reporting Package
June 30, 2002

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**STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL**

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

**Independent Auditors' Report on Compliance and on Internal Control over
Financial Reporting Based on an Audit of General Purpose 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 general purpose financial statements of Santa Cruz County as of and for the year ended June 30, 2002, and have issued our report thereon dated October 18, 2002. 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.

Compliance

As part of obtaining reasonable assurance about whether the County's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of general purpose 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we will report to the County's management in a separate letter.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily disclose all such internal control matters that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving internal control over financial reporting that we will report to the County's management in a separate letter.

This report is intended solely for the information and use of the members of the Arizona State Legislature, the Board of Supervisors, federal awarding agencies, and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Dennis L. Mattheisen, CPA
Financial Audit Director

October 18, 2002



**STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL**

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

**Independent Auditors' Report on Compliance with Requirements
Applicable to 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 the compliance of Santa Cruz County with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2002. 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 on the County's compliance with those requirements.

As described in item 02-102 in the accompanying Schedule of Findings and Questioned Costs, the County did not comply with the requirements regarding matching that are applicable to its Gaining Early Awareness and Readiness for Undergraduate Program. Compliance with such requirements is necessary, in our opinion, for the County to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, Santa Cruz County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002. 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 are described in the accompanying Schedule of Findings and Questioned Costs as items 02-101 and 02-103.

Internal Control over Compliance

The County's management is responsible for establishing and maintaining effective internal control over compliance with 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 requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over compliance that, in our judgment, could adversely affect the County's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 02-102 and 02-103.

A material weakness is a condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur, and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control over compliance would not necessarily disclose all such internal control matters that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item 02-102 to be a material weakness.

Schedule of Expenditures of Federal Awards

We have audited the County's general purpose financial statements as of and for the year ended June 30, 2002, and have issued our report thereon dated October 18, 2002. Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. 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 general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

This report is intended solely for the information and use of the members of the Arizona State Legislature, the Board of Supervisors, federal awarding agencies, and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Dennis L. Mattheisen, CPA
Financial Audit Director

January 17, 2003, except for the
Schedule of Expenditures of Federal
Awards, for which the date is October 18, 2002

Santa Cruz County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2002

Federal Grantor / Program Title / Pass-Through Grantor	CFDA Number (Note 2)	Pass-Through Grantor's Number	Expenditures
U.S. Office of National Drug Control Policy			
High Intensity Drug Trafficking Area, passed through Pima County	07.10PSAP549	01-11-O-127263-1099 01-11-O-127265-1099	\$ 383,485
High Intensity Drug Trafficking Area, passed through Pima County	07.11PSAP549	01-11-S-128861-1000 01-11-O-128877-1000	<u>222,419</u>
Total U.S. Office of National Drug Control Policy			<u>605,904</u>
U.S. Department of Agriculture			
Schools and Roads—Grants to States, passed through the Arizona State Treasurer	10.665	None	<u>47,482</u>
U.S. Department of Housing and Urban Development			
Community Development Block Grants/State's Program, passed through the Arizona Department of Commerce	14.228	125-00	<u>251,667</u>
U.S. Department of the Interior			
Payments in Lieu of Taxes	15.226		<u>475,255</u>
U.S. Department of Justice			
Byrne Formula Grant Program, passed through the Arizona Criminal Justice Commission	16.579	CRI-02-050 PC-150-02 AC-200-02	320,922
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580		80,399
Rural Domestic Violence and Child Victimization Enforcement Grant Program, passed through the Governor's Office for Domestic Violence Prevention	16.589	CCRT 2001-13	27,791
Local Law Enforcement Block Grants Program	16.592		24,122
State Criminal Alien Assistance Program	16.606		93,764
Bulletproof Vest Partnership Program	16.607		8,177
Federal Equitable Sharing Program	16.unknown		<u>20,420</u>
Total U.S. Department of Justice			<u>575,595</u>

(Continued)

See accompanying notes to schedule.

Santa Cruz County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2002
(Continued)

Federal Grantor / Program Title / Pass-Through Grantor	CFDA Number (Note 2)	Pass-Through Grantor's Number	Expenditures
U.S. Department of Labor			
Welfare-to-Work Grants to States and Localities, passed through the Arizona Department of Economic Security	17.253	E5709066	\$ <u>20,256</u>
WIA Cluster			
WIA Adult Program, passed through the Arizona Department of Economic Security	17.258	E5702012 E5701029	1,043,990
WIA Youth Activities, passed through the Arizona Department of Economic Security	17.259	E5701029 E5702012	362,370
WIA Dislocated Workers, passed through Pima County	17.260	E5701029 E5702012	<u>958</u>
Total WIA Cluster			<u>1,407,318</u>
Total U.S. Department of Labor			<u>1,427,574</u>
U.S. Department of Transportation			
Highway Planning and Construction, passed through the Arizona Department of Transportation	20.205	ER-SSC-0(011)P	92,559
State and Community Highway Safety, passed through the Governor's Office of Highway Safety	20.600	2002-AL-004	<u>28,082</u>
Total U.S. Department of Transportation			<u>120,641</u>
U.S. Federal Emergency Management Agency			
Hazard Mitigation Grant, passed through the Arizona Department of Emergency and Military Affairs	83.548	58-0104-0-1-453 0977-0031-0034	2,004,007
Emergency Management Performance Grants, passed through the Arizona Department of Emergency and Military Affairs	83.552	58-0101-0-1-999	<u>13,796</u>
Total U.S. Federal Emergency Management Agency			<u>2,017,803</u>

(Continued)

See accompanying notes to schedule.

Santa Cruz County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2002
(Concluded)

Federal Grantor / Program Title / Pass-Through Grantor	CFDA Number (Note 2)	Pass-Through Grantor's Number	Expenditures
U.S. Department of Education			
Adult Education—State Grant Program, passed through the Arizona Department of Education	84.002	V002A00003	\$ 58,516
Title I Grants to Local Educational Agencies, passed through the Arizona Department of Education	84.010	24419	75,582
Special Education—Grants to States, passed through the Arizona Department of Education	84.027	None	2,709
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334		486,840
Class Size Reduction, passed through the Arizona Department of Education	84.340	None	<u>1,465</u>
Total U.S. Department of Education			<u>625,112</u>
U.S. Department of Health and Human Services			
Acquired Immunodeficiency Syndrome (AIDS) Activity, passed through the Arizona Department of Health Services	93.118	152018	37,127
Social Services Block Grant, passed through the Southeastern Arizona Governments Organization	93.667	02-07	58,590
Preventive Health Services—Sexually Transmitted Diseases Control Grants, passed through the Arizona Department of Health Services	93.977	05-2008	3,100
Maternal and Child Health Services Block Grant to the States, passed through the Arizona Department of Health Services	93.994	961095	<u>35,376</u>
Total U.S. Department of Health and Human Services			<u>134,193</u>
Total Expenditures of Federal Awards			<u>\$ 6,281,226</u>

See accompanying notes to schedule.

Santa Cruz County
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2002

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 *2002 Catalog of Federal Domestic Assistance*. When no CFDA number had been assigned to a program, the two-digit federal agency number, a period, and the federal contract number were used. When there was no federal contract number, the two-digit federal agency number, 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, 2002.

Santa Cruz County
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2002

Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:		Unqualified	
	YES	NO	
Material weakness identified in internal control over financial reporting?	—	<u>X</u>	
Reportable conditions identified not considered to be material weaknesses?	—	<u>X</u> (None reported)	
Noncompliance material to the financial statements noted?	—	<u>X</u>	

Federal Awards

Material weakness identified in internal control over major programs?	<u>X</u>	—	
Reportable conditions identified not considered to be material weaknesses?	<u>X</u>	—	
Type of auditors' report issued on compliance for major programs:			Qualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (section .510[a])?	<u>X</u>	—	

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
07.I0PSAP549/07.I1PSAP549	High-Intensity Drug Trafficking Area
15.226	Payments in Lieu of Taxes
16.579	Byrne Formula Grant Program
83.548	Hazard Mitigation Grant
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs
	Workforce Investment Act Cluster of Programs
17.258	WIA Adult Program
17.259	WIA Youth Activities
17.260	WIA Dislocated Workers

Dollar threshold used to distinguish between Type A and Type B programs:		\$ 300,000	
Auditee qualified as low-risk auditee?	—	<u>X</u>	

Other Matters

Auditee's Summary Schedule of Prior Audit Findings required to be reported in accordance with Circular A-133 (section .315[b])?	<u>X</u>	—	
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Santa Cruz County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2002

Federal Award Findings and Questioned Costs

02-101

CFDA No.: 17.258 **WIA Adult Program**, 17.259 **WIA Youth Activities**

U.S. Department of Labor, passed through the Arizona Department of Economic Security

Award Year: September 15, 2001 through September 15, 2002

Award Number: E5701029, E5702012

Reporting

Questioned Cost: CFDA 17.258—\$11,546
CFDA 17.259—\$58,563

For its July 2001 Contractor Accrued Expenditure Report, the County reported \$70,109 more of expenditures than were recorded in its general ledger. Further, we were unable to determine whether the County was reimbursed for the \$70,109 of expenditures since the County did not maintain adequate documentation for its reimbursement request.

To help ensure compliance with its reporting requirements, the County should report only expenditures that are supported by its underlying accounting records in its Contractor Accrued Expenditure Reports as required by 29 Code of Federal Regulations (CFR), Part 95, Subpart C, §95.21.

02-102

CFDA No.: 84.334 **Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP)**

U.S. Department of Education

Award Year: September 15, 2001 through September 15, 2002

Award Number: P334A000262

Matching, Level of Effort, and Earmarking

Questioned Cost: \$85,115

The Santa Cruz County Superintendent of Schools Office did not establish adequate policies and procedures to comply with the matching requirements for the GEAR UP program. The Office had documented only \$60,937 of amounts claimed for matching or about 12 percent of actual program expenditures. As a result, the Office did not meet the program's 30 percent matching requirement of \$146,052 by \$85,115, as required by the grant agreement and 34 CFR, Part 80, Subpart C, §80.24. This finding is considered both material noncompliance and a material internal control weakness with respect to the program's matching requirement and is similar to a prior year finding.

Santa Cruz County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2002

To help ensure compliance with the program's matching requirement, the Office should obtain the proper amount of nonfederal contributions from either third-party in-kind sources or allowable costs made from local monies for the GEAR UP program annually. Also, the Office should implement internal control procedures to ensure matching amounts are sufficient to meet the program's required matching percentage.

02-103

CFDA No.: 84.334 **Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP)**

U.S. Department of Education (USDOE)

Award Year: September 15, 2001 through September 15, 2002

Award Number: P334A000262

Procurement and Suspension and Debarment

Questioned Cost: \$37,504

The Santa Cruz County Superintendent of Schools Office did not establish adequate policies and procedures to comply with the County's purchasing policy as required by 34 CFR, Part 80, Subpart C, §80.20, until April 2002. Prior to implementing the policies and procedures, the Office failed to maintain documentation supporting sole source determination for two purchases of \$31,650 and \$5,854 that were from vendors who were identified as sole source providers.

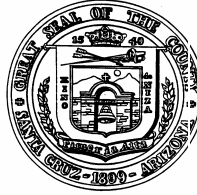
The County's purchasing policy requires that written documentation for the basis of sole source purchases be included in the contract file. As a result, the Office did not comply with the County's procurement requirements for the two purchases and as a result, they are reported as questioned costs. This finding is similar to a prior year finding.

**BOARD OF SUPERVISORS
SANTA CRUZ COUNTY**

Manuel Ruiz
District 1

Robert Damon
District 2

John Maynard
District 3



2150 N. Congress Drive, Suite 119
Nogales, Arizona 85621

February 25, 2003

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,

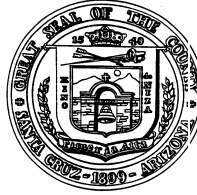
Jennifer K. St. John, CPA
Director of Administrative Services

**BOARD OF SUPERVISORS
SANTA CRUZ COUNTY**

Manuel Ruiz
District 1

Robert Damon
District 2

John Maynard
District 3



2150 N. Congress Drive, Suite 119
Nogales, Arizona 85621

January 17, 2003

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.

Sincerely,

Jennifer K. St. John, CPA
Director of Administrative Services

SANTA CRUZ COUNTY, ARIZONA
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2002

Status of Federal Award Findings and Questioned Costs

CFDA Number	84.334 - Gaining Early Awareness and Readiness for Undergraduate Programs (Gear Up)
Finding Number	01-101
Status	Partially Corrected – Adequate supporting documentation is being maintained by the School Superintendent’s Office to support the matching requirements. Further, this documentation can be verified and shows the funding source from which the match is received. We did fall short of the matching percentage – we could support 12% of expenditures while the federal program requires a 30% match. With time and repetition, we will meet the 30% requirement. Our estimated completion date is June 30, 2003.
CFDA Number	84.334 - Gaining Early Awareness and Readiness for Undergraduate Programs (Gear Up)
Finding Number	01-102
Status	Corrected as of April 1, 2002
CFDA Number	84.334 - Gaining Early Awareness and Readiness for Undergraduate Programs (Gear Up)
Finding Number	01-103
Status	Corrected as of September 1, 2002