

Apache County, Arizona
Single Audit Reporting Package

Year ended June 30, 2014

**Apache County, Arizona
Single Audit Reporting Package
Year ended June 30, 2014**

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Report Issued Separately

Financial Statements



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*

The Auditor General of the State of Arizona

The Honorable Board of Supervisors of
Apache County, Arizona

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Apache County, Arizona (the County), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated May 23, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the County's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not 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 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 deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2014-001 to be a material weakness.

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 deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2014-002 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's basic financial statements are free from 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Apache County Responses to Findings

The County's responses to the findings identified in our audit are presented on page 15. The County's responses were not subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Wahne & Armstrong, LLP

Phoenix, Arizona
May 23, 2016

**Independent Auditors' Report on Compliance for Each Major Federal Program;
Report on Internal Control over Compliance;
and Report on Schedule of Expenditures of Federal Awards
Required by OMB Circular A-133**

The Auditor General of the State of Arizona

The Honorable Board of Supervisors of
Apache County, Arizona

Report on Compliance for Each Major Federal Program

We have audited Apache County's (the "County") 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 the County's major federal programs for the year ended June 30, 2014. The County's major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the County's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the County's compliance.

Opinion on Each Major Federal Program

In our opinion, Apache County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs for the year ended June 30, 2014.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance 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 2014-101 and 2014-102. Our opinion on each major federal program is not modified with respect to these matters. The County's responses to the noncompliance findings identified in our audit are presented on page 15. The County's responses were not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on them.

Report on Internal Control over Compliance

The County's management is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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.

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 a 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.

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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as items 2014-101 to 2014-102 that we consider to be significant deficiencies.

The County's responses to the internal control over compliance findings identified in our audit are presented on page 15. The County's responses were not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on them.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the County as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the County's basic financial statements. We issued our report thereon dated May 23, 2016, that contained unmodified opinions on those financial statements.

Our audit was conducted 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 is the responsibility of the County's management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Walker & Armstrong, LLP

Phoenix, Arizona
May 23, 2016

Apache County, Arizona
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2014

Federal Grantor/Program Title/Pass-Through Grantor	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
U.S. Department of Agriculture			
<i>Passed through the Arizona Department of Health Services</i>			
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	HG861142	\$ 153,756
SNAP Cluster:			
State Administrative Matching Grants for Supplemental Nutrition Assistance Program	10.561	ADHS12-014988	43,697
<i>Passed through Arizona State Forestry</i>			
Cooperative Forestry Assistance	10.664	WFHF 09-006	422,124
Forest Service Schools and Roads Cluster:			
<i>Passed through the United States Forest Service</i>			
Schools and Roads - Grants to States	10.665	12-DG-11030121-011	158,747
<i>Passed through the Arizona State Treasurer</i>			
Schools and Roads - Grants to States	10.665	None	925,697
Total Forest Service Schools and Roads Cluster			<u>1,084,444</u>
Total U.S. Department of Agriculture			<u>1,704,021</u>
U.S. Department of Housing and Urban Development			
<i>Passed through the Arizona Department of Housing</i>			
Community Development Block Grant-Entitlement Grant	14.218	113-13 & 114-13	28,168
Sustainable Communities Regional Planning Grant	14.703	AZRIP0003-10	56,764
Total U.S. Department of Housing and Urban Development			<u>84,932</u>
U.S. Department of the Interior			
Payments in Lieu of Taxes	15.226	None	<u>1,657,182</u>
U.S. Department of Justice			
Bulletproof Vest Partnership Program	16.607	None	3,166
ARRA Recovery Act - Public Safety			
Partnership and Community Policing Grant	16.710	2012UMWX0012	167,093
ARRA Recovery Act - Public Safety			
Partnership and Community Policing Grant	16.710	2006CKWX0430	22,035
<i>Total for CFDA No. 16.710</i>			<u>189,128</u>
<i>Passed through the Arizona Criminal Justice Commission</i>			
State Criminal Alien Assistance Program	16.606	2012-H4136-AZ-AP	6,820
JAG Program Cluster:			
ARRA Recovery Act – Edward Byrne Memorial			
Justice Assistance Grant Program	16.738	DC-13-017	93,065
ARRA Recovery Act – Edward Byrne Memorial			
Justice Assistance Grant Program	16.738	None	237,429
Total JAG Program Cluster			<u>330,494</u>
Total U.S. Department of Justice			<u>529,608</u>

Apache County, Arizona
Schedule of Expenditures of Federal Awards - Continued
Year ended June 30, 2014

Federal Grantor/Program Title/Pass-Through Grantor	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
U.S. Department of Transportation			
<i>Passed through the Arizona</i>			
<i>Department of Transportation</i>			
Highway Planning and Construction	20.205	663TRN	\$ 297,363
Highway Safety Cluster:			
State and Community Highway Safety	20.600	2015-OP-011	4,146
State and Community Highway Safety	20.600	2014-PT-087	<u>34,107</u>
Total Highway Safety Cluster:			38,253
Total U.S. Department of Transportation			<u>335,616</u>
U.S. Department of Education			
Special Education Cluster (IDEA):			
<i>Passed through the Arizona Supreme Court</i>			
Special Education_Grants to States	84.027	KR12-0084	13,737
Special Education_Grants to States	84.027	KR12-0084	<u>4,386</u>
Total Special Education Cluster			18,123
<i>Passed through the Arizona Supreme Court</i>			
Title I State Agency Program for Neglected and Delinquent Children and Youth	84.013	KR12-0084	21,758
<i>Passed through the Arizona Department of Education</i>			
Improving Teacher Quality State Grant	84.367	KR12-0084	<u>5,625</u>
Total U.S. Department of Education			<u>45,506</u>
U.S. Department of Health and Human Services			
<i>Passed through the National Association of County & City Health Officials</i>			
Medical Reserve Corps Small Grant Program	93.008	MRC 13 2107	3,500
<i>Passed through the Arizona Department of Health Services</i>			
Public Health Emergency Preparedness	93.069	ADHS12-007883	171,110
Immunization Cooperative Agreements	93.268	ADHS13-039571	85,658
Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Programs	93.919	ADHS13-029324	47,558
Preventive Health Services-Sexually Transmitted Disease Control Grants	93.977	ADHS14-071557	1,080
Maternal and Child Health Services Block Grant to the States	93.994	HG561262	87,683
Maternal and Child Health Services Block Grant to the States	93.994	ADHS13-034072	<u>19,000</u>
<i>Total for CFDA No. 93.994</i>			106,683
Total U.S. Department of Health and Human Services			<u>415,589</u>

Apache County, Arizona
Schedule of Expenditures of Federal Awards - Continued
Year ended June 30, 2014

Federal Grantor/Program Title/Pass-Through Grantor	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
Executive Office of the President			
<i>Passed through the Arizona High Intensity Drug Trafficking Areas Program</i>			
High Intensity Drug Trafficking Areas Program	95.001	None	\$ 8,731
U.S. Department of Homeland Security			
<i>Passed through the Arizona Department of Homeland Security</i>			
Homeland Security Grant Program	97.067	2NSH8015	112,781
<i>Passed through the Arizona Department of Emergency and Military Affairs</i>			
Emergency Management Performance Grants	97.042	2ES01077	<u>129,633</u>
Total U.S. Department of Homeland Security			<u>242,414</u>
Total expenditures of federal awards			<u>\$ 5,023,599</u>

Apache County, Arizona
Notes to Schedule of Expenditures of Federal Awards
Year ended June 30, 2014

Note 1 - Basis of Accounting

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Apache County, Arizona and is presented on the modified accrual basis of accounting. The information on 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) Numbers

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2014 *Catalog of Federal Domestic Assistance*.

Note 3 - Subrecipient

From the federal expenditures presented in the schedule, the County awarded the following to a subrecipient:

<u>Program Title</u>	<u>CFDA</u>	<u>Amount</u>
Schools and Roads – Grants to States	10.665	\$ 374,724

Apache County, Arizona
Schedule of Findings and Questioned Costs
Year ended June 30, 2014

Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:

Unmodified

Yes

No

Internal control over financial reporting:

Material weaknesses identified

X

Significant deficiencies identified

X

Noncompliance material to the financial statements noted?

X

Federal Awards

Internal control over major programs:

Material weaknesses identified

X

Significant deficiencies

X

Type of auditor's report issued on compliance for major programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (section .510[a])?

X

Identification of major programs:

<u>CFDA No.</u>	<u>Name of Federal Program</u>
10.664	Cooperative Forestry Assistance
	<i>Forest Service Schools and Roads Cluster:</i>
10.665	Schools and Roads – Grants to States
15.226	Payments in Lieu of Taxes
	<i>JAG Program Cluster:</i>
16.738	ARRA Recovery Act – Edward Byrne Memorial Justice Assistance Grant Program
	<i>Highway Planning and Construction Cluster:</i>
20.205	Highway Planning and Construction

Dollar threshold used to distinguish between Type A and Type B programs:

\$300,000

Auditee qualified as a 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

Schedule of Findings and Questioned Costs - Continued

B. Financial Statement Findings

2014-001 – Improve the Year-End Closing Procedures

Condition: Although improved from prior year, during our audit, we noted an error in the recording of cash, receivables and accrued payroll. As a result, cash, receivables and accrued liabilities were materially misstated in several County funds.

Recommendation: We recommend that as part of the year-end closing process, that the County improve the analysis and adjustment of the general ledger accounts. Doing so will improve compliance with the Uniform Accounting Manual for Arizona Counties issued by the State of Arizona, Office of the Auditor General and reduce the time necessary to complete the year-end audit.

Management Views and Corrective Action: See corrective action plan.

2014-002 – Improve Budgetary Controls

Condition: Arizona Revised Statutes (A.R.S.) §42-17106(A) prohibits the expenditure of funds or the creation of liabilities in excess of the adopted budget for the fiscal year. Expenditures may not legally exceed appropriations at the department level. In certain instances, transfers of appropriations between departments or from the contingency account to a department may be made upon the Board of Supervisors' approval. During 2014, there were ten (10) instances in which the budgetary line items were over-expended. Although budgets are monitored on an ongoing basis, procedures have not been implemented to ensure that all departments comply with budget requirements. As such, the County over-expended monies in the general fund, the road fund and the junior college fund.

Recommendation: We recommend that the County implement policies and procedures such that budget requirements are enforced at all levels of the County's departments.

Management Views and Corrective Action: See corrective action plan.

Schedule of Findings and Questioned Costs - Continued

C. Federal Award Findings

2014-101 - Improve the Timeliness of the Submittal of the Single Audit Reporting Package

CFDA Numbers: All major federal programs

Program Titles and

Federal Agencies: All major federal programs

Award Years: Various

Award Numbers: Various

Compliance Requirements Affected: Reporting

Questioned Costs: None

Condition: Consistent with prior year, the County's single audit reporting package for the fiscal year ended June 30, 2014 was not submitted within nine months after the County's year-end.

Criteria, Cause and Effect: The terms of the County's federally funded grants and contracts and *OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations* require the submission of a single audit reporting package within nine months of the auditees' fiscal year end. The cause is primarily a lack of resources to properly reconcile and adjust account balances.

The effect is the untimely submission of the single audit reporting package resulting in noncompliance with federal requirements.

Recommendation: We recommend that the County evaluate its resources necessary to complete the year-end closing and financial reporting process and consider the need to devote additional resources to the financial reporting process. Doing so will improve the timeliness of the County's submittal to the federal single audit clearinghouse.

Management Views and Corrective Action: See corrective action plan.

Schedule of Findings and Questioned Costs - Continued

2014-102 - Allocation of Forest Reserve Funds

CFDA number: 10.665

Program Titles and

Federal Agencies: U.S. Department of Agriculture, Forest Service Schools and Roads Cluster

Award year: 2012

Award Number: None

Compliance Requirements Affected: Reporting

Questioned Costs: None

Condition: Forest reserve monies for Apache County were not properly disbursed for the benefit of public schools and public roads in accordance with A.R.S. 11-497. The County instead disbursed the entire annual allocation of \$1,084,444 to public school districts. This finding is similar to one in prior years.

Criteria, Cause and Effect: Arizona Revised Statutes (A.R.S.) 11-497 requires counties' share of pass-through forest reserve monies from the United States to be disbursed for the benefit of public schools and public roads as the board of supervisors directs. Further, a county may allocate a disproportionate amount of forest reserve monies between public schools and public roads as long as both categories receive a real benefit. The Apache County Board of Supervisors decided that the public schools had a greater need for the monies. The County was not in compliance with A.R.S. 11-497.

Recommendations: We recommend that the County distribute forest reserve monies in a manner that benefits both public schools and public roads as required by A.R.S. 11-497.

Management's Views and Corrective Action: See corrective action plan.

The following is the current status of prior year federal award findings:

Apache County, Arizona
Summary Schedule of Prior Audit Findings
Year ended June 30, 2014

2013-101 – Improve the Timeliness of the Submittal of the Single Audit Reporting Package

CFDA number: All major federal programs

Program Titles and

Federal Agencies: All

Current year status: This finding still exists (see current year finding 2014-101).

2012-102 – Allocation of Forest Reserve Funds

CFDA number: All

Program Titles and

Federal Agencies: All

Current year status: This finding still exists (see current year finding 2014-102).

**Apache County, Arizona
Corrective Action Plan
Year ended June 30, 2014**

Financial Statement Findings:

2014-001 – Improve the Year-End Closing Procedures

Contact Person: Ryan Patterson

Anticipation Completion Date: Fiscal Year 2015

Apache County has adopted this recommendation and has complied with the auditor's request.

2014-002 – Improve Budgetary Controls

Contact Person: Ryan Patterson

Anticipation Completion Date: Fiscal Year 2015

The majority of the departments over budget are elected officials'. The consequence on an elected official is not termination or discipline, as it could be with a department head. There is documented evidence to the contrary that the budget was not monitored. The only possible consequence for an elected official that would have consequence would be to reduce their budget the same as the County's would be reduced if we exceed our expenditure limit the subsequent year.

During future budget processes, the Finance Director, in conjunction with the County Administrator, will advise and make recommendations to the Board of Supervisors as to the budgetary control options and alternatives available to control consistent over-expenditure of elected officials.

Single Audit Findings:

2014-101 Timeliness of Financial Reporting

Contact Person: Ryan Patterson

Anticipation Completion Date: Fiscal Year 2017

The County has added an additional position in order to manage work flow in order to be able to dedicate more time to financial reporting.

2014-102 Allocation of Forest Reserve Funds

Contact Person: Delwin Wengert

Anticipation Completion Date: TBD

The County's Board of Supervisors moving forward continues to maintain its stance that the money be sent to schools only and accepts Title I funds and request that the 15% to be allocated for Title II and III be sent back and used as at the discretion of the Federal Government.