
Apache County, Arizona

Single Audit Reporting Package

June 30, 2010

REDW_{LLC}

CPAs | Business & Financial Advisors

Apache County, Arizona

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Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in
Accordance With *Government Auditing Standards*

The Auditor General of the State of Arizona and
The Board of Supervisors of
Apache County, Arizona

We have audited the financial statements of the governmental activities, each major fund, and aggregate remaining fund information of Apache County, Arizona (the “County”) as of and for the year ended June 30, 2010, which collectively comprise the County's basic financial statements, and have issued our report thereon dated April 12, 2013. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

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.

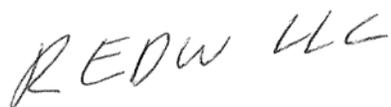
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as items 10-1 through 10-3 that we consider to be significant deficiencies in internal control over financial reporting. 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.

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The County's responses to the findings identified in our audit are presented on pages 11 through 13. 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 Auditor General of the State of Arizona, 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.



Phoenix, Arizona
April 12, 2013

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

The Auditor General of the State of Arizona and
The Board of Supervisors of
Apache County Arizona

Compliance

We have audited Apache County's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. The County's major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above 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.

In our opinion, Apache County complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133, and that is described in the accompanying Schedule of Findings and Questioned Costs as item 10-4.

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 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.

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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying Schedule of Findings and Questioned Costs as item 10-5 and 10-6. *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.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and aggregate remaining fund information of Apache County as of and for the year ended June 30, 2010, and have issued our report thereon dated April 12, 2013. 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 by us 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.

Apache County's responses to the findings identified in our audit are presented on pages 17-18. 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 Auditor General of the State of Arizona, 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.

REDW LLC

Phoenix, Arizona
April 12, 2013

Apache County, Arizona
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2010

Federal Grantor/Program Title/Pass-Through Grantor	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
U.S. Department of Agriculture			
Special Supplemental Nutrition Program for Women, Infants, and Children, passed through the Arizona Department of Health Services	10.557	HG861142	\$ 189,246
Cooperative Forestry Assistance, passed through the Arizona State Forestry	10.664	WFHF 09-006	370,928
Secure Payments for States and Counties Containing Federal Lands, passed through the Arizona State Treasurer	10.665	None	<u>1,371,662</u>
Total U.S. Department of Agriculture			<u>1,931,836</u>
U.S. Department of Housing and Urban Development			
Community Development Block Grants/Entitlement Grants, passed through the Arizona Department of Housing	14.218	2CB54820	<u>55,767</u>
U.S. Department of Interior			
Payments in Lieu of Taxes	15.226	N/A	<u>1,589,034</u>
U.S. Department of Justice			
Passed through the Arizona Criminal Justice Commission Crime Victim Compensation	16.576	2JC91098	<u>5,425</u>
ARRA Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories	16.803	DC-10-017	96,153
ARRA Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories	16.803	DC-10-040	<u>313,401</u>
Total CFDA 16.803			<u>409,554</u>
Total U.S. Department of Justice			<u>414,979</u>
U.S. Department of Transportation			
Highway Planning and Construction, passed through the Arizona Department of Transportation	20.205	663TRN	<u>314,496</u>
Institute of Museum and Library Services			
Grants to States, passed through the Arizona State Library	45.310	N/A	<u>\$ 5,762</u>

See accompanying notes to the Schedule of Expenditures of Federal Awards.

Apache County, Arizona
Schedule of Expenditures of Federal Awards — continued
For the Year Ended June 30, 2010

Federal Grantor/Program Title/Pass-Through Grantor	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
U.S. Department of Energy			
Energy Efficiency and Conservation Block Grant Program (EECBG)	81.128	N/A	<u>\$ 204,667</u>
U.S. Department of Education			
Passed through the Arizona Supreme Court Title I State Agency Program for Neglected and Delinquent Children and Youth	84.013	34-51	<u>22,996</u>
Special Education Grants to States	84.027	34-141	8,173
Special Education Grants to States	84.027	34-194	<u>6,818</u>
Total CFDA 84.027			<u>14,991</u>
Total U.S. Department of Education			<u>37,987</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 2107	<u>10,000</u>
Passed through the Arizona Department of Health Services			
Public Health Emergency Preparedness	93.069	HG754192	301,689
Public Health Emergency Preparedness	93.069	HG754192	132,298
Public Health Emergency Preparedness	93.069	HG754192	<u>81,028</u>
Total CFDA 93.069			515,015
Family Planning Services	93.217	361314-5	9,677
Immunization Cooperative Agreements	93.268	HG854296	67,768
Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Programs	93.919	20H06588	64,798
Healthy Start Initiative	93.926	HG852280	72,818
HIV Prevention Activities_Health Department Based	93.940	HG852280	4,468
Preventive Health Services_Sexually Transmitted Diseases Control Grants	93.977	20H11326	3,588
Preventive Health and Health Services Block Grant	93.991	HG854369	35,684
Maternal and Child Health Services Block Grant to the States	93.994	HG561262	87,539
Voting Access for Individuals with Disabilities_Grants to States, passed through the Arizona Department of Labor	93.617	26H24747	<u>39,869</u>
Total U.S. Department of Health and Human Services			<u>911,224</u>
Total Expenditures of Federal Awards			<u>\$ 5,465,752</u>

See accompanying notes to the Schedule of Expenditures of Federal Awards.

Apache County, Arizona
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2010

1) Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Apache 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.

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 *2010 Catalog of Federal Domestic Assistance*. When no CFDA number had been assigned to a program, the two-digit federal agency identifier, a period, and the federal contract number were used. When there was no federal contract number, the two-digit federal agency identifier, a period, and the word “unknown” were used.

3) Subrecipients

The County did not provide any federal awards to subrecipients during the year ended June 30, 2010.

Apache County, Arizona
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2010

Section I — Summary of Auditors' Results

Financial Statements

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

Federal Awards

Internal control over major programs:	
Material weaknesses identified in internal control over major programs?	No
Significant deficiency identified in internal control over major programs?	Yes
Type of auditors' report issued on compliance for major programs	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	Yes

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.664	Cooperative Forestry Assistance
10.665	Secure Payments for States and Counties Containing Federal Lands
15.226	Payments in Lieu of Taxes

Apache County, Arizona
Schedule of Findings and Questioned Costs — continued
For the Year Ended June 30, 2010

Section I — Summary of Auditors' Results — continued

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>	
16.803	ARRA–Recovery Act–Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories	
20.205	Highway Planning and Construction	
93.069	Public Health Emergency Preparedness	
Dollar threshold used to distinguish between type A and type B programs:		\$300,000
Auditee qualified as low-risk auditee?		No
<i>Other Matters</i>		
Auditee's Summary Schedule of Prior Audit Findings required to be reported in accordance with Circular A-133 (section .315[b])?		Yes

Apache County, Arizona
Schedule of Findings and Questioned Costs — continued
For the Year Ended June 30, 2010

Section II — Financial Statement Findings

Item: 10-01

Subject: Authorization of Payroll

Criteria/Specific Requirement: Each pay period, county departments should forward properly approved time summaries to the payroll department. The payroll department should verify that all time summaries have been submitted and that no unapproved or duplicate time summaries have been received. (UAMAC, VI-G-7)

Condition: For 1 of 26 payroll disbursements tested, the timecards/timesheets were not approved by the department supervisor.

Cause: The County's policies and procedures, which require department supervisors to approve timecards/timesheets, were not followed.

Effect: The County could possibly process unauthorized payroll disbursements.

Auditors' Recommendation: The County should enforce documented policies as stipulated by the UAMAC, VI-G-7.

Management's Response: Apache County implemented a new payroll system in January 2013 that requires all employees to electronically sign payroll.

Apache County, Arizona
Schedule of Findings and Questioned Costs — continued
For the Year Ended June 30, 2010

Section II — Financial Statement Findings — continued

Item: 10-02

Subject: Single Audit Report Submission

Criteria: The Office of Management and Budget (OMB) *Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, §320, requires that the single audit reporting package be submitted within nine months after the end of the audit period, unless a longer period is agreed upon by the oversight agency.

Condition: The County's fiscal year 2010 single audit reporting package was not submitted within nine months after the end of the audit period.

Cause: The County was unable to prepare the accounting records and financial statements in a timely manner.

Effect: Due to the late submission of the County's single audit reporting package, the County has an instance of noncompliance with OMB Circular A-133 report submission requirements, which impacts all federal programs administered by the County.

Auditors' Recommendation: To help ensure compliance with the OMB Circular A-133, the County should prepare accurate and complete financial statements in a timely manner to facilitate the submission of the single audit reporting package by the required deadline.

Management's Response: Apache County, in coordination with the Auditor General's office and REDW_{LLC} (REDW), has set a timeline in order to be current for the 2013 audit.

Apache County, Arizona
Schedule of Findings and Questioned Costs — continued
For the Year Ended June 30, 2010

Section II — Financial Statement Findings — continued

Item: 10-3

Subject: Review of Year-End General Ledger Balances

Criteria/Specific Requirement: A review of the year-end general ledger balances to identify and correct errors and discrepancies should be performed.

Condition: A review of the year-end general ledger balances to identify and correct errors and discrepancies was not adequately performed. This resulted in the following corrections not being identified until the annual audit:

<u>Description</u>	<u>Amount</u>
Capital outlay expenditures were overstated	\$137,388
Loss on sale of capital assets was overstated	\$63,728

Cause: Policies and procedures have not been developed and implemented requiring that a general ledger review be performed to identify errors or discrepancies prior to the year-end audit.

Effect: Various general ledger balances required adjustment to correct for errors and discrepancies noted in the year-end balances.

Auditors' Recommendation: The County should perform a review of the year-end general ledger balances to identify and correct any errors or discrepancies.

Management's Response: The finance office has gone through several changes due to the down turn in the economy. The office has currently taken over several other duties and lost a position. The capital assets have been reassigned and the County has implemented procedures whereby material transactions are tracked properly and recorded in a timely manner. It should be noted that the errors were the result of one accounting firm preparing the documents and not communicating the changes to the auditors.

Apache County, Arizona
Schedule of Findings and Questioned Costs — continued
For the Year Ended June 30, 2010

Section III — Federal Award Findings and Questioned Costs

Item: 10-04

CFDA Numbers: All

Programs: All

Agencies: All

Questioned Costs: N/A

Condition: The County's fiscal year 2010 single audit reporting package was not submitted within nine months after the end of the audit period. See Section II – Financial Statement Findings, Item 10-02.

Auditors' Recommendation: To help ensure compliance with the OMB Circular A-133, the County should prepare accurate and complete financial statements in a timely manner to facilitate the submission of the single audit reporting package by the required deadline.

Apache County, Arizona
Schedule of Findings and Questioned Costs — continued
For the Year Ended June 30, 2010

Section III — Federal Award Findings and Questioned Costs — continued

Item: 10-05

CFDA Numbers: 10.664, 10.665, 15.226, 16.803, 20.205, 93.069

Programs: Cooperative Forestry Assistance, Secure Payments for States and Counties Containing Federal Lands, Payments in Lieu of Taxes, ARRA – Recovery Act – Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories, Highway Planning and Construction, Public Health Emergency Preparedness

Agencies: Agriculture, Interior, Justice, Transportation, Health and Human Services

Pass-Through Entities: Arizona State Forestry, Arizona State Treasurer, N/A, Arizona Criminal Justice Commission, Arizona Department of Transportation, Arizona Department of Health Services

Award Numbers: WFHF 09-006, None, N/A, DC-10-017, 663TRN, HG754192

Questioned Costs: N/A

Condition: For 1 of 26 payroll disbursements tested, the timecards/timesheets were not approved by the department supervisor. See Section II – Financial Statement Findings, Item 10-01.

Auditors' Recommendation: The County should enforce documented policies as stipulated by the UAMAC, VI-G-7.

Apache County, Arizona
Schedule of Findings and Questioned Costs — continued
For the Year Ended June 30, 2010

Section III — Federal Award Findings and Questioned Costs — continued

Item: 10-06

CFDA Numbers: All

Programs: All

Agencies: All

Questioned Costs: N/A

Subject: Presentation of the Schedule of Expenditures of Federal Awards (SEFA)

Criteria/Specific Requirement: OMB Circular A-133, *Audits of States, Local Governments, and Non Profit Organizations*, requires that the County identify in its accounts all federal awards expended. This Circular also requires award identification to include, as applicable, the CFDA title and number, the award number and years, the name of the federal granting agency, and the name of the pass-through entity.

Condition: The SEFA was not complete as it did not identify all federal grants, identify all ARRA funds, or include necessary funding information such as the federal granting department or any pass-through agencies.

Cause: The County does not have a functioning grants management department in place.

Effect: The County's initially prepared SEFA was not prepared in accordance with OMB Circular A-133.

Auditors' Recommendation: The County should establish a grants management department to identify all federal awards received and expended, as well as the federal programs under which they were received. Also, a thorough review of the general ledger should be performed to ensure that all federal awards are identified and reported on the SEFA.

County Responses

Apache County, Arizona
Corrective Action Plan
For the Year Ended June 30, 2010

Federal Award Findings and Questioned Costs

Item 10-4

CFDA Numbers: All

Programs: All

Contact Person: Ryan Patterson

Anticipated Completion Date: 1st Quarter 2014

Corrective Action: Apache County, in coordination with the Auditor General's office and REDW, has set a timeline in order to be current for the 2013 audit.

Item 10-5

CFDA Numbers: 10.664, 10.665, 15.226, 16.803, 20.205, 93.069

Programs: Cooperative Forestry Assistance, Secure Payments for States and Counties Containing Federal Lands, Payments in Lieu of Taxes, ARRA – Recovery Act – Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories, Highway Planning and Construction, Public Health Emergency Preparedness

Contact Person: Ryan Patterson

Anticipated Completion Date: Completed

Corrective Action: Apache County implemented a new payroll system in January 2013 that requires all employees to electronically sign payroll.

Apache County, Arizona
Corrective Action Plan — continued
For the Year Ended June 30, 2010

Federal Award Findings and Questioned Costs — continued

Item 10-6

CFDA Numbers: All

Programs: All

Contact Person: Ryan Patterson

Anticipated Completion Date: Completed

Corrective Action: In January 2013, Apache County has added an additional position as grants manager, whose job duties will consist in part to track and reconcile all federal grants.

Apache County, Arizona
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2010

Status of Prior Year Federal Award Findings and Questioned Costs

Finding Numbers: 09-101

CFDA Number: 20.205

Program: Highway Planning and Construction

Status: Corrected.