



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Single Audit

Coconino County

Year Ended June 30, 2013



Debra K. Davenport
Auditor General

The **Auditor General** is appointed by the Joint Legislative Audit Committee, a bipartisan committee composed of five senators and five representatives. Her mission is to provide independent and impartial information and specific recommendations to improve the operations of state and local government entities. To this end, she provides financial audits and accounting services to the State and political subdivisions, investigates possible misuse of public monies, and conducts performance audits of school districts, state agencies, and the programs they administer.



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Coconino County
Single Audit Reporting Package
Year Ended June 30, 2013

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Report Issued Separately

Comprehensive Annual Financial Report



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
Coconino 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 aggregate remaining fund information of Coconino County as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated March 25, 2014.

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 basic 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 deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2013-01 and 2013-02 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 deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2013-03 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*.

Coconino County's Response to Findings

Coconino County's responses to the findings identified in our audit are presented on pages 21 through 24. 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 County'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 County's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Jay Zsorey, CPA
Financial Audit Director

March 25, 2014



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 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

Members of the Arizona State Legislature

The Board of Supervisors of
Coconino County, Arizona

Report on Compliance for Each Major Federal Program

We have audited Coconino 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, 2013. 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, Coconino 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 for the year ended June 30, 2013.

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 2013-104 and 2013-105. Our opinion on each major federal program is not modified with respect to these matters.

Coconino County's responses to the noncompliance findings identified in our audit are presented on pages 21 through 24. 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.

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 material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and 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 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. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2013-104 to be a material weakness.

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 2013-101, 2013-102, 2013-103, and 2013-105 to be significant deficiencies.

Coconino County's responses to the internal control over compliance findings identified in our audit are presented on pages 21 through 24. 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 aggregate remaining fund information of Coconino County as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the County's basic financial statements. We issued our report thereon dated March 25, 2014, that contained an unmodified opinion 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.

Jay Zsorey, CPA
Financial Audit Director

March 28, 2014

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Coconino County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2013

Federal agency/CFDA number	Federal program name	Cluster title	Pass-through grantor	Pass-through grantor's number(s)	Program expenditures	Amount provided to subrecipients
Department of Agriculture						
10 550	Food Distribution		Arizona Department of Education	ED09-0001	\$ 6,656	
10 553	School Breakfast Program	Child Nutrition Cluster	Arizona Department of Education	ED09-0001	12,282	
10 555	National School Lunch Program	Child Nutrition Cluster	Arizona Department of Education	ED09-0001	21,931	
	<i>Total Child Nutrition Cluster</i>				<u>34,213</u>	
10 557	Special Supplemental Nutrition Program for Women, Infants, and Children		Arizona Department of Health Services	ADHS11-004572, HG050271	760,642	
10 561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	SNAP Cluster	Arizona Department of Health Services	ADHS12-0, HI050075	400,882	
10 565	Commodity Supplemental Food Program	Food Distribution Cluster	Arizona Department of Health Services	ADHS12-010891	10,536	
10 572	WIC Farmers' Market Nutrition Program (FMNP)		Arizona Department of Health Services	ADHS12-010891	527	
10 664	Cooperative Forestry Assistance		Arizona State Forestry Division	SFA09-001,WFHF-09	102,187	\$ 102,187
10 665	Schools and Roads - Grants to States	Forest Service Schools and Roads Cluster			3,962,825	1,383,175
10 923	Emergency Watershed Protection Program				2,309,388	
	Total Department of Agriculture				<u>7,587,856</u>	<u>1,485,362</u>
Department of Housing and Urban Development						
14 218	Community Development Block Grants/Entitlement Grants	Community Development Block Grants/Entitlement Grants Cluster	City of Flagstaff	88C-11		9,303
14 239	HOME Investment Partnerships Program		Arizona Department of Housing	312-11	85,640	
	Total Department of Housing and Urban Development				<u>94,943</u>	
Department of the Interior						
15 226	Payments in Lieu of Taxes				1,572,295	
15 631	Fish and Wildlife Service				32,839	
	Total Department of the Interior				<u>1,605,134</u>	
Department of Justice						
16 523	Juvenile Accountability Incentive Block Grants		Arizona Governor's Division for Children	JB-CSG-12-2366-02;JB-CSG-13-3365-03	12,443	
16 540	Juvenile Justice and Delinquency Prevention-Allocation to States		Arizona Governor's Office for Children, Youth and Families	J2-CSG-12-2366-02	41,145	
16 554	National Criminal History Improvement Program (NCHIP)		Arizona Criminal Justice Commission	NCP11-12-002;NCP12-13-002	48,184	
16 593	Residential Substance Abuse Treatment for State Prisoners		Arizona Criminal Justice Commission	RSAT-13-002;RSAT-12-002	128,793	
16 606	State Criminal Alien Assistance Program				6,936	
16 710	Public Safety Partnership and Community Policing Grants				7,817	
16 738	Edward Byrne Memorial Justice Assistance Grant	JAG Program	City of Flagstaff	2012-DJ-BX-1184	123,798	
	Total Department of Justice				<u>369,116</u>	
Department of Labor						
17 258	WIA Adult Program	WIA Cluster	Arizona Department of Economic Security	DE111005001	150,803	
17 259	WIA Youth Activities	WIA Cluster	Arizona Department of Economic Security	DE111005001	253,326	

See accompanying notes to schedule.

Coconino County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2013

Federal agency/CFDA number	Federal program name	Cluster title	Pass-through grantor	Pass-through grantor's number(s)	Program expenditures	Amount provided to subrecipients
17 278	WIA Dislocated Workers Formula Grants	WIA Cluster	Arizona Department of Economic Security	DE111005001	191,231	
	<i>Total WIA Cluster</i>				<u>595,360</u>	
17 267	Incentive Grants - WIA Section 503		Arizona Department of Economic Security	ADES12-022933	467,350	
	Total Department of Labor				<u>1,062,710</u>	
Department of Transportation						
20 205	Highway Planning and Construction	Highway Planning and Construction Cluster	Arizona Department of Transportation	JPA 08-092-I, JPA 06-15-T, JPA 10-070-I, ER CCN-0(215)	499,056	
20 600	State and Community Highway Safety	Highway Safety Cluster	Arizona Governor's Office of Highway Safety	2013-OP-007, 2013-PT-060,2013-PT-061	46,201	
20 703	Interagency Hazardous Materials Public Sector Training and Planning Grants		Arizona Emergency Response Commission	HM-HMP-0282-12-01-00	3,167	
	Total Department of Transportation				<u>548,424</u>	
Department of Energy						
81 128 ARRA	Energy Efficiency and Conservation Block Grant Program (EECBG)				22,383	
Department of Education						
84 013	Title I Program for Neglected and Delinquent Children		Arizona Supreme Court	KR13 0066		44,870
84 018	Overseas Programs - Special Bilateral Projects		Arizona Department of Education	13FT1ZDR-3706669-04A		11,597
84 027	Special Education - Grants to States	Special Education (IDEA) Cluster	Arizona Department of Education	FESCBG 360594-03A, FESCBG 260594-03A, FESCBG 360594-04A		59,847
84 041	Impact Aid	Impact Aid Cluster	Arizona Department of Education	None		78,744
84 365	English Language Acquisition Grants		Arizona Department of Education	13FEL:ENG-370669-03A		7,829
84 366	Mathematics and Science Partnerships		Arizona Department of Education	12FMSMSS-270669-03A, 13FMSMSS-370669-02A, 13FMSMSP-370669-01A, 14FMSMSP-470669-01A, 12FSDMSP-270669-02A		778,937
84 367	Improving Teacher Quality State Grants		Arizona Department of Education	12FAAPD3-270669-01A		14,263
84 367	Improving Teacher Quality State Grants		Northern Arizona University	ITQ-IMPNAZ		51,481
84 367	Improving Teacher Quality State Grants		Arizona Supreme Court	KR13 0066		4,442
	<i>Total 84.367</i>					<u>70,186</u>
84 395 ARRA	Race to the Top Discretionary/Competitive Grants		Navajo County Education Agency	None		25,469
	Total Department of Education					<u>1,077,479</u>

See accompanying notes to schedule.

Coconino County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2013

Federal agency/CFDA number	Federal program name	Cluster title	Pass-through grantor	Pass-through grantor's number(s)	Program expenditures	Amount provided to subrecipients
Election Assistance Commission						
90 401	Help America Vote Act Requirements Payments		Arizona Secretary of State	None	22,288	
Department of Health and Human Services						
93 053	Nutrition Services Incentive Program	Aging Cluster	Northern Arizona Council of Governments	866000441BA	172,986	
93 069	Public Health Emergency Preparedness		Arizona Department of Health Services	ADHS12-007885	402,568	
93 217	Family Planning - Services		Arizona Family Planning Council	None	122,959	
93 268	Immunization Cooperative Agreements		Arizona Department of Health Services	HG854283	158,688	
93 507	PPHF 2012 National Public Health Improvement Initiatives		Arizona Department of Health Services	ADHS12-020642	34,090	
93 558	Temporary Assistance for Needy Families	TANF Cluster	Arizona Department of Economic Security	DE111076001	50,000	
93 563	Child Support Enforcement		Arizona Department of Economic Security	DE111169001	28,619	
93 568	Low-Income Home Energy Assistance		Arizona Department of Economic Security	DE111076001	443,036	
93 569	Community Services Block Grant		Arizona Department of Economic Security	DE111076001	143,134	
93 597	Grants to States for Access and Visitation Programs		Arizona Department of Economic Security	DE111144001	8,174	
93 667	Social Services Block Grant		Northern Arizona Council of Governments	866000441BA	39,651	
93 667	Social Services Block Grant		Arizona Department of Economic Security	DE111076001	10,722	
	<i>Total 93.667</i>				<u>50,373</u>	
93 917	HIV Care Formula Grants		Arizona Department of Economic Security	ADHS11-004698	134,079	
93 940	HIV Prevention Activities		Arizona Department of Economic Security	HG852279	17,757	
93 994	Maternal and Child Health Services Block Grant to the States		Arizona Department of Economic Security	HG959209, ADHS13-034535;1, ADHS12-021253, HP961245-002, ADHS12-010919	260,396	
	Total Department of Health and Human Services				<u>2,026,859</u>	
Corporation for National and Community Service						
94 006	AmeriCorps				673,117	321,701
94 006	AmeriCorps		Arizona Governor's Office for Children, Youth and Families	AC-VSG-10-0273-03Y3, AC-VSG-13-3273-03, AC-VSG-10-0273-08Y3	369,833	
	Total Corporation for National and Community Service				<u>1,042,950</u>	<u>321,701</u>

See accompanying notes to schedule.

Coconino County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2013

Federal agency/CFDA number	Federal program name	Cluster title	Pass-through grantor	Pass-through grantor's number(s)	Program expenditures	Amount provided to subrecipients
Department of Homeland Security						
97 024	Emergency Food and Shelter National Board Program		United Way	None	10,003	
97 039	Hazard Mitigation Grant		Arizona Department of Emergency and Military Affairs	FEMA-DR-AZ-HGMP-1888-9-F, FEMA-DR-AZ-HMPG-1888-09-F, FEMA-DR-AZ-HMPG-1888-002R, FEMA-DR-AZ-HMPG-1940-3-3R, FEMA-DR-AZ-HMPG-1888-10-F	1,222,058	
97 042	Emergency Management Performance Grants		Arizona Department of Emergency and Military Affairs	EMW-2012-EP-00003	66,071	
97 045	Cooperating Technical Partners Grant				218,500	
97 067	Homeland Security Grant Program		Arizona Department of Homeland Security	10-AZDOHS-HSGP-777105-01, 12-AZDOHS-HSGP-999104-03, 11-AZDOHS-HSGP-888104-02, 11-AZDOHS-HSGP-777105-05, 12-AZDOHS-HSGP-999104-02, 11-AZDOHS-HSGP-888104-01	12,800	
	Total Department of Homeland Security				<u>1,529,432</u>	
	Total expenditures of federal awards				<u>\$ 16,989,574</u>	<u>\$ 1,807,063</u>

See accompanying notes to schedule.

Coconino County
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2013

Note 1 - Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Coconino 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 State, 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 2013 *Catalog of Federal Domestic Assistance*.

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Coconino County
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2013

Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:		Unmodified	
Internal control over financial reporting:			
Material weaknesses identified?	<u>X</u>	___	
Significant deficiency identified?	<u>X</u>	___	
Noncompliance material to the financial statements noted?	___	<u>X</u>	

Federal Awards

Internal control over major programs:			
Material weakness identified?	<u>X</u>	___	
Significant deficiencies identified?	<u>X</u>	___	
Type of auditors' 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])?	<u>X</u>	___	

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
	Forest Service Schools and Roads Cluster:
10.665	Schools and Roads—Grants to States
10.923	Emergency Watershed Protection Program
	WIA Cluster:
17.258	WIA Adult Program
17.259	WIA Youth Activities
17.278	WIA Dislocated Workers Formula Grants
84.366	Mathematics and Science Partnerships
93.217	Family Planning - Services
94.006	AmeriCorps
97.039	Hazard Mitigation Grant

Coconino County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2013

Dollar threshold used to distinguish between Type A and Type B programs: \$509,687

Auditee qualified as low-risk auditee?

Yes	No
_____	____ <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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Coconino County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2013

Financial Statement Findings

2013-01

The County should follow its procedures when preparing its financial statements and related note disclosures

Criteria: The County should follow its established policies and procedures when preparing its financial statements and note disclosures to ensure they are prepared in accordance with U.S. generally accepted accounting principles (GAAP).

Condition and context: The County did not consistently follow its procedures when recording its accounts payable and net position, classifying its fund types, and disclosing information within its notes to the financial statements. Specifically, the County:

- Overstated accounts payable by \$3.1 million in the General Fund and government-wide financial statements.
- Misclassified approximately \$40 million between restricted and unrestricted net position in the government-wide financial statements.
- Misclassified its Parks and Open Spaces Tax Projects Fund as a special revenue fund instead of a capital projects fund.
- Did not disclose a loss contingency when a claim was made against the County in which it was probable that the outcome would be unfavorable.
- Did not disclose approximately \$3.8 million of bank balances exposed to custodial credit risk.

Effect: The County's financial statements were not initially prepared in accordance with GAAP. The County made recommended audit adjustments to the financial statements and related note disclosures for all significant errors and misclassifications.

Cause: The County did not properly review the financial statement data and schedules and did not implement accounting pronouncements appropriately.

Recommendation: The County should follow its established policies and procedures when preparing its annual financial statements and related note disclosures. In addition, the County should improve its procedures by requiring a more detailed review of all data and schedules supporting the financial statements and related note disclosures. This will help ensure that the financial statements and note disclosures are prepared in accordance with GAAP.

2013-02

The County should improve its reporting of year-end revenue accruals

Criteria: GAAP requires the County to recognize revenue in its governmental fund financial statements when it becomes measurable and available, and to disclose the length of time the County defines as available in its notes to the financial statements. Revenue that is not available to pay for expenditures in the current period should be reported as deferred revenue.

Coconino County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2013

Condition and context: The County's summary of significant accounting policies disclosed the length of time used to define available as 60 days; however, auditors learned the County's procedures were to accrue revenue sources, other than property taxes, if collected within 90 days after fiscal year-end. In addition, auditors tested 101 intergovernmental revenue transactions and found 7 that should have been recorded as deferred revenue in the current year since the collections were received outside of the 90-day revenue recognition period.

Effect: The County overstated intergovernmental revenues and understated deferred revenues by \$287,000 in the Public Health Services District Fund. The County corrected the financial statements for all significant misstatements and revised its note disclosure to be consistent with its procedures.

Cause: The County did not properly disclose and consistently apply its accounting policy for revenue recognition criteria when recording year-end accruals in its general ledger.

Recommendation: The County should follow and properly disclose its accounting policy, recognize intergovernmental revenues only if they are both measurable and available within 90 days after fiscal year-end, and defer revenues, as necessary, to be in accordance with GAAP.

2013-03

The County needs to improve its controls over capital assets

Criteria: The County should have effective internal controls over capital assets that are sufficient to control, safeguard, and report capital assets.

Condition and context: Capital assets comprise \$146.4 million, or 58 percent, of the County's total assets. During test work, auditors noted the following deficiencies:

- Thirty-three capital assets disposal forms had not been submitted by a county department for processing; therefore, the assets had not been removed from the capital asset listing or accounting records.
- The County's fixed-asset policy did not include a requirement to perform a physical inventory, and the County has no record of when it last performed a physical inventory.

Effect: All of the assets that should have been removed from the County's capital assets listing were fully depreciated; therefore, this did not affect capital assets balances on the financial statements at June 30, 2013. However, the County's July 1, 2012, capital assets and accumulated depreciation balances and current year decreases to capital assets and accumulated depreciation were overstated by \$702,267 in its notes to the financial statements. In addition, capital assets were exposed to potential theft or misuse as a physical inventory had not been performed.

Cause: The County did not implement procedures appropriately to properly dispose of capital assets. In addition, the County does not require a physical inventory in its capital assets policy.

Coconino County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2013

Recommendation: To help ensure that the County's capital assets are properly reported in the financial statements and to help safeguard the County's capital assets against theft or misuse, the County should develop a procedure to perform a physical inventory at least every 2 years and should ensure that departments follow the county-wide capital assets policy.

Federal Award Findings and Questioned Costs

2013-101

CFDA No. and Name:	10.557 Special Supplemental Nutrition Program for Women, Infants, and Children
Award Number and Years:	ADHS11-004572; October 1, 2011 through September 30, 2013 HG050271; October 1, 2011 through September 30, 2013
Federal Agency:	Department of Agriculture
Pass-Through Grantor:	Arizona Department of Health Services
Compliance Requirement:	Reporting
Questioned Costs:	None

Criteria: In accordance with 7 Code of Federal Regulations (CFR) §246.14(c) and the grant agreement with the pass-through grantor, the County is required to complete and submit to its pass-through grantor the Annual Cost Summary Report documenting the amounts spent on administration costs by functional area.

Condition and context: The County had one employee responsible for preparing, approving, and submitting the Annual Cost Summary Report without an independent review.

Effect: The County may report its expenditures by functional area inaccurately or submit an incomplete Annual Cost Summary Report. Auditors noted no instances of noncompliance on the report tested.

Cause: The County did not have adequate procedures in place to ensure that the Annual Cost Summary Report was reviewed by an individual independent of the report process.

Recommendation: The County should develop and implement policies and procedures to ensure that the Annual Cost Summary Report is reviewed by an independent employee before being submitted to its pass-through grantor. The individual should have the knowledge and skills necessary to perform an effective review to determine that the report is complete and accurate.

Coconino County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2013

2013-102

Cluster Name:	Forest Service Schools and Roads Cluster
CFDA No. and Name:	10.665 Schools and Roads—Grants to States
Award Number and Years:	12-DG-11030700-006; April 16, 2012 through September 30, 2014; 12-DG-11030420-017; April 16, 2012 through September 30, 2014; 12-CA-11030420-015; May 24, 2012 through December 31, 2013
Federal Agency:	Department of Agriculture
Compliance Requirement:	Reporting
Questioned Costs:	None

Criteria: In accordance with section 302(a) of the Secure Rural Schools and Community Self-Determination Act, the County is required to submit the Certification of Title III Expenditures and Unobligated Funds (Title III) report that certifies expenditures were used for authorized purposes. Therefore, the County should establish and maintain internal controls to provide reasonable assurance that it is complying with program requirements.

Condition and context: There was not a review of the County's Title III report that compared the report to supporting records prior to its submission.

Effect: Expenditure amounts could be reported to the grantor that were incorrect or were not used for authorized purposes. Auditors tested the Title III report and found no instances of noncompliance; therefore, no questioned costs were noted.

Cause: The County did not have an adequate review process in place due to staff turnover.

Recommendation: In order to strengthen internal controls over compliance, the County's Title III report should be reviewed and approved by an individual independent of its preparation. The individual should have the knowledge and skills necessary to perform an effective review to determine that the report is complete and accurate.

This finding was similar to a prior-year finding by other auditors.

Coconino County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2013

2013-103

CFDA No. and Name: 94.006 **AmeriCorps**
Award Number and Years: 10EDHAZ001; October 1, 2010 through September 30, 2013
Federal Agency: **Corporation for National and Community Service**
Compliance Requirement: Cash Management
Questioned Costs: None

Criteria: In accordance with 45 CFR §2541.200(b)(3), effective control and accountability must be maintained over federal monies to ensure that they are used solely for authorized purposes. Therefore, all cash draw-downs should be reviewed and approved for accuracy prior to submission.

Condition and context: The County did not have procedures in place to review and approve its cash draw-downs before they were submitted to the grantor. Specifically, auditors tested four submissions and found that none of them had been properly reviewed and approved.

Effect: The County may have received funding for services not performed. Auditors found no instances of noncompliance on the cash draw-downs tested; therefore, no questioned costs were noted.

Cause: The County did not implement a review-and-approval procedure until July 1, 2013, which was after the prior year audit findings were published.

Recommendation: As of July 1, 2013, the County implemented a procedure requiring a supervisor to review and approve its cash draw-downs prior to submission. The County should continue this practice.

This finding was similar to a prior-year finding by other auditors.

2013-104

CFDA No. and Name: 94.006 **AmeriCorps**
Award Number and Years: 10EDHAZ001; October 1, 2010 through September 30, 2013
AC-VSG-10-0273-03Y3, AC-VSG-13-3273-03, AC-VSG-10-0273-08Y3; October 1, 2010 through September 30, 2013
Federal Agency: **Corporation for National and Community Service**
Pass-Through Grantor: Arizona Governor's Office for Children, Youth and Families
Compliance Requirements: Eligibility and Reporting
Questioned Costs: None

Criteria: To comply with 45 CFR §2541.420, the County must maintain relevant financial and programmatic records for a period of 3 years from the start of the retention period, which is generally the filing date of the last expenditure report.

Coconino County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2013

Condition and context: The County did not follow its policies and procedures to maintain supporting documentation for its AmeriCorps participants. Specifically, for 2 of 18 participants tested, the County could not locate the file containing documentation supporting eligibility determinations and the reporting of enrollment information to the grantor.

Effect: The County could not provide evidence that it submitted accurate enrollment information to the grantor. However, the County was able to demonstrate to auditors that the two participants with missing files met all of the eligibility requirements; therefore, no questioned costs were noted.

Cause: The County is no longer administering the AmeriCorps program, and the missing participant files were stored away and could not be located.

Recommendation: The County should follow its policies and procedures for retaining all documentation supporting eligibility determinations and the reporting of enrollment information to the grantor. Records should be retained in accordance with the program's record-retention requirements.

2013-105

CFDA No. and Name:	94.006 AmeriCorps
Award Number and Years:	10EDHAZ001; October 1, 2010 through September 30, 2013
Federal Agency:	Corporation for National and Community Service
Compliance Requirement:	Reporting
Questioned Costs:	None

Criteria: In accordance with 2 CFR §170, Appendix A, and the Federal Funding Accountability and Transparency Act (FFATA) of 2006, for grant awards beginning on October 1, 2010, or later, the County must report certain subawards greater than or equal to \$25,000.

Condition and context: The County received \$673,000 in fiscal year 2013 directly from the Corporation for National and Community Service (Corporation) and passed-through \$322,000 of that award to subrecipients. However, the County did not submit the required FFATA reports for the subawards to subrecipients greater than or equal to \$25,000. Additionally, the County did not request or obtain permission from the Office of Management and Budget to deviate from this requirement and could not provide evidence that there was communication with the federal awarding agency to attempt a "good faith" effort to comply with this requirement.

Effect: The County did not comply with FFATA requirements for reporting subawards to subrecipients.

Cause: The County was not aware of the requirement and, therefore, did not develop policies and procedures to ensure compliance with the FFATA reporting requirements.

Recommendation: To comply with FFATA requirements for reporting subawards to subrecipients, the County should develop policies and procedures to help ensure the required reports are accurately compiled, reviewed, and submitted in a timely manner.



March 25, 2014

Ms. Debra K. Davenport
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 the 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 each federal award finding included in the current year's Schedule of Findings and Questioned Costs. We have included the names of the contact persons responsible for corrective action, the corrective action planned, and the anticipated completion date.

Sincerely,

Michael Townsend
Deputy County Manager

Financial Statement Findings

2013-01

The County should follow its procedures when preparing financial statement and note disclosures.

Responsible Person: Accounting Manager, Operation Division, Finance Department

Anticipated completion date: June 30, 2014

Corrective Action Plan:

Coconino County concurs with the recommendations and will establish procedures to review for conformance with GAAP and County procedures.

The Finance Department has implemented a new procedure related to payment of retirement contributions and the related clearing of the accrued accounts payable. In addition, Coconino County is evaluating the accrual rates to better match the accumulated payables to current trend data. These are the two items that created the cumulative \$3.1 million reported as accounts payable.

Coconino County has reviewed the related GAAP and GASB pronouncements and has modified its financial statement preparation procedures to better ensure fund balance reporting in accordance with the authoritative guidance.

Coconino County has reviewed the related GAAP and GASB pronouncements and has classified its funds according to the definitions prescribed therein.

All potential losses and claims will be reviewed by the Finance Department with the County Attorney's Office, including items contracted with outside counsel, to determine the losses and claims in which it is probable that the outcome would be unfavorable and require disclosure in the financial statements. Coconino County has reviewed the amount of bank balances exposed to custodial credit risk and has reclassified the accounts appropriately.

2013-02

The County should improve its reporting of year-end revenue accruals

Responsible Person: Accounting Manager, Audit and Financial Reporting Division, Finance Department

Anticipated completion date: June 30, 2014

Corrective Action Plan:

Coconino County concurs with the recommendation and will establish a process and review with departments the process for submitting accruals. The Finance Department will then review the submitted accrued revenues for compliance with the process. The process will be based on recognition of intergovernmental revenues if they are measurable and available within 90 days after fiscal year-end and if the County had a claim to the revenues on the last day of the fiscal year, and defer revenues, as necessary, to be in accordance with GAAP.

2013-03

The County needs to improve its controls over capital assets

Responsible Person: Accounting Manager, Audit and Financial Reporting Division, Finance Department
Anticipated completion date: December 31, 2014

Corrective Action Plan: Coconino County concurs with this recommendation and will establish a process and review with departments the policy and process for reporting changes to capital assets. The County will submit a revised policy to the Board of Supervisors for consideration of adoption that will include a procedure to perform a physical inventory at least every 2 years. In addition, the Finance Department will take steps for a physical inventory to be performed in the next year after adoption by the Board.

Federal Award Findings

2013-101

CFDA No. and Name: 10.557 Special Supplemental Nutrition Program for Women, Infants, and Children

Responsible Person: Michael Oxtoby, Division Manager, County Health District
Anticipated completion date: March 20, 2014

Corrective Action Plan:

1. Program Manager or staff designee will compile the information for the ADHS Annual Cost Summary Report. The Program Manager will sign the Report and submit to the CCPHSD Division Manager for second level review.
2. The CCPHSD Division Manager will review the Report and the supporting documentation, comparing figures with the Final CER. The Division Manager will sign the Report indicating a secondary level of review has been completed.
3. The CCPHSD Division Manager will return the Annual Cost Summary Report to the Program Manager for mailing along with the Final CER.
4. The Program Manager will mail the Annual Cost Summary Report and the Final CER to ADHS.
5. CCPHSD will retain a signed copy of the Annual Cost Summary Report along with the Final CER Report.

2013-102

CFDA No. and Name: Forest Service Schools and Roads Cluster 10.665

Responsible Person: Megan Zickerman, Budget Manager
Anticipated completion date: March 18, 2014

Corrective Action Plan:

1. Budget staff will request the appropriate documentation from the departments that receive Title III funding.
2. When this documentation has been received budget staff will review information for accuracy, including the documentation can be tied to the County's general ledger, and prepare the report.
3. The documentation and report will be submitted to the Senior Accountant or Audit and Financial Reporting Manager for their review.
4. Upon their review and sign off, budget staff will submit the report.

2013-103

CFDA No. and Name: 94.006 AmeriCorps

Anticipated completion date: July 1, 2013

Responsible Party: Barbara Frakes, Administrative Manager, Community Services Department

1. The Administrative Manager for Coconino County Community Services Department will prepare the reimbursement for grantee and sub grantee expenditures.
2. The reimbursement request will be forwarded to Assistant Director or Director for review and approval for submission.
3. When the approval of Assistant Director or Director has been obtained the draw-down submissions will be completed and submitted by Administrative Manager.

2013-104

CFDA No. and Name: 94.006 AmeriCorps

Anticipated completion date: June 30, 2014

Responsible Party: Barbara Frakes, Administrative Manager, Community Services Department

Coconino County Community Services Dept. will securely store and retain all financial and programmatic records, supporting documents, statistical records, and other records of grantees or sub grantees for a period of three (3) years to meet the length of retention period as noted in CFR § 2541.420 (b) Retention and access requirements for records, length of retention period. (School, 45 CFR 2541.420 - Retention and access requirements for records.)

2013-105

CFDA No. and Name: 94.006 AmeriCorps

Anticipated completion date: June 30, 2014

Responsible Party: Barbara Frakes, Administrative Manager, Community Services Department

1. Coconino County Community Services Dept. will establish reporting policy requirements that is consistent with CFR 170, Title 2: Grants and Agreements, Part 17—Reporting Sub award and executive Compensation Information.
2. These reports will be reviewed for information pertaining to grantee or sub grantee awards for Sub awardee DUNS #, Sub awardee name and address, amount of sub award, sub award obligation, action date, CFDA program number as well as amount of monies paid for a designated month reported, Federal agency Id number and name, sub award project description and authorizations Administrative Manager.
3. The reports will be forwarded to the Assistant Director or Director for review and approval for submission.



March 25, 2014

Ms. Debra K. Davenport
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 the 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,

Michael Townsend
Deputy County Manager, Chief Fiscal Officer

Coconino County
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2013

Status of Federal Award Findings and Questioned Costs

CFDA No.: 10.665 **Schools and Roads-Grants to States**
17.258, 17.259, and 17.278 **WIA Cluster**
84.366 **Mathematics and Science Partnerships**
94.006 **AmeriCorps**
Finding No.: 2012-5
Status: Partially Corrected - Departments put in place procedures for the review of grant reports submitted. Procedures were in place for CFDA No.'s 17.258, 17.259, 17.278 and 84.366 by August 31, 2012. Procedures were in place for CFDA No. 94.006 by July 1, 2013. Procedures were in place for CFDA No. 10.665 by March 18, 2014.

CFDA No.: 10.557 **Special Supplemental Nutrition Program for Women, Infants and Children**
10.665 **Schools and Roads-Grants to States**
17.258, 17.259, and 17.278 **WIA Cluster**
84.366 **Mathematics and Science Partnerships**
94.006 **AmeriCorps**
Finding No.: 2012-6
Status: Fully Corrected

CFDA No.: 84.366 **Mathematics and Science Partnerships**
Finding No.: 2012-7
Status: Fully Corrected

CFDA No.: 84.366 **Mathematics and Science Partnerships**
Finding No.: 2012-8
Status: Fully Corrected

CFDA No.: 94.006 **AmeriCorps**
Finding No.: 2012-9
Status: Fully Corrected

CFDA No.: 94.006 **AmeriCorps**
Finding No.: 2012-10
Status: Fully Corrected

CFDA No.: 94.006 **AmeriCorps**
Finding No.: 2012-11
Status: Fully Corrected

CFDA No.: 93.217 **Family Planning - Services**
Finding No.: 2012-12
Status: Fully Corrected
