



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Single Audit

Santa Cruz County

Year Ended June 30, 2015



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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Santa Cruz County
Single Audit Reporting Package
Year Ended June 30, 2015

Table of Contents	Page
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 <i>Government Auditing Standards</i>	1
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	3
Schedule of Expenditures of Federal Awards	7
Schedule of Findings and Questioned Costs	
Summary of Auditors' Results	11
Financial Statement Findings	13
Federal Award Findings and Questioned Costs	18
Corrective Action Plan	23
Summary Schedule of Prior Audit Findings	29

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
Santa Cruz 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, business-type activities, each major fund, and aggregate remaining fund information of Santa Cruz County as of and for the year ended June 30, 2015, 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 30, 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 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 deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2015-01 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 deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2015-02, 2015-03, and 2015-04 to be significant deficiencies.

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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards*, and that is described in the accompanying Schedule of Findings and Questioned Costs as item 2015-02.

Santa Cruz County Response to Findings

Santa Cruz County's responses to the findings identified in our audit are presented on pages 24 through 25. 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 30, 2016



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
Santa Cruz County, Arizona

Report on Compliance for Each Major Federal Program

We have audited Santa Cruz County's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015. 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.

Basis for Qualified Opinions

As described in the accompanying Schedule of Findings and Questioned Costs, the County did not comply with certain compliance requirements that are applicable to the major federal programs listed below. Compliance with such requirements is necessary, in our opinion, for the County to comply with the requirements applicable to those programs.

<u>Program Title (CFDA Number)</u>	<u>Compliance Requirement</u>	<u>Finding Number</u>
Immunization Cooperative Agreements (93.268)	Subrecipient Monitoring	2015-103
Homeland Security Grant Program (97.067)	Equipment and Real Property Management	2015-102

Qualified Opinions

In our opinion, except for the noncompliance described in the Basis for Qualified Opinions paragraph, Santa Cruz County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the major federal programs listed above for the year ended June 30, 2015.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, Santa Cruz 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 other 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, 2015.

Other Matters

The results of our auditing procedures disclosed other 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 2015-101 and 2015-104. Our opinion on each major federal program is not modified with respect to these matters.

Santa Cruz County's responses to the noncompliance findings identified in our audit are presented on pages 25 through 27. 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 deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2015-102, 2015-103, and 2015-105 to be material weaknesses.

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 2015-101 and 2015-104 to be significant deficiencies.

Santa Cruz County's responses to the internal control over compliance findings identified in our audit are presented on pages 25 through 27. 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.

Purpose of this Report

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, business-type activities, each major fund, and aggregate remaining fund information of Santa Cruz County as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the County's basic financial statements. We issued our report thereon dated March 30, 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.

Jay Zsorey, CPA
Financial Audit Director

March 30, 2016

Santa Cruz County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2015

Federal agency/CFDA number	Federal program name	Cluster title	Pass-through grantor	Pass-through grantor's numbers	Program expenditures	Amount provided to subrecipients
Department of Agriculture						
10 665	Schools and Roads—Grants to States	Forest Service Schools and Roads Cluster			\$ 583,463	
Department of Housing and Urban Development						
14 228	Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii		Arizona Department of Housing	134-15	314,341	
Department of the Interior						
15 226	Payments in Lieu of Taxes				931,826	
15 227	Distribution of Receipts to State and Local Governments				770	
	Total Department of the Interior				<u>932,596</u>	
Department of Justice						
16 588	ARRA—Recovery Act—Violence Against Women Formula Grants		Governor's Office for Children, Youth and Families	ST-WSG-12-2366-07Y2, ST-WSG-12-2366-07Y3	136,610	
16 607	Bulletproof Vest Partnership Program				4,741	
16 738	Edward Byrne Memorial Justice Assistance Grant Program		Arizona Criminal Justice Commission	DC-15-012, DC-15-032	104,470	
	Total Department of Justice				<u>245,821</u>	
Department of Labor						
17 258	WIA Adult Program	WIA Cluster	Arizona Department of Economic Security	DE111013001, DE14-054320	147,755	
17 259	WIA Youth Activities	WIA Cluster	Arizona Department of Economic Security	DE111013001, DE14-054320	171,819	
17 278	WIA Dislocated Worker Formula Grants	WIA Cluster	Arizona Department of Economic Security	DE111013001, DE14-054320	91,264	
	<i>Total WIA Cluster</i>				<u>410,838</u>	
17 267	Incentive Grants-WIA Section 503		Arizona Department of Economic Security	DE111013001	13,499	
17 274	YouthBuild		Pima County	CT-CS-1520	350,260	
	Total Department of Labor				<u>774,597</u>	
Department of Transportation						
20 106	Airport Improvement Program				118,035	
20 703	Interagency Hazardous Materials Public Sector Training and Planning Grants		Arizona Emergency Response Commission	HM-HMP-0454-14-01-00	944	
	Total Department of Transportation				<u>118,979</u>	
Department of Education						
84 002	Adult Education—Basic Grants to States		Arizona Department of Education	15FAEABE-570755-16B, 15FAEAEF-570755-16B, 15FAECCR-570755-05A	213,745	
84 010	Title I Grants to Local Educational Agencies		Arizona Administrative Office of the Courts	KR15-0016	23,339	
84 027	Special Education—Grants to States	Special Education Cluster (IDEA)	Arizona Administrative Office of the Courts	KR15-0016	36,327	

See accompanying notes to schedule.

Santa Cruz County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2015

Federal agency/CFDA number	Federal program name	Cluster title	Pass-through grantor	Pass-through grantor's numbers	Program expenditures	Amount provided to subrecipients
84 027	Special Education—Grants to States	Special Education Cluster (IDEA)	Arizona Department of Education	13FESSCG-370740-01A, 14FESSCG-470740-01A	7,500	
	<i>Total Special Education Cluster (IDEA)</i>				<u>43,827</u>	
84 215	Fund for the Improvement of Education				797,402	
84 367	Improving Teacher Quality State Grants		Arizona Administrative Office of the Courts	KR15-0016	5,944	
	Total Department of Education				<u>1,084,257</u>	
Department of Health and Human Services						
93 008	Medical Reserve Corps Small Grant Program				711	
93 069	Public Health Emergency Preparedness		Arizona Department of Health Services	ADHS12-007896	154,363	
93 268	Immunization Cooperative Agreements		Arizona Department of Health Services	ADHS13-041547	248,372	\$ 248,372
93 563	Child Support Enforcement		Arizona Department of Economic Security	ADES13-035445	81,376	
93 667	Social Services Block Grant				49,193	
	Total Department of Health and Human Services				<u>534,015</u>	<u>248,372</u>
Executive Office of the President						
95 001	High Intensity Drug Trafficking Areas Program		City of Tucson	HT14-2341, HT14-2342, HT15-2529, HT15-2530	539,604	
Department of Homeland Security						
97 042	Emergency Management Performance Grants		Arizona Department of Emergency and Military Affairs	EMW2013-EP-000024, EMW2014-EP-000016	119,283	
97 067	Homeland Security Grant Program		Arizona Department of Homeland Security	13-AZDOHS-HSGP-130405-01, 13-AZDOHS-OPSG-130433-01, 13-AZDOHS-OPSG-130433-02, 14-AZDOHS-OPSG-140425-01	389,585	
	Total Department of Homeland Security				<u>508,868</u>	
	Total expenditures of federal awards				<u>\$ 5,636,541</u>	<u>\$ 248,372</u>

See accompanying notes to schedule.

Santa Cruz County
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2015

Note 1 - Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards includes Santa Cruz County's federal grant activity and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

Note 2 - Catalog of Federal Domestic Assistance (CFDA) Number

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2015 *Catalog of Federal Domestic Assistance*.

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Santa Cruz County
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2015

Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified	
	Yes	No
Internal control over financial reporting:		
Material weakness identified?	<u> X </u>	<u> </u>
Significant deficiencies identified?	<u> X </u>	<u> </u>
Noncompliance material to the financial statements noted?	<u> </u>	<u> X </u>

Federal Awards

Internal control over major programs:		
Material weaknesses identified?	<u> X </u>	<u> </u>
Significant deficiencies identified?	<u> X </u>	<u> </u>
Type of auditors' report issued on compliance for major programs:		
Unmodified for the Schools and Roads—Grants to States (10.665), Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii (14.228), Payments in Lieu of Taxes (15.226), WIA Cluster (17.258, 17.259, 17.278), and YouthBuild (17.274); and qualified for Immunization Cooperative Agreements (93.268) and the Homeland Security Grant Program (97.067).		
Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (section .510[a])?	<u> X </u>	<u> </u>

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.665	Schools and Roads—Grants to States
14.228	Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii
15.226	Payments in Lieu of Taxes
	WIA Cluster:
17.258	WIA Adult Program
17.259	WIA Youth Activities
17.278	WIA Dislocated Worker Formula Grants

Santa Cruz County
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2015

CFDA Number

17.274
 93.268
 97.067

Name of Federal Program or Cluster

YouthBuild
 Immunization Cooperative Agreements
 Homeland Security Grant Program

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

\$300,000

Yes No

Auditee qualified as 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 _____

Santa Cruz County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2015

Financial Statement Findings

2015-01

The County should improve its policies and procedures to accurately record and report financial information in its financial statements

Criteria: The County should prepare its financial statements and related note disclosures in accordance with U.S. generally accepted accounting principles (GAAP). Accurate financial statements provide valuable information to those charged with governance, management, and other financial statement users to make important decisions about the County's financial operations.

Condition and context: The County did not prepare its financial statements in accordance with GAAP. Specifically, the County:

- Overstated \$550,038 of Governmental Activities share of state lottery funds revenues because it recorded prior-year revenues in the current year.
- Overstated Jail District Fund tax revenues and understated intergovernmental revenues by \$214,435 because of a misclassification.
- Understated Road Fund highways and streets expenditures and overstated Landfill Fund supplies expenses by \$31,290 because of a misclassification.
- Understated Jail District Fund tax revenues and overstated Jail District Fund due to other funds and Other Special Revenue Funds intergovernmental revenues and due from other funds by \$20,626 because of a financial statement compilation error.

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

Cause: The County lacked comprehensive internal control policies and procedures needed to prepare accurate financial statements.

Recommendation: To ensure it accurately prepares its financial statements in accordance with GAAP, the County should:

- Develop and follow comprehensive written policies and procedures for compiling the information and preparing the financial statements. These procedures should include detailed instructions for reviewing and ensuring the accuracy of information entered into the accounting system, and obtaining information from the accounting system and information not readily available from the accounting system but necessary for financial statement preparation.
- Require an employee who is independent of the person preparing the financial statements and knowledgeable of the County's operations and GAAP reporting requirements to review the statements and related note disclosures. This review should ensure that the amounts are accurate and properly supported and the County prepares the financial statements in accordance with GAAP.

This finding is similar to prior-year finding 2014-01.

Santa Cruz County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2015

2015-02

The County Treasurer did not comply with state laws for apportioning interest income

Criteria: The County Treasurer's Office is responsible for managing and investing millions of dollars in public monies. Therefore, the County Treasurer's Office should ensure compliance with state interest apportionment laws specified in Arizona Revised Statutes, Titles 15 and 35.

Condition and context: The County Treasurer's Office recorded and apportioned pooled interest earnings to pool participants when the interest was paid to the County Treasurer rather than when it was earned. Therefore, interest earnings were incorrectly apportioned to the pool participants based upon average daily balances of the month the interest was received instead of the average daily balances of the month the interest was earned as required by state laws.

Effect: The County Treasurer's Office did not ensure that investment earnings were properly distributed to the various county funds and political subdivisions in accordance with state laws.

Cause: The County lacked comprehensive internal control policies and procedures.

Recommendation: The County Treasurer's Office should improve its written policies and procedures to help ensure compliance with state laws for the apportionment of interest to investment pool participants. Those policies and procedures should include, at a minimum, detailed instructions for apportioning interest earnings to investment pool participants on at least a quarterly basis. In addition, the County Treasurer should apportion interest earned to investment pool participants based on their proportionate balances on deposit during the period such interest is earned and not on the proportionate balances during the period in which interest earnings are ultimately received.

This finding is similar to prior-year finding 2014-02.

2015-03

The County should improve its policies and procedures over its information technology resources

Criteria: The County should have effective internal control policies and procedures to control access to its information technology (IT) resources, which include its systems, network, infrastructure, and data, and to track and document changes made to its IT resources.

Condition and context: The County did not have comprehensive written policies and procedures over access and changes to its IT resources. Specifically, the County's policies and procedures did not adequately address the following:

- Granting, removing, limiting, and changing access to its IT resources. Also, the County did not have policies and procedures in place for periodically reviewing access accounts to ensure their access remained necessary and appropriate.

Santa Cruz County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2015

- Ensuring password requirements for its network and systems were enforced for all users.
- Removing employees' network and systems' access immediately upon their termination.
- Identifying and categorizing data by sensitivity and taking appropriate action to protect sensitive information.
- Managing remote access security risks for the County's network. Remote access allows users to access network resources from locations other than county buildings.
- Managing changes to its IT resources. The County's established policies and procedures for change management were limited to third-party software patches.

Effect: There is an increased risk that the County may not prevent or detect unauthorized access or use, manipulation, damage, or loss of IT resources, including sensitive and confidential information. In addition, there is an increased risk that changes to the County's IT resources could be unauthorized or inappropriate or have unintended results.

Cause: The County had some policies and procedures in place but had not evaluated them against current IT standards and best practices.

Recommendation: To help prevent and detect unauthorized access or use, manipulation, damage, or loss to its IT resources, the County should establish effective policies and procedures that include the following:

- Performing a periodic, comprehensive review of all existing access accounts to ensure that network and system access granted is needed and compatible with job responsibilities.
- Reviewing all temporary access accounts to eliminate or minimize their use when possible.
- Restricting data center access to employees who need it for their job responsibilities and periodically reviewing access granted to ensure that it continues to be needed.
- Enforcing network password requirements for all active accounts.
- Removing employees' network and systems access immediately upon their terminations.
- Identifying, categorizing, and inventorying sensitive information and developing security measures to protect it, such as implementing controls to prevent unauthorized access to the information. The County's policies and procedures should include the security categories into which information should be classified, as well as the state statutes and federal regulations that impact the categories.
- Managing remote access by requiring that security controls be utilized for all remote access.

To help prevent and detect unauthorized, inappropriate, and unintended changes to its IT resources, the County should establish written policies and procedures for managing changes and improve its change-management processes to address the following:

- Establishing a change-management process for each type of change, including emergency changes and changes exempt from the change-management process. The change management process should include policies and procedures for testing changes and performing an assessment of the security impact of changes prior to implementation.
- Ensuring all changes follow the change-management process and are appropriately documented.
- Reviewing proposed changes to determine appropriateness and justification, considering the security impact for the change.

Santa Cruz County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2015

- Logging, documenting, and retaining records of all change details, including test procedures, results, security impact analysis, and approvals.
- Approving the change at each appropriate phase of the change-management process, such as development, testing, and implementation, and documenting the approvals.
- Reviewing changes that were implemented to confirm they were implemented as approved and followed the change-management process.
- Retaining necessary documentation to support the reversal of changes that negatively impact IT resources.

This finding is similar to prior-year finding 2014-03.

2015-04

The County should improve its disaster recovery plan and data backup procedures for its information technology resources

Criteria: The County should have a comprehensive, up-to-date disaster recovery plan and data backup policies and procedures in place to provide for the continuity of operations and to help ensure that vital information technology (IT) resources, which include its systems, network, infrastructure, and data, can be recovered in the event of a disaster, system or equipment failure, or other interruption.

Condition and context: Auditors reviewed the County's disaster recovery plan and determined it did not include enough detail to provide for the continuity of operations and to help ensure its vital IT resources would be recovered in the event of a disaster, system or equipment failure, or other interruption. Specific deficiencies included the following:

- The disaster recovery plan did not include an analysis and prioritization of recovery for key business processes, including acceptable time frames for restoring those processes.
- The plan did not include policies and procedures for regular training of key personnel to ensure staff would be prepared to carry out the plan.

In addition, auditors identified the following deficiencies related to the County's disaster recovery processes:

- The County did not perform regularly scheduled, comprehensive tests; document test results; and update the plan for any problems noted.
- The County's data backups did not include all critical data.

Effect: The County risks not being able to provide for the continuity of operations, recover vital IT resources and data, and conduct daily operations in the event of a disaster, system or equipment failure, or other interruption, which could cause inaccurate or incomplete system information and data and expensive recovery efforts.

Cause: The County had some disaster recovery processes in place but lacked a sufficiently documented recovery plan based on current IT standards and best practices.

Santa Cruz County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2015

Recommendation: To help ensure the continuity of the County's operations in the event of a disaster, system or equipment failure, or other interruption, the County should:

- Conduct a business impact analysis to evaluate the impact disasters could have on its critical business processes. The business impact analysis should identify the County's critical business functions and prioritize the resumption of these services within a time frame acceptable to the County. The results of this business impact analysis should be incorporated into the County's disaster recovery plan.
- Ensure its disaster recovery plan includes all essential business functions and associated contingency requirements; recovery objectives, restoration priorities, and metrics; contingency roles, responsibilities, and assigned individuals with contact information; identification of critical information assets and processes for migrating to the alternative processing site; processes for system recovery and reconstitution to return the IT resources to a fully operational state and ensure all transactions have been recovered; and review and approval by appropriate personnel. The disaster recovery plan should also be coordinated with incident-handling activities and stored in a secure location, accessible to those who need to use it, and protected from unauthorized disclosure or modification.
- Ensure its disaster recovery plan is updated for all critical information when changes are made to its IT resources at least annually or as changes necessitate and that the plan addresses how to communicate the changes to key personnel.
- Develop and document procedures for migrating critical information system operations to a separate alternative site for essential business functions. Contracts should be in place or the alternate site should be equipped to resume essential business functions, including provisions for accessibility to the alternate site if necessary. Information security safeguards at the alternative site should be equivalent to the primary site.
- Develop a process to perform regularly scheduled tests of the disaster recovery plan and document the tests performed and results. This process should include updating and testing the disaster recovery plan at least annually or as changes necessitate, and coordinating testing with other county plans, as applicable. Plan testing may include actual tests, simulations, or table top discussions and should be comprehensive enough to evaluate whether the plan can be successfully carried out. Test results should also be used to update or change the plan.
- Develop and implement an ongoing training schedule for staff responsible for implementing the plan. In addition, ensure training provided is specific to the user's assigned roles and responsibilities and provided to staff when the plan changes.
- Establish and document policies and procedures for testing backups of IT systems and data to help ensure they are sufficiently detailed to address backing up and restoring data in the event they are needed. Policies and procedures should require data backups to be protected, and stored in an alternative site with security equivalent to the primary storage site. Backups should include user-level information, system-level information, and system documentation, including security-related documentation. In addition, critical information system software and security-related information should be maintained at an alternative site or stored in a fire-rated container.

This finding is similar to prior-year finding 2014-03.

Santa Cruz County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2015

Federal Award Findings and Questioned Costs

2015-101

CFDA No. and Name:	Not applicable
Questioned Costs:	N/A

Criteria: In accordance with Office of Management and Budget (OMB) Circular A-133, §.300, the County is required to identify, in its accounts, all federal awards received and expended and the federal programs under which they were received, and prepare appropriate financial statements, including a Schedule of Expenditures of Federal Awards (SEFA). The SEFA should report federal award expenditures in accordance with OMB Circular A-133, §.205. In addition, in accordance with OMB Circular A-133, §.310(b)(5), the County must, to the extent practical, identify on the Schedule of Expenditures of Federal Awards (SEFA) the total amount provided to subrecipients from each federal program.

Condition and context: The County did not properly identify federal awards in its records and accounting system so that it could prepare an accurate and complete SEFA. Specifically, auditors noted the County overstated its federal award expenditures by \$58,912. In addition, the County failed to identify \$248,372 as being provided to subrecipients for one major federal program. The County's SEFA was adjusted for these errors.

Effect: The County did not comply with OMB Circular A-133 reporting requirements.

Cause: The County did not have effective policies and procedures in place to ensure that all federal monies, including monies passed through to subrecipients, were identifiable in its accounting system and properly recorded in the SEFA.

Recommendation: To help ensure that the County prepares its SEFA in compliance with OMB Circular A-133, the County should develop and implement control procedures to verify transactions are entered into the County's computer system accurately and develop an effective review process to ensure accurate and complete information is reported on the SEFA.

Santa Cruz County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2015

2015-102

CFDA No. and Name:	97.067 Homeland Security Grant Program
Award Numbers and Years:	11-AZDOHS-OPSG-888430-02, January 1, 2012 through December 31, 2012; 12-AZDOHS-OPSG-99436-02, November 1, 2012 through October 31, 2013; 11-AZDOHS-HSGP-888402-02, June 1, 2013 through May 31, 2014
Federal Agency:	U.S. Department of Homeland Security
Pass-Through Grantor:	Arizona Department of Homeland Security
Compliance Requirement:	Equipment and Real Property Management
Questioned Costs:	None

Criteria: In accordance with 44 Code of Federal Regulations (CFR) §13.32(d), the County must maintain property records that include the property's description, serial number or other identification number, source, acquisition date, cost, location, and condition; who holds title; and any ultimate disposition data, including the property's date of disposal and sales price. Further, the County must develop a control system to ensure adequate safeguards to prevent loss, theft, or misuse of the property.

Condition and context: The County did not maintain effective control and accountability for prior-year equipment purchases made with federal monies. Specifically, the County's capital asset listing did not include a unique identifier, such as a tag number or serial number, for the equipment. At fiscal year-end, the County had 16 capital assets, with a total cost \$214,744, that had been purchased in prior fiscal years with federal monies that were not tagged or recorded with a unique identifier in the County's capital asset listing.

Effect: The County did not comply with federal regulations, and its failure to maintain control over equipment purchased with federal grant monies could result in equipment being lost, stolen, or misused.

Cause: The County did not follow its policy for tagging equipment and ensuring that complete and accurate information for each asset is recorded in its capital asset listing.

Recommendation: To help ensure compliance with federal regulations and to help prevent loss, theft, or misuse of capital assets purchased with federal monies, the County should ensure that its policies are followed that require all equipment items to be properly tagged and accounted for in its capital asset listing.

This finding is similar to prior-year finding 2014-102.

Santa Cruz County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2015

2015-103

CFDA No. and Name:	93.268 Immunization Cooperative Agreements
Award Numbers and Years:	ADHS13-041547, May 23, 2013 through December 31, 2017
Federal Agency:	U.S. Department of Health and Human Services
Pass-Through Grantor:	Arizona Department of Health Services
Compliance Requirement:	Subrecipient Monitoring
Questioned Costs:	None

Criteria: In accordance with OMB Circular A-133, §.210, the County must evaluate whether federal awards were disbursed to a subrecipient. In addition, in accordance with 31 U.S. Code §7502(f)(2)(C) and OMB Circular A-133, §.400(d), for any identified subrecipient that expends \$500,000 or more in federal monies, the County must ensure that the subrecipient obtains the required audits within 9 months of the end of the subrecipients' audit period. Additionally, the County must review the audits, issue management decisions on audit findings within 6 months after receipt of audit reports, and ensure that prompt and appropriate corrective action has been taken with respect to audit findings.

Condition and context: The County disbursed all \$248,372 of federal program monies to the Mariposa Community Health Center (Mariposa), but failed to identify Mariposa as a subrecipient. As a result, the County was unaware of the need to perform subrecipient monitoring procedures such as ensuring that Mariposa received the required audits, reviewing completed audits to determine whether management decisions were necessary, and ensuring that corrective action was taken on audit findings.

Effect: The County did not comply with federal regulations, which could result in subrecipient relationships not being identified and required audits not being completed for its subrecipients.

Cause: The County does not have policies and procedures in place to identify and monitor subrecipients.

Recommendation: To help ensure compliance with federal regulations, the County should develop and implement policies and procedures to identify and monitor subrecipients. Further, these policies and procedures should require the County to determine all required subrecipient audits are performed, review completed audits, issue management decisions as necessary, and ensure that prompt and corrective action is taken for all audit findings.

Santa Cruz County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2015

2015-104

Cluster Name:	Forest Service Schools and Roads Cluster
CFDA No. and Name:	10.665 Schools and Roads—Grants to States
Award Numbers and Years:	July 1, 2014 through June 30, 2015
Federal Agency:	U.S. Department of Agriculture
Compliance Requirement:	Allowable Costs/Cost Principles
Questioned Costs:	\$28,899

Criteria: In accordance with 2 CFR §225, Appendix B, Section 8.h(5), for employees who work on multiple activities or cost objectives, a distribution of their salaries or wages should be supported by personnel activity reports or equivalent documentation that must (a) be an after-the-fact distribution of the actual activity performed, (b) account for the total activity the employee is compensated for, (c) be prepared at least monthly and coincide with one or more pay periods, and (d) be signed by the employee.

Condition and context: The County did not maintain personnel activity reports or equivalent documentation supporting the distribution of salaries or wages for the one employee who worked on multiple activities. Instead, the County paid salaries and wages totaling \$28,899 from the funding source listed in the employee's personnel file; a predetermined, before-the-fact reflection of the employee's expected work on federal programs. Due to the lack of personnel activity reports, auditors could not verify the funding sources charged were appropriate.

Effect: The County did not comply with 2 CFR §225, Appendix B, section 8.h(5). Furthermore, without the personnel activity reports, the County cannot support that \$28,899 in employee salaries and wages charged to the program were allowable.

Cause: The County did not have policies and procedures in place to ensure that it maintained adequate documentation for salaries and wages charged to the program.

Recommendation: The County should develop and implement procedures to ensure that it maintains appropriate documentation for employees who work on multiple activities or cost objectives.

Santa Cruz County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2015

2015-105

CFDA No. and Name:	17.274 YouthBuild
Award Numbers and Years:	CT-CS-1520, July 1, 2014 through June 30, 2016
Federal Agency:	U.S. Department of Labor
Pass-Through Grantor:	Pima County
Compliance Requirement:	Eligibility
Questioned Costs:	None

Criteria: In accordance with 29 U.S. Code §2938(a)(5) and the County's grant agreement CT-CS-1520, eligible participants are youths in grades 9-12 in the County who are citizens and nationals of the United States; lawfully admitted permanent resident aliens, refugees, asylees, and parolees; and other immigrants authorized by the Attorney General to work in the United States.

Condition and context: The County did not have adequate internal control policies and procedures to ensure all program participants were eligible. The County's policies and procedures only required determination that the participant was a high-school-age student and did not require a determination that the participant met the additional legal residency requirements. Auditors sampled 11 of the 58 participants in the program and determined that all 11 met the legal residency requirements described above. Accordingly, no questioned costs were identified.

Effect: Without internal control policies and procedures to determine eligibility, there is an increased risk of program benefits being given to ineligible participants.

Cause: The County did not have adequate policies and procedures in place to ensure that program participants meet all eligibility requirements.

Recommendation: To ensure compliance with 29 U.S. Code §2938(a)(5) and their grant agreement, the County should establish and implement policies and procedures to verify that program benefits are provided only to eligible participants.



Board of Supervisors

Santa Cruz County

MANUEL RUIZ
District 1
RUDY MOLERA
District 2
JOHN MAYNARD
District 3

March 30, 2016

Debbie Davenport
Auditor General
2910 N. 44th St., Ste. 410
Phoenix, AZ 85018

Dear Ms. Davenport:

We have prepared the accompanying Corrective Action Plan as required by the standards applicable to financial audits contained in *Government Auditing Standards* and by U.S. Office of Management and Budget Circular A-133. Specifically, for each financial reporting finding, we are providing you with the corrective action planned, and for each federal award finding, we are providing you with the names of the contact people responsible for corrective action, the corrective action planned, and the anticipated completion date.

Sincerely,

Jennifer K. St. John, CPA
County Manager

Santa Cruz County
Corrective Action Plan
Year Ended June 30, 2015

Financial Statement Findings

2015-01

The County should improve its procedures to accurately record and report financial information.

Contact Person: Jennifer St. John, County Manager

Anticipated completion date: June 30, 2016

Corrective Action: The County will continue to work with the Auditor General's Office and the independent consultant the County has hired to improve the accuracy of the financial statements.

2015-02

The County Treasurer did not comply with state laws for apportioning interest income.

Contact Person: Liz Gutfahr, Treasurer

Anticipated completion date: December 31, 2016

Corrective Action: The County Treasurer's Office intends to change financial systems in July 2016. It is believed that this new system will allow the County Treasurer to apportion interest on a monthly or quarterly basis, as needed, for all investment accounts held by the Treasurer's Office.

2015-03

The County should improve its policies and procedures over its information technology resources.

Contact Person: Raul Mavis, Information Technology Director

Anticipated completion date: June 30, 2017

Corrective Action: The County will continue to improve its written procedures over our information technology resources and evaluate them against current standards and best practices. For almost two years now, the IT Director has been working with the Auditor General's IT staff to strengthen our written policies and procedures. This practice will continue until the County adequately addresses the potential risks to our information technology resources.

Santa Cruz County
Corrective Action Plan
Year Ended June 30, 2015

2015-04

The County should improve its disaster recovery plan and data backup procedures for its information technology resources.

Contact Person: Raul Mavis, Information Technology Director
Anticipated completion date: June 30, 2017

Corrective Action: The County will continue to improve its written procedures over our disaster recovery plan, update the plan regularly, include all critical data in the backup, and test and document the recovery of data on a regular basis. For almost two years now, the IT Director has been working with the Auditor General's IT staff to strengthen all of our procedures regarding the disaster recovery plan. This practice will continue until the County adequately addresses the disaster recovery plan in its entirety.

Federal Award Findings and Questioned Costs

2015-101

CFDA No. and Name: Not Applicable
Questioned Costs: N/A
Contact Person: Jennifer St. John, County Manager
Anticipated completion date: June 30, 2016

The County will take greater care when preparing the Schedule of Expenditures of Federal Awards. We have hired an independent contractor to help ensure that policies and procedures are in place to capture all expenditures and potential subrecipients.

Santa Cruz County
Corrective Action Plan
Year Ended June 30, 2015

2015-102

CFDA No. and Name: 97.067 Homeland Security Grant Program
Award Numbers and Years: 11-AZDOHS-OPSG-888430-02, January 1, 2012 through December 31, 2012; 12-AZDOHS-OPSG-99436-02, November 1, 2012 through October 31, 2013; 11-AZDOHS-HSGP-88402-02, June 1, 2013 through May 31, 2014; 13-AZDOHS-OPSG-130433-02, February 4, 2015 through July 31, 2015; 14-AZDOHS-OPSG-140425-02, December 1, 2014 through December 31, 2015
Contact Person: Jennifer St. John, County Manager
Anticipated completion date: June 30, 2016

The County hired an additional accountant to focus on fixed assets in July 2014. Her focus has allowed her to greatly improve the County's fixed assets listing from F/Y 2014 to current but due to time constraints, she has not been able to go back and correct prior year errors in the County's assets listing. During F/Y 2016, she will be required to perform a physical inventory and can also tag these older items that were purchased in prior fiscal years.

2015-103

CFDA No. and Name: 93.268 Immunization Cooperate Agreements
Award Numbers and Years: ADHS13-041547, May 23, 2013 through December 31, 2017
Contact Person: Jennifer St. John, County Manager
Anticipated completion date: December 31, 2016

The County will perform all required monitoring procedures on Mariposa Community Health Center.

2015-104

CFDA No. and Name: 10.665 Schools and Roads – Grants to States
Award Numbers and Years: N/A
Contact Person: Jennifer St. John, County Manager
Anticipated completion date: June 30, 2016

The Finance department and the Sheriff's Office will take greater care to ensure that all time and effort certifications are completed on a timely basis and that the certification is maintained in the grant file at the Finance department or in the employee file at the Sheriff's Office.

Santa Cruz County
Corrective Action Plan
Year Ended June 30, 2015

2015-105

CFDA No. and Name: 17.274 YouthBuild
Award Numbers and Years: CT-CS-1520, July 1, 2014 through June 30, 2016
Contact Person: Alfredo Velasquez, School Superintendent
Anticipated completion date: June 30, 2016

The School Superintendent's Office has modified its application to include all required information in order to determine a student's eligibility for school year 2017. The revised applications will be kept at the School Superintendent's Office. Further, in order to ensure that all students served under this grant for school year 2015 and 2016 were eligible, grant staff reviewed each student file and determined that all the students met the eligibility requirements.

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Board of Supervisors

Santa Cruz County

MANUEL RUIZ
District 1
RUDY MOLERA
District 2
JOHN MAYNARD
District 3

March 30, 2016

Debbie Davenport
Auditor General
2910 N. 44th St., Ste. 410
Phoenix, AZ 85018

Dear Ms. Davenport:

We have prepared the accompanying Summary Schedule of Prior Audit Findings as required by U.S. Office of Management and Budget Circular A-133. Specifically, we are reporting the status of audit findings included in the prior audit's Schedule of Findings and Questioned Costs related to federal awards. This schedule also includes the status of audit findings reported in the prior audit's Summary Schedule of Prior Audit Findings that were not corrected.

Sincerely,

Jennifer K. St. John, CPA
County Manager

Santa Cruz County
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2015

CFDA No.: 16.738 **Edward Byrne Memorial Justice Assistance Grant Program**
97.067 **Homeland Security Grant Program**
Finding No.: 2014-102 and 2013-104
Status: Partially corrected

The County hired an additional accountant in July 2014, and one of her duties was to ensure compliance of the fixed assets listing with federal and state regulations. A physical inventory was performed, and the County's fixed-assets listing was greatly improved to include the required information for assets purchased since fiscal year 2014. She is still in the process of making sure all assets purchased prior to fiscal year 2014 have the required federal and state information.

CFDA No.: 16.809 **ARRA—Recovery Act—State and Local Law Enforcement Assistance Program: Combating Criminal Narcotics Activity Stemming from the Southern Border of the United States Competitive Grant Program**
81.128 **ARRA—Energy Efficiency and Conservation Block Grant Program**
84.394 **ARRA—State Fiscal Stabilization Fund—Education State Grants, Recovery Act**
84.397 **ARRA—State Fiscal Stabilization Fund—Government Services, Recovery Act**
95.001 **High Intensity Drug Trafficking Areas Program**
Finding No.: 12-103, and 11-103
Status: Does not warrant further action

These findings do not warrant further action because at least 2 years have passed since the audit report in which the finding occurred was submitted to the federal clearinghouse, the federal agencies and applicable pass-through entities are not currently following up with the County on the audit findings, and management decisions pertaining to these findings were not issued.

CFDA No.: 17.258 **WIA Adult Program**
17.259 **WIA Youth Activities**
17.278 **WIA Dislocated Worker Formula Grants**
Finding No.: 2014-101 and 2013-106
Status: Fully corrected
