

Santa Cruz County

Single Audit Report

Year Ended June 30, 2018



A Report to the Arizona Legislature

Lindsey A. Perry
Auditor General





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Comprehensive Annual Financial Report



MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

ARIZONA AUDITOR GENERAL
LINDSEY A. PERRY

JOSEPH D. MOORE
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, 2018, 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 27, 2019.

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 have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we did identify 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 2018-02 and 2018-03 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 deficiencies described in the accompanying schedule of findings and questioned costs as items 2018-01, 2018-04, and 2018-05 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 2018-05.

Santa Cruz County response to findings

Santa Cruz County's responses to the findings identified in our audit are presented in its corrective action plan at the end of this report. 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.

Lindsey Perry, CPA, CFE
Auditor General

March 27, 2019



MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

ARIZONA AUDITOR GENERAL
LINDSEY A. PERRY

JOSEPH D. MOORE
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 the Uniform Guidance**

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, 2018. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 qualified and unmodified opinions on compliance for major federal programs. However, our audit does not provide a legal determination of the County's compliance.

Basis for qualified opinion on the Homeland Security Grant Program

As described in the accompanying schedule of findings and questioned costs as item 2018-101, the County did not comply with the equipment and real property management compliance requirements for the Homeland Security Grant Program, CFDA number 97.067. Compliance with such requirements is necessary, in our opinion, for the County to comply with the requirements applicable to that program.

Qualified opinion on the Homeland Security Grant Program

In our opinion, except for the noncompliance described in the basis for qualified opinion 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 Homeland Security Grant Program for the year ended June 30, 2018.

Unmodified opinion on the other major federal program

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 its other major federal program identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2018.

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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2018-101, that we consider to be a material weakness.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Santa Cruz County response to findings

Santa Cruz County's responses to the findings identified in our audit are presented in its corrective action plan at the end of this report. 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 schedule of expenditures of federal awards required by the Uniform Guidance

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, 2018, and the related notes to the financial statements, which collectively comprise the County's basic financial statements. We issued our report thereon dated March 27, 2019, 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 the Uniform Guidance 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.

Lindsey Perry, CPA, CFE
Auditor General

March 27, 2019





SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Summary of auditors' results

Financial statements

Type of auditors' report issued on whether the financial statements audited were prepared in accordance with generally accepted accounting principles Unmodified

Internal control over financial reporting

Material weaknesses identified? Yes

Significant deficiencies identified? Yes

Noncompliance material to the financial statements noted? No

Federal awards

Internal control over major programs

Material weakness identified? Yes

Significant deficiencies identified? None reported

Type of auditors' report issued on compliance for major programs

Unmodified for Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii (14.228) and qualified for the Homeland Security Grant Program (97.067)

Any audit findings disclosed that are required to be reported in accordance with 2 CFR §200.516(a)? Yes

Identification of major programs

CFDA number	Name of federal program or cluster
14.228	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii
97.067	Homeland Security Grant Program

Dollar threshold used to distinguish between Type A and Type B programs \$750,000

Auditee qualified as low-risk auditee? No

Other matters

Auditee’s summary schedule of prior audit findings required to be reported in accordance with 2 CFR §200.511 (b)? Yes

Financial statement findings

2018-01

Managing risk

Condition and context—The County’s process for managing its risks did not include an overall risk-assessment process that included identifying, analyzing, and responding to the County-wide information technology (IT) risks, such as potential harm from unauthorized access, use, disclosure, disruption, modification, or destruction of IT data and systems. Also, it did not include identifying, classifying, and inventorying sensitive information that might need stronger access and security controls and evaluating and determining the business functions and IT systems that would need to be restored quickly if the County were impacted by disasters or other system interruptions.

Criteria—Effectively managing risk at the County includes an entity-wide risk-assessment process that involves members of the County’s administration and IT management to determine the risks the County faces as it seeks to achieve its objectives to not only report accurate financial information and protect its IT systems and data but to also carry out its overall mission and service objectives. The process should provide the basis for developing appropriate responses based on identified risk tolerances and specific potential risks to which the County might be subjected. To help ensure the County’s objectives can be met, an annual risk assessment should include considering IT risks. For each identified risk, the County should analyze the identified risk and develop a plan to respond within the context of the County’s defined objectives and risk tolerances. The process of managing risks should also address the risk of unauthorized access and use, modification, or loss of sensitive information and the risk of losing the continuity of business operations in the event of a disaster or system interruption.

Effect—The County’s administration and IT management may put the County’s operations and IT systems and data at unintended and unnecessary risk.

Cause—The County relied on an informal process to perform risk-assessment procedures. Also, the County lacked written policies and procedures for inventorying its data and performing a business-impact analysis.

Recommendations—The County should identify, analyze, and reduce risks to help prevent undesirable incidents and outcomes that could impact business functions and IT systems and data. It also should plan for where resources should be allocated and where critical controls should be implemented. To help ensure it has effective entity-wide policies and procedures to achieve these objectives, the County should follow guidance from a credible IT security framework such as that developed by the National Institute of Standards and Technology. Responsible administrative officials and management over finance, IT, and other entity functions should be asked for input in the County’s process for managing risk. The County should conduct the following as part of its process for managing risk:

- Perform an annual, entity-wide IT risk-assessment process that includes evaluating risks such as risks of inappropriate access that would affect financial data, system changes that could adversely impact or disrupt system operations, and inadequate or outdated system security.
- Evaluate and manage the risks of holding sensitive information by identifying, classifying, and inventorying the information the County holds to assess where stronger access and security controls may be needed to protect data in accordance with State statutes and federal regulations.
- Evaluate and determine the business functions and IT systems that would need to be restored quickly given the potential impact disasters or other IT system interruptions could have on critical organizational

functions, such as public safety, and operations, such as payroll and accounting, and determine how to prioritize and plan for recovery.

The County's responsible officials' views and planned corrective action are in its corrective action plan included at the end of this report.

This finding is similar to prior-year finding 2017-01.

2018-02

Information technology (IT) controls—access, configuration and change management, security, and contingency planning

Condition and context—The County's control procedures were not sufficiently designed, documented, and implemented to respond to risks associated with its IT systems and data. The County lacked adequate procedures over the following:

- **Restricting access to its IT systems and data**—Procedures did not consistently help prevent or detect unauthorized or inappropriate access.
- **Configuring systems securely and managing system changes**—Procedures did not ensure IT systems were securely configured and all changes were adequately managed.
- **Securing systems and data**—IT security policies and procedures lacked controls to prevent unauthorized or inappropriate access or use, manipulation, damage, or loss.
- **Developing and documenting a contingency plan**—Plan should include steps necessary for restoring operations, recovering vital IT systems and data, and conducting daily operations in the event of a disaster, system, or equipment failure, or other interruption.

Criteria—The County should have effective internal controls to protect its IT systems and help ensure the integrity and accuracy of the data it maintains.

- **Logical and physical access controls**—Help to ensure systems and data are accessed by users who have a need, systems and data access granted is appropriate, key systems and data access is monitored and reviewed, and physical access to its system infrastructure is protected.
- **Well-defined documented configuration management process**—Ensures the County's IT systems are configured securely and that changes to the systems are identified, documented, evaluated for security implications, tested, and approved prior to implementation. This helps limit the possibility of an adverse impact on the system security or operations. Separation of responsibilities is an important control for system changes; the same person who has authority to make system changes should not put the change into production. If those responsibilities cannot be separated, a post-implementation review should be performed to ensure the change was implemented as designed and approved.
- **IT security internal control policies and procedures**—Help prevent, detect, and respond to instances of unauthorized or inappropriate access or use, manipulation, damage, or loss to its IT systems and data.
- **Comprehensive documented and tested contingency plan**—Provides the preparation necessary to place the plan in operation and helps to ensure business operations continue and systems and data can be recovered in the event of a disaster, system or equipment failure, or other interruption.

Effect—There is an increased risk that the County may not adequately protect its IT systems and data, which could result in unauthorized or inappropriate access and the loss of confidentiality and integrity of

systems and data. It also increases the County's risk of not being able to effectively continue daily operations and completely and accurately recover vital IT systems and data in the event of a disaster or system interruption.

Cause—The County relied on informal processes and lacked written policies and procedures.

Recommendations—To help ensure the County has effective policies and procedures over its IT systems and data, the County should follow guidance from a credible IT security framework such as that developed by the National Institute of Standards and Technology. To help achieve these control objectives, the County should develop, document, and implement control procedures in each IT control area described below:

Access

- Assign and periodically review employee user access ensuring appropriateness and compatibility with job responsibilities.
- Remove terminated employees' access to IT systems and data.
- Review all other account access to ensure it remains appropriate and necessary.
- Evaluate the use and appropriateness of accounts shared by 2 or more users and manage the credentials for such accounts.
- Enhance authentication requirements for IT systems.
- Protect IT systems and data with session time-outs after defined period of inactivity.
- Segregate public and internal wireless networks and secure internal wireless network access.
- Manage remote access to the County's systems and data.
- Utilize data-sharing agreements when sharing the County's data, limit the access as appropriate, and enforce data-sharing security restrictions.
- Review data center physical access periodically to determine whether individuals still need it.

Configuration and change management

- Establish and follow a documented change management process.
- Review proposed changes for appropriateness, justification, and security impact.
- Document changes, testing procedures and results, change approvals, and post-change review.
- Develop and document a plan to roll back changes in the event of a negative impact to IT systems.
- Test changes prior to implementation.
- Separate responsibilities for the change management process or, if impractical, perform a post-implementation review to ensure the change was implemented as approved.
- Configure IT resources appropriately and securely and maintain configuration settings.

Security

- Perform proactive key user and system activity logging and log monitoring, particularly for users with administrative access privileges.
- Prepare and implement a security-incident-response plan clearly stating how to report and handle incidents.
- Provide all employees ongoing training on IT security risks and their responsibilities to ensure systems and data are protected.
- Perform IT vulnerability scans and remediate vulnerabilities in accordance with a remediation plan.
- Identify, evaluate, and apply patches in a timely manner.

Contingency planning

- Develop and implement a contingency plan and ensure it includes all required elements to restore critical operations, including being prepared to enable moving critical operations to a separate alternative site if necessary.
- Test the contingency plan.
- Train staff responsible for implementing the contingency plan.
- Back up and securely maintain backups of systems and data.

The County's responsible officials' views and planned corrective action are in its corrective action plan included at the end of this report.

This finding is similar to prior-year findings 2017-02 (access), 2017-03 (configuration and change management), 2017-04 (IT security), and 2017-05 (contingency planning).

2018-03

Annual financial report preparation

Condition and context—The County did not have sufficient written policies and procedures over the preparation of its Comprehensive Annual Financial Report (CAFR) to ensure it was accurate and complete and prepared in accordance with U.S. generally accepted accounting principles (GAAP). As a result, the County:

- Understated Homeland Security Fund due from other governments and related deferred inflows of resources by \$22,000.
- Misclassified Flood Control District Fund intergovernmental revenues totaling \$175,000 as miscellaneous revenues.
- Overstated landfill closure and postclosure care costs liabilities and expenses in the financial statements and related note disclosures by \$499,000.
- Omitted disclosure of \$1.5 million in noncash transactions on its statement of cash flows related to the trade-in of equipment acquired under capital leases and the purchase of new equipment.

Criteria—The County's Board of Supervisors and management depend on accurate information to fulfill their oversight responsibilities and to report accurate information to the public and agencies from which the County receives funding. Accordingly, the County should improve its policies and procedures over the preparation of its CAFR to help ensure it is accurate and complete and prepared in accordance with GAAP.

Effect—There is an increased risk that the County's financial statements could contain significant errors that would be misleading to those that rely on the information. The County made necessary audit adjustments to correct the errors we found during our audit.

Cause—The County relied on an informal process to prepare its CAFR that lacked sufficient reviews and approvals to ensure the accuracy and completeness of the information and supporting schedules.

Recommendation—To help ensure that the County's CAFR is accurate and complete and prepared in accordance with GAAP, the County should:

- Develop and implement comprehensive written policies and procedures for compiling information and preparing supporting schedules. Procedures should include detailed instructions for obtaining information from the accounting system and other sources that is necessary for the CAFR's preparation.
- Require a CAFR review be performed by an employee who is independent of its preparation and knowledgeable of the County's operations and reporting requirements. This review should ensure that the information reported is accurate and complete and prepared in accordance with GAAP.

The County's responsible officials' views and planned corrective action are in its corrective action plan included at the end of this report.

This finding is similar to prior-year finding 2017-07.

2018-04

Sheriff's Office—inadequate personnel policies and procedures

Condition and context—The Santa Cruz County Sheriff's Office paid its employees for hours not worked. Specifically, for 5 of 6 Sheriff's Office time sheets tested, the Sheriff's Office allowed employees to report 1 hour of overtime not worked per day to compensate them for taking on additional responsibilities during their normal work day.

Criteria—The Sheriff's Office should maintain effective internal controls over its payroll processing and follow the County's established personnel policies and procedures to ensure that employees are paid only for the hours they worked. Specifically, the County's personnel policies and procedures allow full-time, nonexempt employees to receive differential pay for overtime and on-call hours worked above the 40-hour work week but prohibit employees from charging such time when it is not worked.

Effect—For the time sheets tested, the Sheriff's Office paid its employees \$716 in total for 23.5 hours of overtime not worked, which was in violation of the County's personnel policies and procedures. In addition, this practice constitutes a potential misuse of public monies in violation of State laws governing the use of public monies. Therefore, we are currently conducting a special investigation of the Sheriff's Office to determine the amount of public monies misused, if any, and the extent to which those monies were misused.

Cause—The Sheriff's Office did not follow the County's established personnel policies and procedures because it had a long-standing practice of paying its employees for hours not worked to compensate them for taking on additional responsibilities during their normal work day.

Recommendations—The Sheriff's Office should follow the County's established personnel policies and procedures for compensating its employees and pay employees for only the hours they worked. Further, the Sheriff's Office should request the County Board of Supervisor's approval prior to increasing compensation for its full-time, nonexempt employees.

2018-05

Public Fiduciary

Condition and context—The Santa Cruz County’s Public Fiduciary’s Office had 38 unsettled deceased ward accounts as of June 30, 2018, with cash assets totaling approximately \$176,000. For all 6 deceased ward accounts tested, the Public Fiduciary’s Office did not have suitable documentation to show the disposition and disbursement of the assets in the deceased wards’ estates. For example, for these 6 deceased ward accounts, there was no documentation that the Public Fiduciary’s Office had filed the required annual accounting or a statement explaining the delay in settling the deceased wards’ estates with the Santa Cruz County Superior Court as required by Arizona Revised Statutes §14-5605. Further, the deceased wards’ accounts that were tested had not been settled for at least 1 year, and 1 had not been settled for as many as 19 years.

Criteria—Arizona Revised Statutes (A.R.S.) Title 14, Chapter 5, Article 6, provide the responsibilities of the County public fiduciary. In addition, the Arizona Code of Judicial Administration (ACJA) §7-202 establishes minimum standards of conduct for public fiduciaries. Specifically, public fiduciaries are required to establish and maintain complete and accurate records for wards’ assets held in their care, including court documents and records regarding the disposition and disbursement of assets in deceased wards’ estates. Further, A.R.S. §§14-3703 and 14-3704 require public fiduciaries to settle and distribute deceased wards’ estates expeditiously and efficiently.

Effect—The Public Fiduciary’s Office was in violation of standards of conduct governing public fiduciaries and may be in violation of State laws. Additionally, there is an increased risk that the Public Fiduciary’s Office did not and will not in the future properly safeguard and disburse deceased wards’ assets in accordance with State laws.

Cause—According to the Public Fiduciary’s Office, it was backlogged with keeping records and completing filings for both active and deceased ward accounts and was processing the active ward accounts as of June 30, 2018.

Recommendations—The Public Fiduciary’s Office should consult with the County’s legal counsel to ensure that its policies and procedures for overseeing wards’ accounts are in compliance with State laws and standards of conduct governing the public fiduciaries and take immediate steps to settle existing deceased ward accounts.

Federal award findings and questioned costs

2018-101

CFDA number and name:	97.067 Homeland Security Grant Program
Award numbers and years:	15-AZDOHS-HSGP-150406-01, October 1, 2015 through December 31, 2017; 15-AZDOHS-HSGP-150406-03, June 1, 2017 through April 30, 2018; 16-AZDOHS-HSGP-160405-01, October 1, 2016 through September 30, 2017; 16-AZDOHS-HSGP-160405-02, October 1, 2016 through September 30, 2018; 16-AZDOHS-HSGP-160405-03, May 1, 2017 through September 30, 2018; 16-AZDOHS-OPSG-160420-01, November 1, 2016 through December 31, 2017; 17-AZDOHS-HSGP-170406-01, October 1, 2017 through September 30, 2018; 17-AZDOHS-OPSG-170432-01, January 1, 2018 through December 31, 2018
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:	Not applicable

Condition and context—The County did not maintain effective control and accountability for equipment purchased with program monies. According to County records at June 30, 2018, the County had 72 capital asset items purchased with the program's monies valued at \$317,104. For 3 of 8 sample items tested, we noted that the County's records did not include a unique identifier, such as a tag or serial number. Those 3 items were valued at \$130,816 in total and were not physically tagged or otherwise identified as County property.

Criteria—In accordance with 2 CFR §200.313(d), the County must maintain property records that include each capital asset item's description; unique identifying tag or serial number; source of funding and percentage of federal program's share of cost; title holder; acquisition date and cost; location, use, and condition; and any ultimate disposition data such as the disposal date and sales price. In addition, the County must develop adequate safeguards to prevent loss, damage, or theft of property purchased with federal monies, including physically tagging or otherwise identifying the property as belonging to the County. Finally, the County must establish and maintain effective internal control over its federal awards that provide reasonable assurance that it is managing them in compliance with all applicable laws, regulations, and award terms (2 CFR §200.303).

Effect—Although none of the capital equipment items we tested were missing or damaged, the County's capital equipment purchased with the program's monies are at risk of being misused, lost, damaged, or stolen. Also, the lack of adequate controls over capital assets could potentially impact those purchased with other County federal and nonfederal monies.

Cause—The County did not follow its existing policies and procedures for controlling equipment purchased with the program's monies and ensuring that it kept complete and accurate records for them.

Recommendation—To help ensure compliance with federal requirements and to help prevent misuse, loss, damage, or theft of capital equipment purchased with federal monies, the County should ensure that its policies and procedures are followed that require all equipment items to be properly inventoried, tagged, and accounted for in its records.

The County's responsible officials' views and planned corrective action are in its corrective action plan at the end of this report.

This finding is similar to prior year finding 2017-102.

COUNTY SECTION

Santa Cruz County
Schedule of expenditures of federal awards
Year ended June 30, 2018

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			\$ 90,094	
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	116-17, 117-18	1,351,099	
Department of Justice						
16 575	Crime Victim Assistance		Arizona Department of Public Safety	2018-331	10,270	
16 588	Violence Against Women Formula Grants		Arizona Governor's Office of Youth, Faith and Family	ST-WSG-15-010115-19Y3	107,995	
16 738	Edward Byrne Memorial Justice Assistance Grant Program		Arizona Criminal Justice Commission	DC-18-012, DC-18-032	43,842	
	Total Department of Justice				<u>162,107</u>	
Department of Labor						
17 258	WIOA Adult Program	WIOA Cluster	Arizona Department of Economic Security	DI16-002111	222,019	
17 259	WIOA Youth Activities	WIOA Cluster	Arizona Department of Economic Security	DI16-002111	321,135	
17 278	WIOA Dislocated Worker Formula Grants	WIOA Cluster	Arizona Department of Economic Security	DI16-002111	142,474	
	<i>Total WIOA Cluster</i>				<u>685,628</u>	
17 274	YouthBuild		Pima County	CT-CS-15*20	210,038	\$ 88,029
	Total Department of Labor				<u>895,666</u>	<u>88,029</u>
Department of Transportation						
20 600	State and Community Highway Safety	Highway Safety Cluster	Arizona Governor's Office of Highway Safety	2017-PT-073, 2017-AL-040, 2017-OP-014, 2017-PT-053, 2017-PT-054, 2018-AL-024, 2018-PTS-061, 2018-09-014	34,839	
20 703	Interagency Hazardous Materials Public Sector Training and Planning Grants		Arizona Emergency Response Commission	HM-HMP-0583-16-01-00	10,254	
	Total Department of Transportation				<u>45,093</u>	
Department of Education						
84 002	Adult Education—Basic Grants to States		Arizona Department of Education	18-FAEAPL-813397-01A, 18-FAEABE-813397-01A, 18-FAEIEL-813397-01A	154,969	
84 010	Title I Grants to Local Educational Agencies		Arizona Department of Education	17-FLCCCL-713341-02A, 18-FLCCCL-813341-02A	18,428	
84 027	Special Education—Grants to States	Special Education Cluster (IDEA)	Arizona Department of Education	18-FESCBG-813341-09A; 18-FESCBG-810725-09A; 18-FESCBG-810731-09A; 17-FESSCG-713341-55B; 18-FESSCG-810725-55B; 18-FESSCG-813341-55B	28,960	
84 215	Fund for the Improvement of Education				310,441	217,329

Santa Cruz County
Schedule of expenditures of federal awards
Year ended June 30, 2018

Federal agency/CFDA number	Federal program name	Cluster title	Pass-through grantor	Pass-through grantor's numbers	Program expenditures	Amount provided to subrecipients
84 367	Supporting Effective Instruction State Grant		Arizona Department of Education	18FT1TII-813341-03A	366	
	Total Department of Education				<u>513,164</u>	<u>217,329</u>
Department of Health and Human Services						
93 069	Public Health Emergency Preparedness		Arizona Department of Health Services	ADHS17-133199:1, ADHS17-133199:3	225,161	
93 268	Immunization Cooperative Agreements		Arizona Department of Health Services	ADHS13-041547:22; ADHS18-177689:2	35,557	35,557
93 323	Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)		Arizona Department of Health Services	ADHS17-163353	9,171	
93 539	PPHF Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance Financed in Part by Prevention and Public Health Funds		Arizona Department of Health Services	ADHS13-041547:20; ADHS18-177689:2	157,053	157,053
93 563	Child Support Enforcement		Arizona Department of Economic Security	G1804AZ4004	52,209	
93 667	Social Services Block Grant		Southeastern Arizona Governments Organization	121-18	86,048	
93 912	Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement Program		Mariposa Community Health Center	D06RH21674	3,677	
93 959	Block Grants for Prevention and Treatment of Substance Abuse		Arizona Department of Health Services	IGA-SABG-GR-16-040116-13-2; IGA-SABG-GR-18-070117-12	79,355	74,658
	Total Department of Health and Human Services				<u>648,231</u>	<u>267,268</u>
Executive Office of the President						
95 001	High Intensity Drug Trafficking Areas Program		City of Tucson	HT-16-2628, HT-16-2629, HT-17-2730, HT-17-2731	416,368	
Department of Homeland Security						
97 042	Emergency Management Performance Grants		Arizona Department of Emergency and Military Affairs	EMF-2017-EP-00008-S01	160,745	
97 047	Pre-Disaster Mitigation		Arizona Department of Emergency and Military Affairs	PDMC-PL-09-AZ-2015-007, EMP-2016-PC-003	22,800	
97 067	Homeland Security Grant Program		Arizona Department of Homeland Security	15-AZDOHS-HSGP-150406-1, 15-AZDOHS-HSGP-150406-03, 16-AZDOHS-HSGP-160405-01, 16-AZDOHS-HSGP-160405-02, 16-AZDOHS-HSGP-160405-03, 16-AZDOHS-OPSG-160420-01, 17-AZDOHS-HSGP-170406-01, 17-AZDOHS-OPSG-170432-01	679,257	
	Total Department of Homeland Security				<u>862,802</u>	
	Total expenditures of federal awards				<u>\$ 4,984,624</u>	<u>\$ 572,626</u>

Santa Cruz County
Notes to schedule of expenditures of federal awards
Year ended June 30, 2018

Note 1 - Basis of presentation

The accompanying schedule of expenditures of federal awards (schedule) includes Santa Cruz County's federal grant activity for the year ended June 30, 2018. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.

Note 2 - Summary of significant accounting policies

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

Note 3 - Catalog of Federal Domestic Assistance (CFDA) number

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2018 *Catalog of Federal Domestic Assistance*.

Note 4 - Indirect cost rate

The County elected to use the 10 percent de minimis indirect cost rate as covered in 2 CFR §200.414.

COUNTY RESPONSE



ADMINISTRATIVE SERVICES
SANTA CRUZ COUNTY

Mauricio A. Chavez, CMPI
Director of Finance &
Administrative Services

March 27, 2019

Lindsey Perry
Auditor General
2910 N. 44th St., Ste. 410
Phoenix, AZ 85018

Dear Ms. Perry:

We have prepared the accompanying corrective action plan as required by the standards applicable to financial audits contained in *Government Auditing Standards* and by the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Specifically, for each finding we are providing you with our responsible officials' views, the names of the contact people responsible for corrective action, the corrective action planned, and the anticipated completion date.

Sincerely,

Mauricio A. Chavez
Director of Finance & Administrative Services

Santa Cruz County
Corrective action plan
Year ended June 30, 2018

Financial Statement Findings

2018-01

Managing Risk

Name(s) of contact person(s): Juan Balderas, Network Administrator
Anticipated completion date: June 30, 2020

Corrective Action: The County concurs with the finding and will develop and implement formal Information Security Risk Categorization and risk assessment process. The County began implementing software to identify and classify data. The County will continue to work with the Auditor General's Office in addressing these findings.

2018-02

Information technology (IT) controls – access, configuration and change management, security, and contingency planning

Name(s) of contact person(s): Juan Balderas, Network Administrator
Anticipated completion date: June 30, 2020

Corrective Action: The County concurs with the finding and will develop and implement formal information Security Configuration Management Policies, which will document changes, fallback plans, and approval processes. The County will continue to work with the Auditor General's Office in addressing these findings.

2018-03

Annual financial report preparation

Name(s) of contact person(s): Mauricio A. Chavez, Administrative Services Director
Anticipated completion date: June 30, 2020

Corrective Action: The County concurs with the finding and will develop written policies and procedures that address the review and approval process of reporting accurate information for the annual financial report. The County will continue to work with the independent consultant hired by the County to improve the accuracy of the financial statements. The County will continue to work with the Auditor General's Office and its recommendations.

**Santa Cruz County
Corrective action plan
Year ended June 30, 2018**

2018-04

Sheriff's Office – inadequate personnel policies and procedures

Name(s) of contact person(s): Marco A. Estrada, Sheriff
Anticipated completion date: October 2018

Corrective Action: The County concurs with the finding; County Management informed the Auditor General's office of the practice immediately after its awareness and is awaiting the report of the special investigation of the Sheriff's Office. The practice of paying employees for hours not worked was stopped on October 2018 when County Management was made aware of the practice.

2018-05

Public Fiduciary

Name(s) of contact person(s): Cecilia Mejia, Public Fiduciary
Anticipated completion date: June 30, 2020

Corrective Action: The public fiduciary concurs with the finding and will request to fill a vacant position to assist the department bring all files up to date. The public fiduciary will reconstruct staff and assign dedicated staff to work on preparing the proper paperwork to file to the courts. The public fiduciary will work with the bank to properly close all pending accounts and distribute funds accordingly. The public fiduciary will continue to work with the Auditor General's office and its recommendations.

Santa Cruz County
Corrective action plan
Year ended June 30, 2018

Federal award findings and questioned costs

2018-101

CFDA number and program name:	97.067 Homeland Security Grant Program
Name(s) of contact person(s):	Mauricio A. Chavez, Administrative Services Director
Anticipated completion date:	June 30, 2019

Corrective Action: The County concurs with the finding and made significant progress ensuring all equipment that was practical to tag was accomplished. The County worked with the department director to identify the three capital assets and tagged the equipment to comply with the federal requirements. The County will work with the independent consultant to review and reconcile data before submitting to the Auditor General's office.



ADMINISTRATIVE SERVICES
SANTA CRUZ COUNTY

Mauricio A. Chavez, CMPI
Director of Finance &
Administrative Services

March 27, 2019

Lindsey Perry
Auditor General
2910 N. 44th St., Ste. 410
Phoenix, AZ 85018

Dear Ms. Perry:

We have prepared the accompanying summary schedule of prior audit findings as required by the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Specifically, we are reporting the status of audit findings included in the prior audit's schedule of findings and questioned costs. 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,

Mauricio A. Chavez
Director of Finance & Administrative Service

Santa Cruz County
Summary schedule of prior audit findings
Year ended June 30, 2018

Status of financial statement findings

The County should improve its risk-assessment process to include information technology security

Finding number: 2017-01
Status: Not corrected

The County will begin to develop and implement formal Information Security Risk Categorization and risk assessment process. The County implemented software to identify and classify data.

The County should improve access controls over its information technology resources.

Finding number: 2017-02, 2016-03 & 2015-03
Status: Not corrected

The County continues to develop policies and procedures to help prevent and detect unauthorized access or use of IT resources and implemented a software solution (Netwrix) to assist and classify its data.

The County should improve its configuration management processes over its information technology resources.

Finding number: 2017-03, 2016-04 & 2015-04
Status: Not corrected

The County implemented the use of technical guides and continues to develop its policies and procedures to help meet current IT standards and best practices. The County will continue to work with the Auditor General's office to address this finding.

The County should improve security over its information technology resources

Finding number: 2017-04
Status: Not corrected

The County continues developing its policies and procedures, to ensure the confidentiality, integrity and availability of its IT resources. The County deployed Netwrix, a software solution, to help audit logs and classify both data in transit and data at rest.

Santa Cruz County

Summary schedule of prior audit findings

Year ended June 30, 2018

The County should improve its contingency planning procedures for its information technology resources

Finding number: 2017-05 & 2016-05
Status: Not corrected

The County continues to develop its contingency planning procedures. The County made progress implementing a data backup solution of all its critical data, using VEEAM. The County periodically reviews and tests backups to ensure data restoration accuracy. The County will continue to work with the Auditor General's office to correct the finding.

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

Finding number: 2017-06, 2016-02 & 2015-02
Status: Fully corrected

The County should improve its policies and procedures for preparing its annual financial statements and note disclosures.

Finding number: 2017-07, 2016-01 & 2015-01
Status: Not corrected

The County was unable to correct prior year findings due to a transition period at the County finance staff. The County will continue to work with the Auditor General's Office and the independent consultant to improve the accuracy of the financial statements.

Santa Cruz County
Summary schedule of prior audit findings
Year ended June 30, 2018

Status of federal award findings and questioned costs

CFDA number and program name: Not applicable
Finding number: 2017-101, 2016-101 & 2015-101
Status: Fully corrected

CFDA number and program name: 97.067 Homeland Security Grant Program
Finding number: 2017-102, 2016-102, 2015-102, 2014-102 & 2013-104
Status: Partially corrected

The County was able to significantly improve the fixed assets listing, including properly tagging equipment when practical. The County will work with the independent consultant to reconcile the fixed assets listing.

CFDA number and program name: 93.268 Immunization Cooperate Agreement
Finding number: 2015-103
Status: Fully corrected

