

Santa Cruz County
Single Audit Reporting Package
Year Ended June 30, 2008

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Single Audit Reporting Package
Year Ended June 30, 2008

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Comprehensive Annual Financial Report

Issued separately

Single Audit Section

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Basic Financial Statements Performed in Accordance with *Government Auditing Standards*

The Auditor General of the State of Arizona

The Board of Supervisors of
Santa Cruz County, Arizona

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, 2008, which collectively comprise the County's basic financial statements, and have issued our report thereon dated July 28, 2009. Our report was modified as to consistency because of the implementation of Governmental Accounting Standards Board Statement Nos. 45 and 50. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's basic financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We consider items **08-02** and **08-03** described in the accompanying

Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the basic financial statements will not be prevented or detected by the County's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items **08-02** and **08-03** to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards*, and which is described in the accompanying Schedule of Findings and Questioned Costs as item **08-01**.

Santa Cruz County's responses to the findings identified in our audit are presented on page 19. We did not audit the County's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the members of the Arizona State Legislature, the Auditor General of the State of Arizona, the Board of Supervisors, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.



July 28, 2009

**Independent Auditor's Report on Compliance with Requirements
Applicable to Each Major Program and on Internal Control over Compliance in
Accordance with OMB Circular A-133**

The Auditor General of the State of Arizona

The Board of Supervisors of
Santa Cruz County, Arizona

Compliance

We have audited the compliance of Santa Cruz County with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above 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. Our audit does not provide a legal determination of the County's compliance with those requirements.

As described in items **08-04**, **08-06**, and **08-07**, in the accompanying Schedule of Findings and Questioned Costs, the County did not comply with its cash management and reporting requirements that are applicable to its Gaining Early Awareness and Readiness for Undergraduate Program and its procurement and allowable costs requirements that are applicable to its Airport Improvement Program. Compliance with such requirements is

necessary, in our opinion, for the County to comply with the requirements applicable to these programs.

In our opinion, except for the noncompliance described in the preceding paragraph, Santa Cruz County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008. The results of our auditing procedures also disclosed an other instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item **08-05**.

Internal Control over Compliance

The County's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 would not necessarily identify all deficiencies in the County's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A control deficiency in the County's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the County's internal control. We consider items **08-04** through **08-08** described in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over compliance.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the County's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs, we consider items **08-04** through **08-08** to be material weaknesses.

Schedule of Expenditures of Federal Awards

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, 2008, and have issued our report thereon dated July 28, 2009. Our report was modified as to consistency because of the implementation of Governmental Accounting Standards Board Statement Nos. 45 and 50. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Santa Cruz County's responses to the findings identified in our audit are presented on pages 20 through 22. We did not audit the County's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the members of the Arizona State Legislature, the Auditor General of the State of Arizona, the Board of Supervisors, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

A handwritten signature in cursive script that reads "Miller, Allen & Co, P.C.".

July 28, 2009

Santa Cruz County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2008

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number (Note 2)	Pass-Through Grantor's Number	Expenditures
U.S. Office of National Drug Control Policy			
High Intensity Drug Trafficking Area, passed through Arizona Criminal Justice Commission	07.Unknown	HT-18-08-1914 HT-17-07-1913 HT-17-07-1914 HT-18-07-1914	<u>\$ 679,176</u>
U.S. Department of Agriculture			
Schools and Roads – Grants to States, passed through the Arizona State Treasurer	10.665	None	<u>140,411</u>
U.S. Department of the Interior			
Payments in Lieu of Taxes	15.226		<u>579,556</u>
U.S. Department of Justice			
Crime Victim Assistance, passed through the Arizona Criminal Justice Commission	16.575	VA-08-029	19,747
Crime Victim Compensation, passed through the Arizona Criminal Justice Commission	16.576	VC-07-061/VC-08-061	3,142
Community Capacity Development Office, passed through the Arizona Criminal Justice Commission	16.595	2006-WS-06- 2007-WS-77-	155,132
Edward Byrne Memorial Justice Assistance Grant Program, Passed through the Arizona Criminal Justice Commission	16.738	PC-08-150 AC-08-200	350,399
Southwest Border Prosecution Initiative	16.Unknown		95,826
Federal Equitable Sharing Program	16.Unknown		73,952
Total U.S. Department of Justice			<u>698,198</u>
U.S. Department of Labor			
WIA Cluster:			
WIA Adult Program, passed through the Arizona Department of Economic Security	17.258	E5706012A, DE070303	199,147
WIA Youth Program, passed through the Arizona Department of Economic Security	17.259	E5706012A, DE070303	301,746
WIA Dislocated Workers, passed through the Arizona Department of Economic Security	17.260	E5706012A, DE070303	<u>83,943</u>
Total WIA Cluster			<u>584,836</u>
Incentive Grants - WIA Section 503, passed through the Arizona Department of Economic Security	17.267	DE071014-001 DE081034-001	3,777
H-1B Job Training Grants, passed though Pima County	17.268	1-69-S-140387-0707	14,576
Veterans' Employment Grants, passed through Pima County	17.802	1-69-S-139352-0706	9,355
Total U.S. Department of Labor			<u>612,544</u>

See accompanying notes to schedule.

Santa Cruz County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2008

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number (Note 2)	Pass-Through Grantor's Number	Expenditures
U.S. Department of Transportation			
Airport Improvement Program	20.106		875,332
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants, passed through the Governor's Office of Highway Safety	20.601	2007-KAHV-013 2007-PT-021	51,616
Total U.S. Department of Transportation			<u>926,948</u>
Environmental Protection Agency			
Regional Wetland Program Development Grants	66.461		26,295
Brownfields Assessment and Cleanup Cooperative Agreements	66.818		7,212
Total Environmental Protection Agency			<u>33,507</u>
U.S. Department of Education			
Adult Education - State Grant Program, passed through the Arizona Department of Education	84.002	V002A070003	57,980
Title I Grants to Local Educational Agencies, passed through the Arizona Administrative Office of the Courts	84.010	None	27,016
Special Education – Grants to States, passed through the Arizona Department of Education	84.027	H027A070007	19,064
Rehabilitation Services – Service Projects, passed through the Arizona Department of Education	84.128	H128J050126-06	42,554
Safe and Drug-Free Schools and Communities – State Grants, passed through the Arizona Administrative Office of the Courts	84.184	Q184E070054	22,839
Fund for the Improvement of Education	84.215		516,822
Twenty First Century Community Learning Centers, Passed through the Arizona Department of Education	84.287	S287C0700003A	35,795
State Grants for Innovative Programs, passed through the Arizona Department of Education	84.298	S298A040003	343
Parental Assistance Centers, passed through the Chandler Education Foundation	84.310	U310A060070	149,028
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334		594,498
Arts in Education, passed through the Arizona Department of Education	84.351	U351C060097	237,440
Improving Teacher Quality – State Grants, passed through the Arizona Administrative Office of the Courts	84.367	28209	42,961
Improving Teacher Quality - State Grants, passed through the Arizona Department of Education	84.367	S367A60049	10,785
Total CFDA 84.367			<u>53,746</u>
Total U.S. Department of Education			<u>1,757,125</u>
U.S. Department of Health and Human Services			
Centers for Disease Control and Prevention – Investigations and Technical Assistance, passed through the Arizona Department of Health Services	93.283	HG754204 HG252043	399,837
Child Support Enforcement, passed through the Arizona Department of Economic Security	93.563	E7205023	111,538
Voting Access for Individuals with Disabilities, Grants to States	93.617		194,327
Social Services Block Grant, passed through the Southeastern Arizona Governments Organization	93.667	08-01	122,106

See accompanying notes to schedule.

Santa Cruz County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2008

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number (Note 2)	Pass-Through Grantor's Number	Expenditures
Preventive Health Services – Sexually Transmitted Diseases Control Grants, passed through the Arizona Department of Health Services	93.977	HG354324	182,225
Maternal and Child Health Services Block Grant to the States, passed through the Arizona Department of Health Services	93.994	HG461035	<u>40,572</u>
Total U.S. Department of Health and Human Services			<u>1,050,605</u>
U.S. Department of Homeland Security			
Homeland Security Grant Program Cluster:			
Emergency Management Performance Grants, passed through the Arizona Department of Emergency and Military Affairs	97.042	None	59,005
Homeland Security Grant Program, passed through the Arizona Department of Emergency and Military Affairs	97.067	2005-GE-T5-0030 2006-GE-T6-0007 2007-GE-T7-0007	341,670
Law Enforcement Terrorism Prevention Program, passed through the Arizona Department of Emergency and Military Affairs	97.074	2006-GE-T6-0007	<u>15,682</u>
Total U.S. Department of Homeland Security Cluster			<u>416,357</u>
Cooperating Technical Partners, passed through the Arizona Department of Emergency and Military Affairs	97.045	2005-44-5515RB -9092-4101-D	240,615
Citizen Corps, passed through the Arizona Department of Emergency and Military Affairs	97.053	22419-09 -2007-GE-T6-0007	<u>5,008</u>
Total U.S. Department of Homeland Security			<u>661,980</u>
Total Expenditures of Federal Awards			<u>\$ 7,140,050</u>

See accompanying notes to schedule.

Santa Cruz County
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2008

Note 1 - Basis of Accounting

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

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 *2008 Catalog of Federal Domestic Assistance*. When no CFDA number had been assigned to a program, the two-digit federal agency identifier, a period, and the federal contract number were used. When there was no federal contract number, the two-digit federal agency identifier, a period, and the word "unknown" were used.

Note 3 - Subrecipients

The County did not provide any federal awards to subrecipients during the year ended June 30, 2008.

Santa Cruz County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2008

Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:

Unqualified

YES NO

Material weaknesses identified in internal control over financial reporting?

X

Significant deficiency identified not considered to be a material weakness?

 X
 (None Reported)

Noncompliance material to the financial statements noted?

X

Federal Awards

Material weaknesses identified in internal control over major programs?

X

Significant deficiency identified not considered to be material weaknesses?

 X
 (None Reported)

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

Unqualified for all major programs except for the Airport Improvement Program and the Gaining Early Awareness and Readiness for Undergraduate Programs, which were qualified.

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

X

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
07.Unknown	High Intensity Drug Trafficking Area
WIA Cluster:	
17.258	WIA Adult Program
17.259	WIA Youth Program
17.260	WIA Dislocated Workers
20.106	Airport Improvement Program
84.215	Fund for the Improvement of Education
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs
84.351	Arts in Education
93.563	Child Support Enforcement
97.045	Cooperating Technical Partners

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

\$300,000

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, 2008

Financial Statement Findings

Item: **08-01** (Repeat Finding)

Subject: Annual adopted budgets should include all sources of revenues as well as beginning fund balance.

To help ensure that only the needed amount of taxes are levied, Arizona Revised Statute §42-17151 requires that the County budget to expend all sources of revenues, as well as beginning fund balance. For fiscal year 2008, the County did not include the effects of accruals in the calculation of available resources when preparing the annual budget. As a result, the County's general fund budget did not include \$3,404,510 in beginning fund balance, in violation of the statute.

The County should develop budgeting policies and procedures that help ensure that all sources of revenues as well as beginning fund balance are budgeted to be expended in the current year.

Item: **08-02** (Repeat Finding)

Subject: The Treasurer's office should improve controls over cash and investments.

The Treasurer's primary responsibility is to manage public and trust monies of the County and other political subdivisions. At June 30, 2008, the Treasurer's Office had been entrusted with approximately \$35.5 million in public monies. To fulfill the responsibilities of managing these monies, the Treasurer's Office should ensure adequate internal controls are followed; maintain adequate accounting records of receipts, disbursements, and cash balances; reconcile cash and investment journals and reports; and safeguard assets from misappropriation. However, the Treasurer's Office has not established essential internal controls such as accurately reconciling the Treasurer's Cash Journal to the Treasurer's Report and bank statements. The lack of accurate reconciliations resulted in variances between these reports at June 30, 2008.

To help strengthen controls and ensure accurate account balances for the County and other political subdivisions, the Treasurer's Office should perform the following:

- Reconcile the Treasurer's Cash Journal to the Treasurer's Report and bank statements monthly and at year-end, and prepare written bank reconciliations.
- Identify and promptly investigate all reconciling items and, as necessary, propose appropriate correcting adjustments to the Treasurer's records or instruct the bank to correct its records.
- Record all transactions in the fiscal year in which they occurred.

Item: **08-03**

Subject: Prior Period Adjustment

Internal controls, effected by those charged by governance, management, and other personnel, should be designed to provide reasonable assurance about the achievement of the County's objectives with regards to reliable financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

The County did not record a receivable relating to a nonrecurring grant in the prior fiscal year. As a result, this misstatement was identified in the financial statements by the auditors, resulting in a prior

Santa Cruz County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2008

period adjustment totaling \$759,395. A similar finding was also reported as a federal compliance "internal control weakness;" see item **08-08**.

Internal controls related to the year-end financial reporting process should be improved to help ensure reliable financial reporting and that all nonrecurring grants are appropriately identified in the financial accounting records.

Santa Cruz County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2008

Federal Award Findings and Questioned Costs

Item: **08-04**

CFDA Number: 84.334, Gaining Early Awareness and Readiness for Undergraduate Programs

Grantor: U.S. Department of Education

Award Periods: All Periods

Award Number: P334A050233-07

Questioned Costs: Unknown

As a result of an internal review and audit findings reported in the prior fiscal year, the County reconciled cash activity and determined that as of the prior fiscal year end, approximately \$113,000 had been received in advance of allowable expenditures. Prior to completing this reconciliation, drawdowns were requested and received from July 1, 2007 through March 18, 2008 totaling \$446,926. Current year expenditures for that same period totaled \$382,157 resulting in an additional \$64,769 of excess cash drawdowns for the current fiscal year. County personnel indicated that to reduce the accumulated excess cash received in advance of expenditures, the County did not request reimbursement as of fiscal year end for \$212,341 for expenditures incurred from March 18, 2008 through June 30, 2008. See summary below:

Period	Drawdown Requested	Expenditures per General Ledger	Difference
7/1/07 through 8/16/07	\$ 25,604	\$ 22,200	\$ 3,404
8/17/07 through 9/13/07	35,349	34,021	1,328
9/14/07 through 10/19/07	94,232	103,081	(8,849)
10/20/07 through 11/16/07	34,756	21,747	13,009
11/17/07 through 12/22/07	82,628	93,503	(10,875)
12/23/07 through 2/26/08	119,521	95,213	24,308
2/27/08 through 3/18/08	54,836	12,392	42,444
3/18/08 through 6/30/08	-	212,341	(212,341)
Total	<u>\$ 446,926</u>	<u>\$ 594,498</u>	<u>\$ (147,572)</u>

For all reimbursement requests submitted to the grantor during the current fiscal year, the expenditures indicated for the specified period did not agree to the general ledger. Cash receipts were received coinciding with each of the requested amounts during the fiscal year.

Reimbursements submitted to the federal awarding agency should include all activity of the reporting period, be supported by underlying accounting records, and be fairly presented in accordance with program requirements. In addition, procedures should be established to help ensure that cash drawdowns are requested for only those expenditures previously incurred. This finding is a material internal control weakness and a material noncompliance with the program's cash management and reporting requirements.

Santa Cruz County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2008

Policies and procedures should be implemented to help ensure that all cost reimbursement requests are properly supported by actual expenditures previously incurred and recorded in the general ledger. In addition, timely reconciliations should be prepared of the cash balances of the applicable funds and of drawdowns and expenditures to help ensure that excess drawdowns have not been requested from the grantor.

Item: **08-05**

CFDA Number: 84.215, Fund for the Improvement of Education

Grantor: U.S. Department of Education

Award Periods: All Periods

Award Number: Q215F041149-06 & Q215S050001-07

Questioned Costs: Unknown

As a result of an internal review, and audit findings reported in the prior fiscal year, the County reconciled cash activity and determined that as of the prior fiscal year end, approximately \$52,000 had been received in advance of allowable expenditures. Prior to completing this reconciliation, drawdowns were requested and received from July 1, 2007 through November 16, 2008 totaling \$116,809 and expenditures for that same period totaled \$117,243. County personnel indicated that to reduce the accumulated excess cash received in advance of expenditures, the County requested an amount less than the actual expenditures for the reporting periods subsequent to the November reporting period, or, did not request any reimbursement. See summary below:

Period	Drawdown Requested	Expenditures per General Ledger	Difference
7/1/07 through 8/16/07	\$ 41,919	\$ 41,106	\$ 813
8/17/07 through 9/13/07	19,713	19,885	(172)
9/14/07 through 10/19/07	25,448	34,813	(9,365)
10/20/07 through 11/16/07	29,729	21,439	8,290
11/17/07 through 12/22/07	57,793	62,920	(5,127)
12/23/07 through 2/26/08	75,338	85,796	(10,458)
2/27/08 through 3/18/08	45,190	102,350	(57,160)
3/18/08 through 6/30/08	-	148,513	(148,513)
Total	<u>\$ 295,130</u>	<u>\$ 516,822</u>	<u>\$ (221,692)</u>

For all reimbursement requests submitted to the grantor during the current fiscal year, the expenditures indicated for the specified period did not agree to the general ledger. Cash receipts were received coinciding with each of the requested amounts during the fiscal year.

Reimbursements submitted to the federal awarding agency should include all activity of the reporting period, be supported by underlying accounting records, and be fairly presented in accordance with program requirements. In addition, procedures should be established to help ensure that cash

Santa Cruz County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2008

drawdowns are requested for only those expenditures previously incurred. This finding is a material weakness in internal control and a noncompliance with the program's cash management and reporting requirements.

Policies and procedures should be implemented to help ensure that all cost reimbursement requests are properly supported by actual expenditures previously incurred and recorded in the general ledger. In addition, timely reconciliations should be prepared of the cash balances of the applicable funds and of drawdowns and expenditures to help ensure that excess drawdowns have not been requested from the grantor.

Item: **08-06**

CFDA Number: 20.106, Airport Improvement Program

Grantor: U.S. Department of Transportation

Award Periods: July 1, 2005 – June 30, 2008

Award Numbers: FAA AIP 3-04-0024-12, FAA AIP 3-04-0024-13

Questioned Costs: \$299,224

For two projects funded by two separate awards under CFDA 20.106, costs were incurred and paid by the County that exceeded the amount stated in the originally approved contract between the County and its contractor, as follows:

Contract Number	Contract Description	Authorized Price	Cumulative Contract Costs Incurred	Excess Costs
C-13-05-CO13	Nogales International Airport Taxiway 'A' Widening and Overlay	\$ 1,293,751	\$ 1,508,179	\$ 214,428
B-18-06-CO18	MITL and Signage Improvement	499,750	584,546	84,796
			Total	<u>\$ 299,224</u>

The excess of the actual costs incurred over the authorized price is attributable to change orders that were initiated by either the contractor or the engineer and charged to the County. Each contract agreement stipulates that all three parties of the County, engineer, and contractor must agree on change orders that increase the project cost. The County was unable to provide sufficient evidence to the auditor illustrating that the change orders were approved by the County, resulting in a questioned costs of \$299,224. This finding is a material internal control weakness and a material noncompliance with the program's procurement requirements.

Santa Cruz County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2008

In addition to accepting and authorizing a construction project undertaken by the County, the County should be responsible for, and provide clear evidence of, the authorization of any change orders that either significantly increase the price of a contract or lengthen the construction period. Change orders should only be paid after appropriate supporting documents have been reviewed and authorized by the Board of Supervisors, the program director, or other direct representative of the County.

Item: 08-07

CFDA Number: 20.106, Airport Improvement Program

Grantor: U.S. Department of Transportation

Award Periods: July 1, 2005 – June 30, 2008

Award Number: FAA AIP 3-04-0024-12

Questioned Costs: \$277,864

The County authorized and paid an invoice twice in the amount of \$277,864. These payments related to the Airport Taxiway A Widening and Overlay Project, or contract agreement C-13-05-CO13. The County's procedures for reconciling contractor billings to actual payments did not identify this duplicate payment when closing out the project in the fiscal year 2008. This finding is a material internal control weakness and a material noncompliance with the programs allowable costs requirements.

The County should develop and implement policies and procedures to reconcile contractor billings to payments prior to the authorization and issuance of payments.

Item: 08-08

CFDA Number: 97.045, Cooperating Technical Partners

Grantor: U.S. Department of Homeland Security, passed through the Arizona Department of Emergency and Military Affairs

Award Periods: July 1, 2007 – June 30, 2008

Award Number: 2005-44-5515RB-9092-4101-D

Questioned Costs: Not Applicable

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

Santa Cruz County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2008

The County did not identify the Cooperating Technical Partners grant (CFDA 97.045, \$240,615) in its fiscal year 2008 schedule of expenditures of federal awards. In addition, a prior period adjustment was necessary in fiscal year 2008 due to the failure to recognize an intergovernmental receivable of \$759,385 in fiscal year 2007. This finding is a material internal control weakness. A similar finding was also reported as a financial reporting internal control weakness, see item **08-03**.

The County should identify in its accounts all federal awards received and expended, as well as the federal programs under which they were received and perform a thorough review of its general ledger to ensure that the schedule of expenditures of federal awards is accurately completed.

County Responses

**Santa Cruz County
Corrective Action Plan
Year Ended June 30, 2008**

Financial Statement Findings

Item: 08-01

Subject: Annual adopted budgets should include all sources of revenues as well as beginning fund balance.

Contact Person: Jennifer St. John, Administrative Services Director

Anticipated Completion Date: June 30, 2009

Corrective Action: Staff will take greater care when estimating year-end accruals and include those accruals in beginning fund balance during the fiscal year 2009-2010 budget process to help ensure that the County's budget is properly prepared in accordance with generally accepted accounting principles and Arizona Revised Statutes §42-17151.

Item: 08-02

Subject: The Treasurer's office should improve controls over cash and investments.

Contact Person: Caesar Ramirez, Santa Cruz County Treasurer

Anticipated Completion Date: June 30, 2010

Corrective Action: In January 2009, the Treasurer's Office hired an additional employee to help with timely reconciliations and segregation of duties. Currently the Treasurer's Office is performing monthly reconciliations of the Cash Journal to the bank statements and a separate review of this reconciliation is being performed by an independent employee. The Treasurer's Office will continue to investigate reconciling items and record all financial transactions in a timely manner.

Item: 08-03

Subject: Prior Period Adjustment

Contact Person: Jennifer St. John, Administrative Services Director

Anticipated Completion Date: N/A

Corrective Action: The County has implemented internal controls to the best of our ability with the limited staff and resources available. The grant that was omitted was a one time award that did not require an Intergovernmental Agreement and subsequently was not picked up on the schedule of expenditures of federal awards. The County has hired a grant accountant whose sole responsibility is to monitor and report expenditures for federal grants. We have also tightened internal controls in an effort to identify and report all federal grants on the schedule of expenditures of federal awards. Nevertheless, we have put in place additional internal controls and will continue to improve those controls in order to provide reliable financial data to our users.

**Santa Cruz County
Corrective Action Plan
Year Ended June 30, 2008**

Federal Award Findings and Questioned Costs

Item: **08-04**

CFDA Number: 84.334 Gaining Early Awareness and Readiness for Undergraduate Programs

Subject: Reimbursements submitted to granting agency did not agree to underlying accounting records.

Contact Person: Alfredo Velasquez, Santa Cruz County School Superintendent

Anticipated Completion Date: Ongoing

Corrective Action: This issue has been corrected during the fiscal year as it was first identified during fiscal year 2006-2007. Staff researched federal reimbursements requested during fiscal year 2006-2007 and identified federal draw downs in excess of expenditures during that time. As a result, the County did not request federal reimbursement from March 18, 2008, through June 30, 2008, although we expended \$212,341 in federal monies. As the excess draw downs have been resolved as of June 30, 2008, the County's monthly expenditures per the general ledger now agree to the monthly federal reimbursement requests. The County will continue to work with the granting agency to ensure that our corrective action meets their expectations.

Item: **08-05**

CFDA Number: 84.215 Fund for the Improvement of Education

Subject: Reimbursements submitted to granting agency did not agree to underlying accounting records.

Contact Person: Alfredo Velasquez, Santa Cruz County School Superintendent

Anticipated Completion Date: Ongoing

Corrective Action: This issue has been corrected during the fiscal year as it was first identified during fiscal year 2006-2007. Staff researched federal reimbursements requested during fiscal year 2006-2007 and identified federal draw downs in excess of expenditures during that time. As a result, the County did not request federal reimbursement from March 18, 2008 through June 30, 2008, although we expended \$148,513 in federal monies. As the excess draw downs have been resolved as of June 30, 2008, the County's monthly expenditures per the general ledger now agree to the monthly federal reimbursement requests. The County will continue to work with the granting agency to ensure that our corrective action meets their expectations.

Item: **08-06**

CFDA Number: 20.106 Airport Improvement Program

Subject: Costs incurred and paid by County exceeded the amount stated in the approved

**Santa Cruz County
Corrective Action Plan
Year Ended June 30, 2008**

contract.

Contact Person: Mary Dahl, Community Development Director

Anticipated Completion Date: June 30, 2009

Corrective Action: The airport construction contract was awarded to the low bidder as per local, state and federal procurement policy. During the course of project implementation, change orders were approved upon the concurrence of the Federal Aviation Administration (FAA) as the majority grantor. It has been the policy of the County airport improvement program to administratively approve change orders that have pre-approval by the FAA in accordance with their guidelines. Any successful bidder would have been subject to the same change orders approved for this grant.

Item: **08-07**

CFDA Number: 20.106 Airport Improvement Program

Subject: Duplicate payment of an invoice.

Contact Person: Jennifer St. John, Administrative Services Director

Anticipated Completion Date: August 30, 2009

Corrective Action: Request for reimbursement #3 for the Federal Aviation Administration Airport Improvement program grant #12 was paid twice; once in December of 2006 and again in May of 2007. The consulting engineering firm, which is responsible for checking payment requests and approving them, submitted the duplicate invoice to the County for payment in May after having already sent it for payment in December of 2006. The error was missed by both the County project manager and the Finance Department. Request for reimbursement #4 was not paid leaving a differential of about \$25,430.89 that the vendor owes the County. This amount will be deducted from the next request for reimbursement from this vendor, which is expected later this summer.

Item: **08-08**

CFDA Number: 97.045 Cooperating Technical Partners

Subject: The County did not identify and present all grants on the schedule of expenditures of federal awards.

Contact Person: Jennifer St. John, Administrative Services Director

Anticipated Completion Date: June 30, 2009

Corrective Action: The grant that was omitted was a one time award that did not require an Intergovernmental Agreement and subsequently was not picked up on the schedule of expenditures of federal awards in fiscal year 2007 or 2008. The County has hired a grant accountant whose sole responsibility is to monitor and report expenditures for federal grants. We

Santa Cruz County
Corrective Action Plan
Year Ended June 30, 2008

have also tightened internal controls in an effort to identify and report all federal grants on the schedule of expenditures of federal awards.

Additionally, the County has implemented internal controls to the best of our ability with the limited staff and resources available. As stated previously, County staff was not aware of this one time grant award and therefore, would not have known to record a receivable at year end. Nevertheless, we have put in place additional internal controls and will continue to improve those controls in order to provide reliable financial data to our users.

Santa Cruz County
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2008

Status of Prior Year Federal Award Findings and Questioned Costs

Finding Numbers: 05-103 and 06-05

CFDA Numbers: 07.14PSAP549, 07.15PSAP549

Program: High Intensity Drug Trafficking Area

Status: Corrected

Finding Number: 06-07

CFDA Number: 97.004

Program: State Domestic Preparedness Equipment Support Program

Status: Corrected

Finding Numbers: 06-09 and 07-08

CFDA Numbers: 84.215, 84.334

Programs: Fund for the Improvement of Education, Gaining Early Awareness and Readiness for Undergraduate Programs

Status: Corrected

Finding Numbers: 06-10 and 07-05

CFDA Numbers: 17.258, 17.259, 17.260

Program: WIA Cluster

Status: Corrected

Finding Number: 07-06

CFDA Number: 84.334

Program: Gaining Early Awareness and Readiness for Undergraduate Programs

Status: Not Corrected

Corrective Action: Corrective Action Plan: This issue has been corrected during the fiscal year as it was first identified during fiscal year 2006-2007. Staff researched federal reimbursements requested during fiscal year 2006-2007 and identified federal draw downs in excess of expenditures during that time. As a result, the County did not request federal reimbursement from March 18, 2008, through June 30, 2008, although we expended \$212,341 in federal monies. As the excess draw downs have been resolved as of June 30, 2008, the County's monthly expenditures per the general ledger now agree to the monthly federal reimbursement requests.

Santa Cruz County
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2008

The County will continue to work with the granting agency to ensure that our corrective action meets their expectations.

Finding Number: 07-07

CFDA Number: 84.215

Program: Fund for the Improvement of Education

Status: Not Corrected

Corrective Action: This issue has been corrected during the fiscal year as it was first identified during fiscal year 2006-2007. Staff researched federal reimbursements requested during fiscal year 2006-2007 and identified federal draw downs in excess of expenditures during that time. As a result, the County did not request federal reimbursement from March 18, 2008 through June 30, 2008, although we expended \$148,513 in federal monies. As the excess draw downs have been resolved as of June 30, 2008, the County's monthly expenditures per the general ledger now agree to the monthly federal reimbursement requests. The County will continue to work with the granting agency to ensure that our corrective action meets their expectations.

Finding Number: 07-09

CFDA Number: 84.215

Program: Fund for the Improvement of Education

Status: Corrected

Finding Number: 07-10

CFDA Number: 84.215

Program: Fund for the Improvement of Education

Status: Corrected

Finding Number: 07-11

CFDA Number: 97.045

Program: Cooperating Technical Partners

Status: Not Corrected

Corrective Action: The grant that was omitted was a one time award that did not require an Intergovernmental Agreement and subsequently was not picked up on the schedule of expenditures of federal awards in fiscal year 2007 or 2008. The County has hired a grant accountant whose sole responsibility is to monitor and report expenditures for federal grants. We

Santa Cruz County
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2008

have also tightened internal controls in an effort to identify and report all federal grants on the schedule of expenditures of federal awards.

Additionally, the County has implemented internal controls to the best of our ability with the limited staff and resources available. As stated previously, County staff was not aware of this one time grant award and therefore, would not have known to record a receivable at year end. Nevertheless, we have put in place additional internal controls and will continue to improve those controls in order to provide reliable financial data to our users.