



REPORT HIGHLIGHTS SINGLE AUDITS

Subject

Santa Cruz County issues financial statements and a schedule of expenditures of federal awards annually. The County is responsible for preparing its statements and schedule, maintaining strong internal controls, demonstrating accountability for its use of public monies, and complying with federal program requirements. As the auditors, our job is to determine whether the County has met its responsibilities.

Our Conclusion

The information in the County's financial statements is fairly stated, and the Schedule of Expenditures of Federal Awards (SEFA) is fairly stated in all material respects in relation to these financial statements. A summary of this information is presented on page 2. However, auditors identified internal control weaknesses and noncompliance with financial reporting, state laws, and federal program requirements, the most significant of which are summarized on this page.



2011

Year Ended June 30, 2011

Summary of audit findings

For the financial and federal compliance audits, auditors identified internal control weaknesses over financial reporting, noncompliance with state laws, inadequate internal controls over federal compliance, and noncompliance with certain federal program requirements. Auditors tested nine federal programs under the guidelines established by the Single Audit Act. The Schedule of Findings and Questioned Costs presented in the Single Audit Reporting Package includes further details and auditor recommendations. The most significant findings are summarized below.

Financial reporting process—The County did not submit its Single Audit Reporting Package to the federal clearinghouse by the required March 31, 2012 deadline.

Treasurer's procedures—The County Treasurer's Office is responsible for managing and investing approximately \$49 million in deposits and investments that are held for Santa Cruz County and other political subdivisions, such as school districts. However, the Office did not properly manage, record, track, and reconcile those deposits and investments, exposing them to potential misuse and loss.

Year-end receivables and payables—The County improperly recorded grant-related receivables totaling \$1.1 million and did not record a \$252,159 accounts payable at fiscal year-end.

Capital assets—The County did not accurately record land and infrastructure, including depreciation, and did not always properly tag its equipment items. Also, the County had not performed a physical inventory of equipment since 2006. Because of the lack of controls, the County did not comply with federal equipment and real property management requirements for three federal programs for drug trafficking areas, state fiscal stabilization, and homeland security.

Procurement—The County did not obtain competitive sealed bids when it made combined purchases of \$306,427 for the State Fiscal Stabilization Fund Cluster and \$35,728 for the Homeland Security Cluster. The County also did not obtain the required written price quotations or document why quotations could not be obtained for facility rental services totaling \$25,500 for the drug trafficking areas grant program.

Payroll—The County incorrectly paid an employee \$50,227 in combating criminal narcotics activity monies whose position was not authorized by the grant administrator and did not work on the program. Further, it did not always approve employee time sheets to certify that they worked on federal programs. The County also incorrectly included correctional officers' benefit amounts on its State Criminal Alien Assistance application, which resulted in the County receiving \$21,798 that it was not entitled to.

Computer system controls—The County did not have adequate controls over access and database management or a disaster recovery plan for its financial system.

Summary of financial information

Santa Cruz County combines and reports its financial balances and activities in two basic financial statements that provide readers with a broad overview of the County's finances in a manner similar to a private sector business. Those statements and the County's Schedule of Expenditures of Federal Awards are summarized below:

Statement of net assets—This statement reports all of Santa Cruz County's assets, liabilities, and net assets. Net assets, the difference between assets and liabilities, are reported in three major categories:

- Invested in capital assets, net of related debt, shows the equity in land, buildings, equipment, and infrastructure.
- Restricted net assets shows the net resources that must be used for restricted purposes as specified by other governments and external parties.
- Unrestricted net assets shows the net resources available for general operations.

Statement of activities—This statement shows how net assets changed during the year. Revenues are reported as either program revenues (those generated by or dedicated to a specific program) or general revenues (taxes and revenues raised for general purposes). Additionally, revenues and expenses are reported as either governmental activities (principally supported by taxes and intergovernmental revenues) or business-type activities (principally supported by user fees and charges). The County's net assets increased by \$1.5 million during the fiscal year.

Schedule of expenditures of federal awards—The County's governmental activities expenses included \$9.98 million in federal awards expended. This included \$2.6 million in American Reinvestment and Recovery Act federal awards.

Condensed Statement of Net Assets Governmental and Business-Type Activities As of June 30, 2011 (In Thousands)	
Assets	
Current assets	\$ 28,620
Capital assets, net	134,575
Total assets	163,195
Liabilities	
Current liabilities	5,496
Long-term liabilities	57,639
Total liabilities	63,135
Net assets	
Invested in capital assets, net of related debt	79,051
Restricted	10,559
Unrestricted	10,450
Total net assets	\$100,060

Condensed Statement of Activities Governmental and Business-Type Activities Year Ended June 30, 2011 (In Thousands)	
Program revenues	
Governmental activities	\$ 18,949
Business-type activities	1,001
General revenues	
Governmental activities	26,753
Business-type activities	18
Total revenues	46,721
Expenses	
Governmental activities	43,931
Business-type activities	1,261
Total expenses	45,192
Change in net assets	1,529
Net assets—July 1, 2010	98,531
Net assets—June 30, 2011	\$100,060

Condensed Schedule of Expenditures of Federal Awards by Grantor Agency Year Ended June 30, 2011 (In Thousands)	
U.S. Department of Education	\$2,927
U.S. Department of Agriculture	1,213
U.S. Department of Homeland Security	1,006
U.S. Department of Labor	982
Other	3,852
Total federal expenditures	\$9,980

TO OBTAIN
MORE INFORMATION

The County's Single
Audit Report
is available at:
www.azauditor.gov

Contact person:
Donna Miller
(602) 553-0333

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Year Ended June 30, 2011