



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Single Audit

Santa Cruz County

Year Ended June 30, 2013



Debra K. Davenport
Auditor General

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



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Santa Cruz County
Single Audit Reporting Package
Year Ended June 30, 2013

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Report Issued Separately

Comprehensive Annual Financial Report



DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

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

Members of the Arizona State Legislature

The Board of Supervisors of
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, 2013, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated May 30, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the County's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the County's basic financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2013-01 through 2013-05 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 2013-06 through 2013-08 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 instances of noncompliance that are required to be reported under *Government Auditing Standards*, and that are described in the accompanying Schedule of Findings and Questioned Costs as item 2013-02 and 2013-07.

Santa Cruz County's Response to Findings

Santa Cruz County's responses to the findings identified in our audit are presented on pages 27 through 30. The County's responses were not subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the County's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Jay Zsorey, CPA
Financial Audit Director

May 30, 2014



DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

Independent Auditors' Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

Members of the Arizona State Legislature

The Board of Supervisors of
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) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013. The County's major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the County's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the County's compliance.

Basis for Adverse Opinions

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

<u>Program Title (CFDA Number)</u>	<u>Compliance Requirement</u>	<u>Finding Number</u>
ARRA—Recovery Act—State and Local Law Enforcement Assistance Program: Combating Criminal Narcotics Activity Stemming from the Southern Border of the United States Competitive Grant Program (16.809)	Allowable Costs/Cost Principles	2013-103
High Intensity Drug Trafficking Areas Program (95.001)	Allowable Costs/Cost Principles	2013-103
JAG Program Cluster (16.738)	Equipment and Real Property Management, Procurement and Suspension and Debarment	2013-104, 2013-105
WIA Cluster (17.258, 17.259, and 17.278)	Allowable Costs/Cost Principles	2013-106

Adverse Opinions

In our opinion, because of the significance of the effects of the noncompliance described in the Basis for Adverse Opinions paragraph above, Santa Cruz County did not comply in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the major federal programs listed above for the year ended June 30, 2013.

Basis for Qualified Opinions

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

<u>Program Title (CFDA Number)</u>	<u>Compliance Requirement</u>	<u>Finding Number</u>
Fund for the Improvement of Education (84.215)	Allowable Costs/Cost Principles	2013-103
Homeland Security Grant Program (97.067)	Equipment and Real Property Management	2013-104

Qualified Opinions

In our opinion, except for the noncompliance described in the Basis for Qualified Opinions paragraph above, Santa Cruz County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the major federal programs listed above for the year ended June 30, 2013.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance that are required to be reported in accordance with OMB Circular A-133 and that are described in the accompanying Schedule of Findings and Questioned Costs as items 2013-101 and 2013-102. Our opinion on each major federal program is not modified with respect to these matters.

The County's responses to the noncompliance findings identified in our audit are presented on pages 30 through 32. The County's responses were not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on them.

Report on Internal Control over Compliance

The County's management is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2013-103 through 2013-106 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2013-101 and 2013-102 to be significant deficiencies.

The County's responses to the internal control over compliance findings identified in our audit are presented on pages 30 through 32. The County's responses were not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on them.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

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, 2013, and the related notes to the financial statements, which collectively comprise the County's Basic financial statements. We issued our report thereon dated May 30, 2014, that contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming our opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of the County's management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Jay Zsorey, CPA
Financial Audit Director

June 16, 2014

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

Federal agency/CFDA number	Federal program name	Cluster title	Pass-through grantor	Pass-through grantor's numbers	Program expenditures
Department of Agriculture					
10 665	Schools and Roads—Grants to States	Forest Service Schools and Roads Cluster	Arizona State Treasurer	None	\$ 616,537
Department of Housing and Urban Development					
14 228	Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	CDBG—State-Administered CDBG	Arizona Department of Housing	139-13	35,189
Department of the Interior					
15 227	Distribution of Receipts to State and Local				920
Department of Justice					
16 588	ARRA—Recovery Act—Violence Against Women Formula Grants		Governor's Office for Children, Youth and Families	ST-WSG-12-2366-07Y2, ST-WSG-12-2366-07	84,231
16 606	State Criminal Alien Assistance Program				86,837
16 607	Bulletproof Vest Partnership Program				9,754
16 738	Edward Byrne Memorial Justice Assistance Grant Program	JAG Program Cluster	Arizona Criminal Justice Commission	DC-12-012, DC-12-038, DC-13-038	364,389
16 809	ARRA—Recovery Act—State and Local Law Enforcement Assistance Program: Combating Criminal Narcotics Activity Stemming from the Southern Border of the United States Competitive Grant Program				152,559
	Total Department of Justice				<u>697,770</u>
Department of Labor					
17 258	WIA Adult Program	WIA Cluster	Arizona Department of Economic Security	DE111013001	253,168
17 259	WIA Youth Activities	WIA Cluster	Arizona Department of Economic Security	DE111013001	106,609
17 278	WIA Dislocated Workers Formula Grants	WIA Cluster	Arizona Department of Economic Security	DE111013001	253,722
	<i>Total WIA Cluster</i>				<u>613,499</u>
17 267	Incentive Grants-WIA Section 503		Arizona Department of Economic Security	DE111013001	28,187
17 275	ARRA—Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors				72,438
	Total Department of Labor				<u>714,124</u>
Department of Transportation					
20 106	Airport Improvement Program				80,520
Department of Education					
84 002	Adult Education—Basic Grants to States		Arizona Department of Education	13FAEABE-370755-01A, 13FAEAEF-370755-02A	185,386
84 010	Title I Grants to Local Educational Agencies	Title I, Part A Cluster	Arizona Administrative Office of the Courts	K-R12-0096	28,176

See accompanying notes to schedule.

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

Federal agency/CFDA number	Federal program name	Cluster title	Pass-through grantor	Pass-through grantor's numbers	Program expenditures
84 027	Special Education—Grants to States	Special Education Cluster (IDEA)	Arizona Department of Education	K-R12-0096, 13FESSCG-370740-01A, 13FESSCG-270740-02A, 13FESMSG-370740-02A	40,558
84 215	Fund for the Improvement of Education				420,859
84 367	Improving Teacher Quality State Grants		Arizona Administrative Office of the Courts	K-R12-0096, 12FAAPD3-270740-01A	5,218
Total Department of Education					<u>680,197</u>
Department of Health and Human Services					
93 008	Medical Reserve Corps Small Grant Program				299
93 268	Immunization Cooperative Agreements		Arizona Department of Health Services	HG854295, ADHS13-041547	122,810
93 283	Centers for Disease Control and Prevention—Investigations and Technical Assistance		Arizona Department of Health Services	ADHS12-007896	200,836
93 563	Child Support Enforcement		Arizona Department of Economic Security	ADES13-035445	79,392
93 667	Social Services Block Grant				100,973
Total Department of Health and Human Services					<u>504,310</u>
Executive Office of the President					
95 001	High Intensity Drug Trafficking Areas Program		City of Tucson	HT12-2241, HT12-2242, HT13-2341, HT13-2342, HT20-10-1913, HT20-10-1914, HT21-11-1913, HT21-11-1914	597,997
Department of Homeland Security					
97 042	Emergency Management Performance Grants		Arizona Department of Emergency and Military Affairs	EMW2012-EP-00003	55,033
97 067	Homeland Security Grant Program		Arizona Department of Homeland Security	11-AZDOHS-CCP-88402-01, 11-AZDOHS-OPSG-888430-01, 11-AZDOHS-OPSG-888430-02, 12-AZDOHS-OPSG-999435-01, 12-AZDOHS-OPSG-999436-01, 12-AZDOHS-OPSG-999436-02, 13-AZDOHS-HSGP-130405-01	488,973
Total Department of Homeland Security					<u>544,006</u>
Total expenditures of federal awards					<u>\$ 4,471,570</u>

See accompanying notes to schedule.

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

Note 1 - Basis of Accounting

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

Note 3 - Subrecipients

The County did not provide any federal awards to subrecipients during the year ended June 30, 2013.

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

Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:		Unmodified	
		Yes	No
Internal control over financial reporting:			
Material weaknesses identified?	_X_	___	
Significant deficiencies identified?	_X_	___	
Noncompliance material to the financial statements noted?	___	_X_	

Federal Awards

Internal control over major programs:			
Material weaknesses identified?	_X_	___	
Significant deficiencies identified?	_X_	___	

Type of auditors' report issued on compliance for major programs:
 Adverse for the JAG Program Cluster (16.738), ARRA—Recovery Act—State and Local Law Enforcement Assistance Program: Combating Criminal Narcotics Activity Stemming from the Southern Border of the United States Competitive Grant Program (16.809), WIA Cluster (17.258, 17.259, 17.278), and High Intensity Drug Trafficking Areas Program (95.001); and qualified for the Fund for the Improvement of Education (84.215) and Homeland Security Grant Program (97.067).

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

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
16.738	JAG Program Cluster: Edward Byrne Memorial Justice Assistance Grant Program
16.809	ARRA—Recovery Act—State and Local Law Enforcement Assistance Program: Combating Criminal Narcotics Activity Stemming from the Southern Border of the United States Competitive Grant Program

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

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
17.258	WIA Cluster: WIA Adult Program
17.259	WIA Youth Activities
17.278	WIA Dislocated Worker Formula Grants
84.215	Fund for the Improvement of Education
95.001	High Intensity Drug Trafficking Areas Program
97.067	Homeland Security Grant Program

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Yes No

Auditee qualified as low-risk auditee? _____ X _____

Other Matters

Auditee's Summary Schedule of Prior Audit Findings required to be reported in accordance with Circular A-133 (section .315[b])? X _____

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

Financial Statement Findings

2013-01

The County should improve its procedures to prepare accurate and timely financial statements

Criteria: The County must issue accurate and timely financial statements to satisfy the audit requirements imposed by federal and state laws and regulations, grants, contracts, and long-term debt covenants.

Condition and context: The County took 11 months after fiscal year-end to issue financial statements. In addition, the County did not prepare financial statements in accordance with generally accepted accounting principles (GAAP). However, the County corrected its financial statements for all significant errors. See findings 2013-02 through 2013-05 for more detail concerning these errors.

Effect: The federal reporting deadline for the County's Single Audit Reporting Package was March 31, 2014; however, the County did not issue its Single Audit Reporting Package until June, 2014.

Cause: The County lacked comprehensive internal control policies and procedures needed to prepare accurate financial statements and issue them in a timely manner.

Recommendation: To help ensure that it accurately prepares financial statements and issues them in a timely manner, the County should:

- Develop and follow comprehensive written policies and procedures for compiling the information and preparing the financial statements and accompanying notes. These procedures should include detailed instructions for obtaining information from the accounting system, as well as obtaining information not readily available from the accounting system but necessary for financial statement preparation.
- Dedicate appropriate resources, assign employees specific responsibilities, and establish completion dates to help meet the March 31 Single Audit Reporting Package federal reporting deadline, 9 months after fiscal year-end.
- Require an employee not responsible for financial statement preparation to review the statements and accompanying notes. This review should ensure that the amounts are accurate and properly supported and that the County presents the financial statements in accordance with GAAP.

This finding is similar to a prior-year finding.

2013-02

The County should improve controls over deposits and investments

Criteria: The County Treasurer's Office is responsible for managing and investing millions of dollars in public monies. Therefore, the County Treasurer's Office must safeguard these public monies, promote overall operating efficiency and effectiveness, and ensure compliance with applicable debt agreements and state deposit and investment laws specified in Arizona Revised Statutes, Titles 15 and 35.

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

Condition and context: At June 30, 2013, the County Treasurer had approximately \$52.9 million in deposits and investments that included \$20.5 million for Santa Cruz County and another \$32.4 million for other political subdivisions, such as school districts. However, the County Treasurer's Office did not have sufficient internal control policies and procedures to adequately control the process over investing, managing, recording, and tracking deposits and investments held for both the County and other political subdivisions. Specifically, auditors noted the following deficiencies:

- The County Treasurer's Office performed a reconciliation of its deposit and investment balances to the various financial institutions that hold deposits and investments for the Treasurer's Office. However, as of June 30, 2013, there was an unreconciled difference of \$853,000 that was included as part of cash and investments in the Investment Trust Fund.
- The County Treasurer's Office did not record interest income in its general ledger system for the majority of its pooled investment accounts as it was earned throughout the fiscal year. As a result, not all interest earned on the pooled investment accounts was recorded and apportioned on a monthly basis. The Treasurer's Office recorded and apportioned pooled interest earnings to pool participants when the interest was paid to the County Treasurer rather than when it was earned. Therefore, interest earnings were incorrectly apportioned to the pool participants based upon average daily balances of the month the interest was received instead of the average daily balances of the month the interest was earned as required by state laws.
- The County Treasurer's Office did not always distinguish within its accounting records whether individual entities' accounts included pooled or unpooled deposits and investments.

Effect: The County Treasurer's Office was at risk of exposing public monies to misuse and potential loss and did not ensure that investment earnings were properly distributed to the various county funds and other political subdivisions in accordance with state laws. In addition, the County's deposits and investments could be misstated in the financial statements.

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

Recommendation: The County Treasurer's Office should improve its written policies and procedures to help ensure that it adequately safeguards deposits and investments, promotes overall operating efficiency and effectiveness, and ensures compliance with state laws. Those policies and procedures should include, at a minimum, detailed instructions for:

- Reconciling all account balances held by the County Treasurer to those balances reported by the various financial institutions at least monthly and investigating and resolving all reconciling items in a timely manner, including making appropriate adjusting journal entries to the accounting records when necessary.
- Recording all deposit and investment activities in the accounting records.
- Apportioning interest earnings to pooled investment accounts on at least a quarterly basis and determining the amounts to be apportioned based on average monthly balances of pooled accounts.
- Organizing the accounting records so that pooled investment account balances, deposits, and withdrawals can be distinguished from unpooled accounts' activity and balances.

This finding is similar to a prior-year finding.

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

2013-03

The County should improve procedures over capital assets reporting and stewardship

Criteria: The County should have effective policies and procedures for capital assets that are sufficiently detailed to properly control, safeguard, and record capital assets.

Condition and context: Approximately \$135 million, 82 percent of the County's total assets, consists of capital assets. However, the County did not properly control, safeguard, and accurately report its capital assets in the financial statements. Specifically, auditors noted that the County:

- Did not capitalize the costs of an infrastructure project valued at \$5.5 million.
- Did not always tag its capital assets.
- Did not include in its capital assets listing all of the necessary information for each asset, such as location, description, identification number, and historical cost or estimated fair market value for donated assets.
- Did not have a review and approval process over the physical inventory lists to ensure their accuracy and completeness prior to updating the capital assets list.

Effect: The errors caused an understatement of \$5.5 million in infrastructure. In addition, the County's capital assets were exposed to potential theft or misuse. The deficiencies may have an effect on federal programs when equipment is purchased with federal monies. The County adjusted its financial statements for all significant errors.

Cause: The County lacked sufficient internal control policies and procedures to properly control, safeguard, and record capital assets and the related depreciation, which led to inconsistent practices and a lack of communication between the finance department and county department heads.

Recommendation: To help ensure that the County's capital assets are properly recorded and safeguarded against theft or misuse, the County should develop and implement written policies and procedures for controlling, safeguarding, and recording capital assets and associated depreciation. The procedures should include the following:

- Ensure infrastructure assets are properly accounted for and reported in the financial statements and disclosed in the notes to financial statements.
- Tag or specifically identify all county capital assets.
- Identify each asset with a unique number, such as a tag or serial number, location, description, and unit cost or estimated fair market value for donated assets.
- Provide detailed instructions for taking physical inventory and ensuring that the inventory listing is reviewed and approved prior to modifying the capital assets listing.

This finding is similar to a prior-year finding.

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

2013-04

The County should improve its procedures over recording revenues and year-end receivables

Criteria: GAAP requires the County to report grant revenues in its financial statements when it meets all of the applicable eligibility requirements specified under the provisions of the grant agreements. For cost reimbursement grants, this would include spending monies on allowable costs, not exceeding the award amount, and requesting funds within the period of availability.

Condition and context: The County did not always follow GAAP when reporting grant revenues in its financial statements. Specifically, for 10 of 23 year-end grant revenue accruals tested, the County incorrectly reported revenue when it did not meet all the eligibility requirements specified under the provisions of the grant agreements. For instance, the County reported grant revenue for costs that were not reimbursable because they exceeded the award amount or were requested outside the period of availability.

Effect: The errors caused the following misstatements in the County's financial statements:

- Due from other governmental units and deferred revenue balances were overstated by \$228,633 in the County's Criminal Justice Enhancement Fund.
- Due from other governmental units and deferred revenue balances were overstated by \$231,708 in the County's Other Governmental Funds.
- Due from other governmental units and program revenue were overstated by \$460,341 in the government-wide statements for its Governmental Activities.

The County adjusted its financial statements for all significant errors.

Cause: The County did not have adequate policies and procedures in place to determine and properly record fiscal year-end grant revenues and the related receivables.

Recommendation: The County should establish and implement adequate written policies and procedures over determining and recording fiscal year-end grant revenues and the related receivables. Specifically, these procedures should require close monitoring of grant award activities to ensure that grant revenues are recorded only when all applicable eligibility requirements have been met.

This finding is similar to a prior-year finding.

2013-05

The County should improve its procedures over recording expenditures and year-end accounts payable

Criteria: The County should have adequate internal controls to help ensure that expenditures and related liabilities are accurately recorded on its general ledger system and properly accrued and recognized in the proper fiscal year in accordance with GAAP. Expenditures are generally recorded when the related fund liability is incurred.

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

Condition and context: The County did not have adequate policies and procedures to record expenditures and associated accounts payable for goods and services received but not paid for by June 30, 2013. Specifically, the County did not track and accrue any expenditure related to the current fiscal year but paid subsequent to August 31 for financial statement reporting purposes. Based on test work performed on 32 expenditure transactions recorded in the subsequent period, auditors identified 12 that the County should have accrued in fiscal year 2013. Auditors performed an analysis of the errors noted and determined they did not materially misstate the 2013 financial statements.

Effect: The County is at risk of materially misstating its expenditures and accounts payable balances.

Cause: The County did not have adequate policies and procedures in place to determine and properly accrue expenditures and record accounts payable at fiscal year-end.

Recommendation: In order to accurately record and report its expenditures and accounts payable balances, the County should develop and implement written policies and procedures for tracking and recording transactions occurring in the subsequent period that are related to the current fiscal year. These policies and procedures should require that expenditures for its governmental funds are recognized and recorded when the related fund liability is incurred.

This finding is similar to a prior-year finding.

2013-06

The County should improve its procedures over landfill receipts

Criteria: The County's landfill department is responsible for collecting fees received at its landfills and transfer station. Therefore, the County's landfill department should safeguard these public monies by implementing necessary internal controls.

Condition and context: The County operated two landfill sites and a transfer station, all of which received fees. However, the County did not always deposit receipts in a timely manner or reconcile them on a daily basis, resulting in discrepancies between the amounts collected and the amounts deposited. Auditors identified several receipts that the County did not deposit until several weeks after the County received payment. For 9 of 13 cash receipts tested, auditors noted that the deposit amount did not materially agree to the County's receipt system's reports. Specifically, differences ranged from a \$432 overstatement to a \$1,028 understatement. Additionally, auditors determined that the County did not properly accrue \$19,000 of cash receipts collected in June 2013 at fiscal year-end. Auditors performed an analysis of the errors noted and determined they did not materially misstate the 2013 financial statements.

Effect: The County was at risk of exposing public monies to misuse and potential loss. Additionally, the County did not report all revenues in the proper reporting period.

Cause: The County did not have written policies and procedures for recording landfill receipts, depositing landfill receipts, reconciling receipts on a daily basis, and properly accruing landfill receipts at fiscal year-end.

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

Recommendation: The County should develop and implement written policies and procedures regarding the receipt and deposit of landfill fees. The policies should include, at a minimum, daily reconciliations between landfill receipts and cash received and timely deposits of landfill fees. In addition, deposits should be reconciled to the daily receipt totals to help ensure that all landfill fees are deposited, recorded, and reported on the County's financial statements. Lastly, the County should ensure that all applicable receipts are properly accrued and reported in the appropriate fiscal year.

This finding is similar to a prior-year finding.

2013-07

The County should improve its purchasing procedures

Criteria: A.R.S. §11-254.01 requires that counties use sealed, competitive bidding procedures for purchases of supplies, materials, equipment, and contractual services, except professional services, with estimated costs exceeding \$10,000, unless the board of supervisors adopts the State's procurement threshold, which is currently \$100,000. The County has taken a more conservative approach than the state threshold and has adopted a \$35,000 procurement threshold for purchases above which the County must use either state contracts or competitive sealed bidding. In addition, blanket purchase orders should be used only for purchases of routine goods and services, such as supplies, fuel, repairs, food, and building materials a department uses on a monthly or yearly basis.

Condition and context: The County did not follow appropriate procurement procedures. Specifically, for four of seven purchases tested above \$35,000, the County did not utilize competitive sealed bidding or state contracts when available. For two of the purchases, the County used blanket purchase orders. According to the County Purchasing Policy, blanket purchase orders should be used for routine purchases of goods and services; however, neither of the purchases tested fit that description.

Effect: The County did not comply with its procurement policy and could have paid more than necessary for goods and services.

Cause: The County did not have adequate procedures to ensure that competitive sealed bidding or state contracts were used, as necessary, prior to purchasing goods and services.

Recommendation: To help ensure compliance with its procurement policy, the County should improve its procedures by requiring the use of competitive sealed bidding or an existing state contract for purchases over \$35,000. When issuing blanket purchase orders for purchases over \$35,000, the County must document and retain appropriate justification.

This finding is similar to a prior-year finding.

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

2013-08

The County should strengthen controls over its financial information system

Criteria: The County's computerized financial information system processes and stores information that is vital to its daily operations. Therefore, it is imperative that the County establish comprehensive written internal control policies and procedures over operations of its financial information system to help prevent or detect unauthorized use, damage, loss, and unintended or unauthorized financial system software changes. Lastly, the County should have a documented and tested disaster recovery plan for its computer systems to help ensure the continuity of operations and that it does not lose electronic data files in the event of a system or equipment failure or other system interruption.

Condition and context: The County did not have comprehensive written policies and procedures over its financial information system. Specifically, the County's policies and procedures did not address IT administrative functions such as user account creation and termination, password and access changes, and changes to the financial system software and servers. Further, the County did not have a written and tested disaster recovery plan for its financial information system.

Effect: The County's financial information system is exposed to increased risk from unauthorized use, damage, loss, and unintended or unauthorized changes. Further, the disruption of services in the event of a system or equipment failure or other system interruption could result in significant harm or inconvenience to the County and its citizens. In addition, inadequate disaster recovery controls subject the County to risks that can result in inaccurate or incomplete financial or management information, expensive recovery efforts, and financial losses.

Cause: The County lacked the resources to establish comprehensive internal control policies and procedures and to develop a formal disaster recovery plan.

Recommendation: The County should improve its written policies and procedures over its financial information system by establishing policies and procedures that include the following:

- User account creation and termination,
- Password and access changes, and
- Changes to the financial system software and servers

Furthermore, the County should develop a formal disaster recovery plan for its financial information system. At a minimum, the County's disaster recovery plan should include the following:

- A risk analysis identifying and prioritizing critical applications to determine which applications should be recovered first.
- A listing of current employees assigned to disaster teams, including telephone numbers.
- Employee assignments and responsibilities.
- A designated alternative computer facility or arrangements with vendors to support hardware and software requirements.

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

- Details of off-site storage locations and availability of information stored at these locations.
- A list of procedures for processing critical transactions, including forms or other documents to use.
- Restoration procedures for backup media and servers.
- Documentation of overall testing strategies, testing frequencies, and disaster plan test results.

This finding is similar to a prior-year finding.

Federal Award Findings and Questioned Costs

2013-101

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

Criteria: OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, §.320, requires the County to submit its Single Audit Reporting Package to the federal clearinghouse no later than 9 months after fiscal year-end.

Condition and context: The federal reporting deadline for the County's 2013 Single Audit Reporting Package was March 31, 2014. However, the County did not issue its Single Audit Reporting Package until June 2014.

Effect: The late submission results in noncompliance for all federal programs the County administered.

Cause: As discussed in items 2013-01 through 2013-05, and 2013-102, the County lacked comprehensive internal control policies and procedures needed to prepare accurate financial statements and issue them in a timely manner.

Recommendation: The County should improve its financial reporting process so that it can submit its Single Audit Reporting Package to the federal clearinghouse no later than 9 months after fiscal year-end.

This finding is similar to a prior-year finding.

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

2013-102

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

Criteria: In accordance with OMB Circular A-133, §.300, the County is required to identify, in its accounts, all federal awards received and expended and the federal programs under which they were received, and prepare appropriate financial statements, including a Schedule of Expenditures of Federal Awards (SEFA). The SEFA should report federal award expenditures in accordance with OMB Circular A-133 §.205. In addition, OMB Circular A-133, §.310(b), requires the SEFA to include the Catalog of Federal Domestic Assistance (CFDA) title and number, amount expended, name of the federal awarding agency, and, if applicable, name and identifying number of the pass-through grantor for each of the County's federal awards.

Condition and context: The County did not properly identify federal awards in its records and accounting system so that it could prepare an accurate and complete SEFA. Specifically, auditors noted the County overstated its federal award expenditures by approximately \$32,659 and omitted other required information for 13 of its federal programs. The County's SEFA was adjusted for these errors.

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

Cause: The County did not have effective policies and procedures in place to ensure that all federal monies were identifiable in its accounting system and properly recorded in the SEFA. In addition, controls were not effective to ensure that all federal program information was correctly reported on the SEFA.

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

This finding is similar to a prior-year finding.

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

2013-103

CFDA No. and Name: 16.809 **ARRA—Recovery Act—State and Local Law Enforcement Assistance Program: Combating Criminal Narcotics Activity Stemming from the Southern Border of the United States Competitive Grant Program (NARC)**
Award Number and Years: 2009-SS-B9-0004, July 1, 2009 through June 30, 2013
Federal Agency: **U.S. Department of Justice**

CFDA No. and Name: 84.215 **Fund for the Improvement of Education (FIE)**
Award Number and Year: Q215F120378, August 1, 2012 through July 31, 2013
Federal Agency: **U.S. Department of Education**

CFDA No. and Name: 95.001 **High Intensity Drug Trafficking Areas Program (HIDTA)**
Award Numbers and Years: HT20-10-1913, January 1, 2010 through December 31, 2012; HT21-11-1913, January 1, 2011 through December 31, 2012; HT-12-2241, January 1, 2012 through December 31, 2013; HT-13-2341, January 1, 2013 through December 31, 2014
Federal Agency: **Executive Office of the President**
Pass-Through Grantor: City of Tucson
Compliance Requirement: Allowable Costs/Cost Principles
Questioned Costs: \$354,744

Criteria: In accordance with 2 CFR §225, Appendix B, Section 8.h, for employees who are expected to work solely on a single federal award or cost objective, the County should maintain records that certify or confirm that such employees worked solely on that program for the period covered by the certification. These certifications should be prepared at least semiannually and should be signed by the employee or supervisory official having firsthand knowledge of the work the employee performed. In addition, for employees who work on multiple activities or cost objectives, a distribution of their salaries or wages should be supported by personnel activity reports or equivalent documentation that must reflect an after-the-fact distribution of the actual activity of each employee and be signed by the employee.

Condition and context: During the fiscal year, the County did not maintain records that certified or confirmed semiannually that certain employees who were expected to work on a single federal award or cost objective actually worked on such federal award or cost objective. In addition, the County did not maintain personnel activity reports or equivalent documentation supporting the distribution of salaries or wages for those employees who worked on multiple activities or cost objectives. Instead, the County paid salaries and wages from funding sources listed in the employees' personnel files, a predetermined, before-the-fact reflection of the employees' expected work on federal programs. Due to the lack of certifications and personnel activity reports, auditors could not verify that the expenditures' funding sources were appropriate. Specifically, during the fiscal year, the County spent the following:

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

- \$109,888 in salaries and wages for its NARC Program. For the three tested employees who were paid a total of \$109,888 in salaries and wages during the fiscal year, there were no certifications that the employees worked solely on the federal program.
- \$49,044 in salaries and wages for its FIE Program. For the five tested employees who were paid a total of \$49,044 in salaries and wages during the fiscal year, there were no certifications that the employees worked solely on the federal program.
- \$419,165 in salaries and wages for its HIDTA Program. For three of the ten employees tested who were paid a total of \$101,517 in salaries and wages during the fiscal year, there were no certifications that the employees worked solely on the federal program. For two of the ten employees tested who were paid \$94,295 in salaries and wages during the fiscal year, there were no personnel activity reports supporting the distribution of the employee's salaries and wages to multiple activities or cost objectives.

Effect: The County did not comply with the applicable payroll certification and personnel activity reporting requirements for these grant programs. Furthermore, without the required certifications or personnel activity reports, the County cannot support that \$354,744 in employee salaries and wages charged to the programs were for activities supporting the program's activities. It was not practical to extend our auditing procedures sufficiently to determine whether any additional questioned costs resulted from this finding.

Cause: The County did not have policies and procedures in place to ensure that its departments complied with time and effort certification and personnel activity reporting requirements.

Recommendation: The County should implement effective procedures to ensure that its department personnel comply with time and effort certification requirements for employees expected to work on only one federal program or cost objective and personnel activity reporting requirements for employees who work on multiple activities or cost objectives.

This finding is similar to a prior-year finding.

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

2013-104

Cluster Name:	JAG Program Cluster
CFDA No. and Name:	16.738 Edward Byrne Memorial Justice Assistance Grant Program
Award Numbers and Years:	DC-12-012, July 1, 2011 through October 31, 2013; DC-12-038, July 1, 2011 through June 30, 2013; DC-13-038, July 1, 2012 through September 30, 2013
Federal Agency:	U.S. Department of Justice
Pass-Through Grantor:	Arizona Criminal Justice Commission
CFDA No. and Name:	97.067 Homeland Security Grant Program
Award Numbers and Years:	11-AZDOHS-OPSG-888430-02, January 1, 2012 through December 31, 2012; 12-AZDOHS-OPSG-99436-02, November 1, 2012 through October 31, 2013
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:	\$207,428

Criteria: For the JAG Program Cluster and Homeland Security Grant Program, the grant agreements state that the County must comply with applicable federal regulations, which includes 28 CFR §66.32(d) and 44 CFR §13.32(d), respectively. The requirements and regulations require that property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, cost of the property, the location, condition of the property, and any ultimate disposition data, including the date of disposal and sales price of the property. Further, a control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property.

Condition and context: The County did not maintain effective control and accountability for equipment purchased with federal monies. Specifically, 19 radios and other equipment purchased with JAG monies, totaling \$172,723, and 4 radios purchased with Homeland Security monies, totaling \$34,705, were not always tagged or otherwise identified and were not properly recorded in the County's capital assets listing. Auditors could not trace the radios or other equipment purchased with federal monies to the capital assets listing because the listing did not include a unique identifier, such as a tag number or serial number, for the equipment.

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

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

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

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

This finding is similar to a prior-year finding.

2013-105

Cluster Name:	JAG Program Cluster
CFDA No. and Name:	16.738 Edward Byrne Memorial Justice Assistance Grant Program
Award Numbers and Years:	DC-12-012, July 1, 2011 through October 31, 2013; DC-12-038, July 1, 2011 through June 30, 2013; DC-13-038, July 1, 2012 through September 30, 2013
Federal Agency:	U.S. Department of Justice
Pass-Through Grantor:	Arizona Criminal Justice Commission
Compliance Requirement:	Procurement and Suspension and Debarment
Questioned Costs:	\$23,050

Criteria: In accordance with 28 CFR §66.36(b)(1) and (9), the County should follow its procedures for purchasing goods and services and ensure sufficient records are maintained to support that its purchasing procedures are being followed.

Condition and context: The County did not follow its procurement policies and procedures for obtaining verbal price quotations. Specifically, for the three transactions subject to procurement requirements during the fiscal year, auditors were unable to determine if the County obtained the required verbal price quotations for equipment and software costing \$23,050 because it did not document them on the purchase requisition form.

Effect: The County could pay more than necessary for goods and services.

Cause: The County did not effectively monitor purchases to ensure departments obtained required quotations or document the rationale for selecting vendors.

Recommendation: The County should establish effective monitoring procedures to ensure departments follow its purchasing policies and procedures to obtain and document the required quotations.

This finding is similar to a prior-year finding.

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

2013-106

Cluster Name:	WIA Cluster
CFDA No. and Name:	17.258 WIA Adult Program 17.259 WIA Youth Activities 17.278 WIA Dislocated Worker Formula Grants
Award Number and Years:	DE111013001, April 1, 2010 through June 30, 2014
Federal Agency:	U.S. Department of Labor
Pass-Through Grantor:	Arizona Department of Economic Security
Compliance Requirement:	Allowable Costs/Cost Principles
Questioned Costs:	\$336,888

Criteria: In accordance with 2 CFR §225, Appendix B, Section 15.b.(1), before incurring capital expenditures for a building, the County should receive approval in advance by the awarding agency. Also, in accordance with 2 CFR §225, Appendix B, Section 37.d, rental costs under leases that are required to be treated as capital leases under generally accepted accounting principles are allowable only up to the amount that would be allowed had the government unit purchased the property on the date the lease agreement was executed.

Condition and context: The County did not receive an advance approval from the awarding agency to incur expenditures for capital lease payments for the building that houses the WIA Programs. The County entered into the real property lease in fiscal year 2007 and is required by the lease agreement to make semi-annual lease payments until fiscal year 2026. During the fiscal year, the County paid \$48,127 in capital lease payments with WIA monies and has paid \$336,888 in lease payments with WIA monies since the inception of the lease. In addition, the County did not perform an analysis to determine that the entire amount of the capital lease was allowable by ensuring that it was less than or equal to the amount it would have cost to purchase the property on the date the lease agreement was executed.

Effect: The County did not comply with the applicable regulations regarding capital expenditures and rental costs under capital leases for a building for the WIA Programs.

Cause: The County was not aware that it had to seek approval from the Arizona Department of Economic Security before entering into a capital lease agreement for a building with WIA monies. In addition, the County was also not aware that it was required to perform an analysis to ensure that the capital lease payments were allowable.

Recommendation: The County should ensure that it obtains advance approval from the awarding agency before entering into a capital lease agreement for a building. Also, the County should perform an analysis to determine that the capital lease payments are allowable by ensuring that the lease payments would be less than or equal to the cost to purchase the building.



ADMINISTRATIVE SERVICES
SANTA CRUZ COUNTY

Jennifer K. St. John, CPA
Director

May 30, 2014

Ms. Debbie Davenport, Auditor General
State of Arizona, Office of the Auditor General
2910 North 44th Street, Suite 410
Phoenix, AZ 85018

Dear Ms. Davenport:

The accompanying Corrective Action Plan has been prepared as required by the standards applicable to financial audits contained in *Government Auditing Standards*, and by U. S. Office of Management and Budget Circular A-133. Specifically, we are providing you with the corrective action planned for the financial reporting findings and the names of the contact persons responsible for corrective action, the corrective action planned, and the anticipated completion date for each federal finding included in the current year's Schedule of Findings and Questioned Costs.

Sincerely,

Jennifer K. St. John, CPA
Administrative Services Director

Santa Cruz County
Corrective Action Plan
Year Ended June 30, 2013

Financial Statement Findings

2013-01

The County should improve its procedures to prepare accurate and timely financial statements.

Contact Person: Jennifer St. John, Administrative Services Director

Anticipated completion date: June 30, 2014

Corrective Action: During the fiscal year 2013 audit, the County worked with the Auditor General's Office and an independent contractor that the County hired in order to help ensure it had a plan in place to produce accurate and timely financial statements by the fiscal year 2014 audit. The County has met this schedule for the fiscal year 2013 audit and will make every effort to issue the fiscal year 2014 Financial Statements and Single Audit by March 31, 2015. Further, the Board of Supervisors just created a new accountant position within the finance department.

2013-02

The County should improve controls over deposits and investments.

Contact Person: Liz Gutfahr, County Treasurer

Anticipated completion date: December 31, 2014

Corrective Action: Since August 2013, the County has performed monthly reconciliations between the County's books and the financial institutions. The County identifies reconciling items and clears them on a daily basis, and previous unreconciled differences are also being identified and cleared each month. The County continues to work with the independent contractor we hired to resolve all reconciling items between the financial institutions and the County's books and to apportion interest on a quarterly basis for all investment accounts held by the Treasurer's Office.

2013-03

The County should improve procedures over capital assets reporting and stewardship.

Contact Person: Jennifer St. John, Administrative Services Director

Anticipated completion date: June 30, 2014

Corrective Action: The County is in the process of hiring three summer interns to perform the required bi-annual physical inventory. Part of this inventory will be ensuring that all capital assets will have a tag number, as applicable, and that the capital assets listing is updated by asset to include all required information such as location, description, tag or identification number, etc. The Administrative Services Director will review this inventory's results, and the Board of Supervisors will approve it. In addition, the County is also in the process of hiring an additional accountant who will be in charge of the fixed assets listing and the physical inventory in future years.

Santa Cruz County
Corrective Action Plan
Year Ended June 30, 2013

2013-04

The County should improve its procedures over recording revenues and year-end receivables.

Contact Person: Jennifer St. John, Administrative Services Director

Anticipated completion date: June 30, 2014

Corrective Action: The County will take greater care when compiling the financial statements, specifically the grant revenues, receivables, and amounts due from other governments for fiscal year 2014.

2013-05

The County should improve its procedures over recording expenditures and year-end accounts payable.

Contact Person: Jennifer St. John, Administrative Services Director

Anticipated completion date: June 30, 2014

Corrective Action: The County will track all expenditures paid after the accrual period by fund and make the necessary adjustments to the financial statements for fiscal year 2014.

2013-06

The County should improve its procedures over landfill receipts.

Contact Person: Jesus Valdez, Public Works Director

Anticipated completion date: December 31, 2014

Corrective Action: Effective June 1, 2014, the landfill implemented new cash-handling procedures that included making landfill deposits twice a week. Further, a separate individual will reconcile daily receipt totals to the amount deposited at the Treasurer's Office on a weekly basis, which will be evidenced with an initial and date. A copy of this weekly reconciliation will be sent to the Finance department.

2013-07

The County should improve its purchasing procedures.

Contact Person: Jennifer St. John, Administrative Services Director

Anticipated completion date: October 31, 2013

Corrective Action: In May 2013, the County trained staff within the finance department to make sure that verbal, written, and sealed competitive bids or a state contract was used on each applicable purchase. Further, the County has required training for all county staff responsible for purchasing or initiating a purchase to help ensure that they are following the County's procurement process.

Santa Cruz County
Corrective Action Plan
Year Ended June 30, 2013

2013-08

The County should strengthen controls over its financial information system.

Contact Person: Raul Mavis, Information Technology Director

Anticipated completion date: December 31, 2014

Corrective Action: The County will prepare written procedures over our financial information system. These procedures will include completing a risk analysis that identifies and prioritizes critical applications, assigning employee responsibilities in the event of a disaster (including contact phone numbers), designating an alternative computer facility that will support the hardware and software requirements, detailing off-site storage locations and availability of information stored at these locations, listing procedures for processing critical transactions, restoring procedures for back-up, and documenting of overall testing of these procedures, testing frequencies, and disaster plan recovery results. Finally, the County will incorporate into written policies and procedures the creation of user accounts, terminations, password and access changes, and changes to the financial software and servers.

Federal Award Findings and Questioned Costs

2013-101

CFDA No.: Not applicable

Contact Person: Jennifer St. John, Administrative Services Director

Anticipated completion date: June 30, 2014

During the fiscal year 2013 audit, the County worked with the Auditor General's Office and an independent contractor that the County hired in order to help ensure that a plan was in place to produce accurate and timely financial statements by the fiscal year 2014 audit. The County has met this schedule for the fiscal year 2013 audit and will make every effort to issue the fiscal year 2014 Financial Statements and Single Audit by March 31, 2015. Further, the Board of Supervisors just created a new accountant position within the finance department.

2013-102

CFDA No.: Not applicable

Contact Person: Jennifer St. John, Administrative Services Director

Anticipated completion date: June 30, 2014

The County will take greater care when preparing the Schedule of Expenditures of Federal Awards (SEFA) to include all federal awards and expenditures for the fiscal year ending June 30, 2014. Further, the County hired an independent contractor to help compile and prepare the SEFA and is in the process of hiring an additional accountant for the finance department to help with the workload, in particular the fixed assets and federal and state grants.

Santa Cruz County
Corrective Action Plan
Year Ended June 30, 2013

2013-103

CFDA No. and Name: 16.809 ARRA—Recovery Act—State and Local Law Enforcement Assistance Program: Combating Criminal Narcotics Activity Stemming from the Southern Border of the United States Competitive Grant Program

CFDA No. and Name: 84.215 Fund for the Improvement of Education

CFDA No. and Name: 95.001 High Intensity Drug Trafficking Areas Program

Contact Person: Jennifer St. John, Administrative Services Director

Anticipated Completion Date: December 31, 2014

In December 2013, the finance department, in conjunction with the human resources department, started sending out time and effort certifications to all grant-funded employees to help ensure that these requirements are satisfied. In addition, the finance department is in the process of hiring an additional accountant to help monitor federal and state grants.

2013-104

Cluster Name: JAG Program Cluster

CFDA No. and Name: 16.738 Edward Byrne Memorial Justice Assistance Grant Program

CFDA No. and Name: 97.067 Homeland Security Grant Program

Contact Person: Jennifer St. John, Administrative Services Director

Anticipated Completion Date: June 30, 2014

The County is in the process of hiring three summer interns to perform the required biannual physical inventory. Part of this inventory will be insuring that all capital assets will have a tag number, as applicable, and that the capital asset listing is updated by asset to include all required information such as location, description, tag or identification number, etc. The results of this inventory will be reviewed by the Administrative Services Director and approved by the Board of Supervisors. In addition, the County is also in the process of hiring an additional accountant who will be in charge of the fixed assets listing and the physical inventory in future years.

Santa Cruz County
Corrective Action Plan
Year Ended June 30, 2013

2013-105

Cluster Name: JAG Program Cluster
CFDA No. and Name: 16.738 Edward Byrne Memorial Justice Assistance Grant Program
Contact Person: Jennifer St. John, Administrative Services Director
Anticipated completion date: October 31, 2013

In May 2013, staff within the finance department was trained to make sure that verbal, written, and sealed competitive bids or a state contract was used on each applicable purchase. Further, the County has required training for all county staff responsible for purchasing or initiating a purchase to help ensure that they are following the County's procurement process.

2013-106

Cluster Name: WIA Cluster
CFDA No. and Name: 17.258 WIA Adult Program
17.259 WIA Youth Activities
17.278 WIA Dislocated Worker Formula Grants
Contact Person: Jennifer St. John, Administrative Services Director
Anticipated completion date: December 31, 2014

The County will research the authoritative sources, reach out to the Arizona Department of Economic Security, and remedy this situation so that any payments made for capital expenditures and rental costs under capital leases are allowable.



ADMINISTRATIVE SERVICES
SANTA CRUZ COUNTY

Jennifer K. St. John, CPA
Director

May 30, 2014

Ms. Debbie Davenport, Auditor General
State of Arizona, Office of the Auditor General
2910 North 44th Street, Suite 410
Phoenix, AZ 85018

Dear Ms. Davenport:

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

Sincerely,

Jennifer K. St. John, CPA
Administrative Services Director

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

Status of Federal Award Findings and Questioned Costs

CFDA No.: Not Applicable
Finding No.: 12-101, 11-101, 10-101, and 09-101
Status: Not corrected

During the fiscal year 2013 audit, the County worked with the Auditor General's Office and an independent contractor that the County hired in order to help ensure it had a plan in place to produce accurate and timely financial statements by the fiscal year 2014 audit. The County has met this schedule for the fiscal year 2013 audit and will make every effort to issue the fiscal year 2014 Financial Statements and Single Audit by March 31, 2015. Further, the Board of Supervisors just created a new accountant position within the finance department.

CFDA No.: Not Applicable
Finding No.: 12-102, 11-102, 10-102, and 09-102
Status: Not corrected

The County will take greater care when preparing the Schedule of Expenditures of Federal Awards (SEFA) to include all federal awards and expenditures for fiscal year 2014. Further, the County hired an independent contractor to help compile and prepare the SEFA and is in the process of hiring an additional accountant for the finance department to help with the workload, in particular the fixed assets and federal and state grants.

CFDA No.: 16.738 Edward Byrne Memorial Justice Assistance Grant Program
16.809 ARRA—Recovery Act—State and Local Law Enforcement Assistance Program:
Combating Criminal Narcotics Activity Stemming from the Southern Border of the United
States Competitive Grant Program
81.128 ARRA—Energy Efficiency and Conservation Block Grant Program
84.394 ARRA—State Fiscal Stabilization Fund—Education State Grants, Recovery Act
84.397 ARRA—State Fiscal Stabilization Fund—Government Services, Recovery Act
95.001 High Intensity Drug Trafficking Areas Program
97.067 Homeland Security Grant Program
Finding No.: 12-104, 12-106, 12-108, 12-109, 11-104, 11-105, and 11-106
Status: Not corrected

In May 2013, staff within the finance department was trained to make sure that verbal, written, and sealed competitive bids or a state contract was used on each applicable purchase. Further, the County has required training for all county staff responsible for purchasing or initiating a purchase to help ensure that they are following the County's procurement process. Finally, since May 2013, the Administrative Services Director has been printing the suspended and debarred listing for each vendor for every purchase that exceeds \$25,000, and finance staff attaches that listing to the purchase order for the individual purchase.

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

CFDA No.: 16.809 ARRA—Recovery Act—State and Local Law Enforcement Assistance Program:
Combating Criminal Narcotics Activity Stemming from the Southern Border of the United
States Competitive Grant Program
84.334 Gaining Early Awareness and Readiness for Undergraduate Programs
95.001 High Intensity Drug Trafficking Areas Program
Finding No.: 12-105
Status: Not corrected

In December 2013, the finance department, in conjunction with the human resources department, started sending out time and effort certifications to all grant-funded employees to help ensure that these requirements are satisfied. In addition, the finance department is in the process of hiring an additional accountant to help monitor federal and state grants.

CFDA No.: 16.738 Edward Byrne Memorial Justice Assistance Grant Program
16.809 ARRA—Recovery Act—State and Local Law Enforcement Assistance Program:
Combating Criminal Narcotics Activity Stemming from the Southern Border of the United
States Competitive Grant Program
81.128 ARRA—Energy Efficiency and Conservation Block Grant Program
84.394 ARRA—State Fiscal Stabilization Fund—Education State Grants, Recovery Act
84.397 ARRA—State Fiscal Stabilization Fund—Government Services, Recovery Act
95.001 High Intensity Drug Trafficking Areas Program
97.067 Homeland Security Grant Program
Finding No.: 12-103 and 11-103
Status: Partially corrected

For the findings related to the need for the County to perform a physical capital asset inventory, these findings have been corrected, as the County performed an inventory in late spring of 2012.

For the findings related to the tagging of assets, the County is in the process of hiring three summer interns to perform the required biannual physical inventory. Part of this inventory will be ensuring that all capital assets will have a tag number, as applicable, and that the capital asset listing is updated by asset to include all required information such as location, description, tag or identification number, etc. The results of this inventory will be reviewed by the Administrative Services Director and approved by the Board of Supervisors.

In addition, the County is also in the process of hiring an additional accountant who will be in charge of the fixed assets listing and the physical inventory in future years.

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

CFDA No.: 95.001 High Intensity Drug Trafficking Areas Program
97.067 Homeland Security Grant Program
97.074 Law Enforcement Terrorism Prevention Program
Finding No.: 10-103, 10-104, 09-103, 09-104, and 08-08
Status: Does not warrant further action

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

CFDA No.:
Finding No.: 11-107, 11-108, and 10-105
Status: Fully corrected

CFDA No.:
Finding No.: 12-107
Status: Fully corrected

CFDA No.:
Finding No.: 12-110
Status: Fully corrected
