



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Single Audit

Santa Cruz County

Year Ended June 30, 2014



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, 2014

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Report Issued Separately

Comprehensive Annual Financial Report

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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, 2014, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated March 27, 2015.

Internal Control over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the County's basic financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2014-01 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2014-02 through 2014-04 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's basic financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and that are described in the accompanying Schedule of Findings and Questioned Costs as items 2014-02 and 2014-04.

County Response to Findings

Santa Cruz County's responses to the findings identified in our audit are presented on pages 22 through 23. The County's responses were not subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on them.

Purpose of this Report

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

Jay Zsorey, CPA
Financial Audit Director

March 27, 2015



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, 2014. 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 Opinion on the WIA Cluster

As described in the accompanying Schedule of Findings and Questioned Costs, the County did not comply with requirements regarding allowable costs/cost principles as described in item 2014-101 for its WIA Cluster (17.258, 17.259, and 17.278). Compliance with such requirements is necessary, in our opinion, for the County to comply with the requirements applicable to those programs.

Adverse Opinion on the WIA Cluster

In our opinion, because of the significance of the effects of the noncompliance described in the Basis for Adverse Opinion on the WIA Cluster paragraph, 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 WIA Cluster for the year ended June 30, 2014.

Basis for Qualified Opinion on the Homeland Security Grant Program

As described in the accompanying Schedule of Findings and Questioned Costs, the County did not comply with requirements regarding equipment and real property management as described in item 2014-102 for its Homeland Security Grant Program (97.067). Compliance with such requirements is necessary, in our opinion, for the County to comply with the requirements applicable to that program.

Qualified Opinion on the Homeland Security Grant Program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion on the Homeland Security Grant Program paragraph, Santa Cruz County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Homeland Security Grant Program for the year ended June 30, 2014.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, Santa Cruz County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs for the year ended June 30, 2014.

Santa Cruz County's responses to the noncompliance findings identified in our audit are presented on page 23. 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.

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 2014-101 and 2014-102 to be material weaknesses.

Santa Cruz County's responses to the internal control over compliance findings identified in our audit are presented on page 23. The County's responses were not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on them.

Purpose of this Report

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

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of Santa Cruz County as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the County's Basic financial statements. We issued our report thereon dated March 27, 2015, that contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming our opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of the County's management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Jay Zsorey, CPA
Financial Audit Director

March 27, 2015

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Santa Cruz County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014

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	\$ 142,181
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 Cluster	Arizona Department of Housing	139-13	285,741
Department of the Interior					
15 226	Payments in Lieu of Taxes				1,888,700
15 227	Distribution of Receipts to State and Local Governments				1,233
	Total Department of the Interior				1,889,933
Department of Justice					
16 588 ARRA	ARRA—Recovery Act—Violence Against Women Formula Grants		Governor's Office for Children, Youth and Families	ST-WSG-12-2366-07Y2, ST-WSG-12-2366-07Y3	118,497
16 607	Bulletproof Vest Partnership Program				3,978
16 738	Edward Byrne Memorial Justice Assistance Grant Program	JAG Program Cluster	Arizona Criminal Justice Commission	DC-14-018, DC-14-006	97,392
	Total Department of Justice				219,867
Department of Labor					
17 258	WIA Adult Program	WIA Cluster	Arizona Department of Economic Security	DE111013001, ADES 14-05-4320	212,026
17 259	WIA Youth Activities	WIA Cluster	Arizona Department of Economic Security	DE111013001, ADES 14-05-4320	180,465
17 278	WIA Dislocated Worker Formula Grants	WIA Cluster	Arizona Department of Economic Security	DE111013001, ADES 14-05-4320	81,764
	<i>Total WIA Cluster</i>				<u>474,255</u>
17 267	Incentive Grants-WIA Section 503		Arizona Department of Economic Security	DE111013001, 14FAECCR47075505	3,831
	Total Department of Labor				478,086
Department of Transportation					
20 106	Airport Improvement Program				121,286
20 205	Highway Planning and Construction	Highway Planning and Construction Cluster			47,446
20 703	Interagency Hazardous Materials Public Sector Training and Planning Grants		Arizona Emergency Response Commission	HM-HMP-0282-12-01-11, HM-HMP-0366-13-01-00	29,550
	Total Department of Transportation				198,282
Department of Education					
84 002	Adult Education—Basic Grants to States		Arizona Department of Education	14FAEABE-470755-01A, 14FAEAEF-470755-03A, 14FAECCR-470755-05A	160,746

See accompanying notes to schedule.

Santa Cruz County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014

Federal agency/CFDA number	Federal program name	Cluster title	Pass-through grantor	Pass-through grantor's numbers	Program expenditures
84 010	Title I Grants to Local Educational Agencies		Arizona Administrative Office of the Courts	KR13-0141, KR13-0074	33,044
84 027	Special Education—Grants to States	Special Education Cluster (IDEA)	Arizona Department of Education	KR13-0141, 13FESSCG-370740-01A, 14FESSCG-470740-01A	38,649
84 215	Fund for the Improvement of Education				919,239
84 367	Improving Teacher Quality State Grants		Arizona Administrative Office of the Courts	KR13-0141	5,909
Total Department of Education					<u>1,157,587</u>
Department of Health and Human Services					
93 008	Medical Reserve Corps Small Grant Program				1,806
93 268	Immunization Cooperative Agreements		Arizona Department of Health Services	ADHS13-041547	150,579
93 283	Centers for Disease Control and Prevention—Investigations and Technical Assistance		Arizona Department of Health Services	ADHS12-007896	181,492
93 563	Child Support Enforcement		Arizona Department of Economic Security	ADES13-035445	81,569
93 667	Social Services Block Grant				87,157
Total Department of Health and Human Services					<u>502,603</u>
Executive Office of the President					
95 001	High Intensity Drug Trafficking Areas Program		City of Tucson	HT12-2241, HT12-2242, HT13-2342, HT13-2341, HT14-2341, HT14-2342	394,534
Department of Homeland Security					
97 042	Emergency Management Performance Grants		Arizona Department of Emergency and Military Affairs	EMW2013-EP-000024	97,119
97 067	Homeland Security Grant Program		Arizona Department of Homeland Security	13-AZDOHS-OPSG-130433-01 13-AZDOHS-HSGP-130435-01, 13-AZDOHS-HSGP-130405-01, 12-AZDOHS-OPSG-999436-02, 12-AZDOHS-OPSG-999436-01, 12-AZDOHS-OPSG-999435-01, 12-AZDOHS-HSGP-999402-01, 11-AZDOHS-HSGP-888402-02	508,485
Total Department of Homeland Security					<u>605,604</u>
Total expenditures of federal awards					<u>\$ 5,874,418</u>

See accompanying notes to schedule.

Santa Cruz County
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014

Note 1 - Basis of Accounting

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

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

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2014 *Catalog of Federal Domestic Assistance*.

Note 3 - Subrecipients

The County did not provide any federal awards to subrecipients during the year ended June 30, 2014.

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Santa Cruz County
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2014

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_	
			(None reported)

Type of auditors' report issued on compliance for major programs:
 Unmodified for the Payments in Lieu of Taxes (15.226), JAG Program Cluster (16.738), Fund for the Improvement of Education (84.215) and High Intensity Drug Trafficking Areas Program (95.001); adverse for the WIA Cluster (17.258, 17.259, 17.278); and qualified for the Homeland Security Grant Program (97.067).

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

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
15.226	Payments in Lieu of Taxes
16.738	JAG Program Cluster: Edward Byrne Memorial Justice Assistance Grant Program

Santa Cruz County
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2014

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
	WIA Cluster:
17.258	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_____	_____
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Santa Cruz County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

Financial Statement Findings

2014-01

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

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

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

- Incorrectly reported \$18,788 of unavailable revenue—intergovernmental and due from other governments in the Criminal Justice Enhancement Fund rather than the Jail District Fund due to coding errors in the County's general ledger system.
- Overstated Criminal Justice Enhancement Fund unavailable revenue—intergovernmental and due from other governments by \$27,629 due to improper year-end accrual procedures.
- Overstated General Fund accounts payable and current expenditures by \$240,627 due to clerical errors within the County's year-end accrual entry.
- Understated Road Fund highways and streets expenditures by \$144,453, sale of capital assets by \$134,033, and miscellaneous revenues by \$10,419 due to improper accounting for auction proceeds.
- Incorrectly reported \$94,484 of grants and contributions revenue as activity in the Other Governmental Funds rather than the Landfill Fund due to management oversight. As a result, cash and investments were understated by \$77,086 in the Landfill Fund.
- Did not disclose approximately \$16.4 million of bank balances exposed to custodial credit risk within its deposits and investments note disclosure due to management oversight.

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

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

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

- Develop and follow comprehensive written policies and procedures for initiating and recording transactions in its accounting system, compiling the information, and preparing the financial statements and related note disclosures. 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.

Santa Cruz County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

- Require an employee who is independent of the person preparing the financial statements and knowledgeable of the County's operations and GAAP reporting requirements to review the statements and related note disclosures. This review should ensure that the amounts are accurate and properly supported and the County prepares the financial statements in accordance with GAAP.

This finding is similar to a prior-year finding.

2014-02

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.

Condition and context: At June 30, 2014, the County Treasurer had approximately \$51.9 million in deposits and investments that included \$20.5 million for Santa Cruz County and another \$31.4 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 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. As of June 30, 2014, however, there was an unreconciled difference of \$552,000 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.

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 political subdivisions in accordance with state laws. In addition, the County's deposits and investments could be misstated in the financial statements.

Santa Cruz County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

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 the County Treasurer holds to those balances the various financial institutions report at least monthly and investigate and resolve all reconciling items in a timely manner, including making appropriate adjusting journal entries to 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.

This finding is similar to a prior-year finding.

2014-03

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

Criteria: The County's information technology (IT) systems process and store information and data that is vital to its daily operations. Therefore, the County should have comprehensive written internal control policies and procedures over its systems. This would include areas such as identifying and classifying data by sensitivity, tracking and documenting changes to its IT systems, and establishing adequate password requirements. Further, the County should have a comprehensive disaster recovery plan in place to provide for the continuity of operations and to ensure it can recover information 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 IT systems. Specifically, the County's policies and procedures did not adequately address the following:

- Identifying and classifying data by sensitivity and taking appropriate action to further protect identified sensitive information.
- Managing changes to its IT systems, including its network, IT infrastructure, system software, and system information and data. The County's established policies and procedures for managing changes to its IT systems were limited to third-party software patches.
- Ensuring passwords for its financial information system and network conform to current IT best practices.

Further, the County had some recovery and backup procedures in place, but its disaster recovery plan lacked key elements as indicated by best practices, and it could not provide any evidence that it had tested its plan during the fiscal year.

Santa Cruz County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

Effect: There is an increased risk of unauthorized or unallowable access, damage, loss, and unintended or unauthorized changes to the County's IT systems and data. Further, the County risks the ability to recover financial information and data and conduct daily operations during an equipment failure or other system interruption, which could cause inaccurate or incomplete system information and data, 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: To help prevent and detect unauthorized or unallowable access, damage, loss, and unintended or unauthorized changes to its IT systems and data, the County should strengthen its existing IT policies and procedures to be in line with IT best practices and should consider addressing the following:

- Identifying and classifying all system information and data based on sensitivity, taking appropriate action to further secure sensitive information and data, and educating its system users about their responsibilities to protect that information.
- Documenting all changes to the IT systems, including the network, IT infrastructure, system software, and system information and data, and ensuring that changes are authorized, reviewed, tested, and approved prior to implementation.
- Strengthening account passwords.

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

- Critical information, such as employee assignments and responsibilities and current listings of key personnel assigned to disaster teams and outside vendors, including their contact information.
- A risk analysis and prioritization of recovery for key business systems, including acceptable time frames for restoring critical business processes.
- A list of procedures for processing critical transactions, including forms or other documents to use.
- A designated alternative computer facility or arrangements with vendors to support hardware and software requirements.
- Restoration procedures for backup media and servers.
- A process to perform regularly scheduled tests of the disaster recovery plan and document the tests performed and results. This process should include updating and testing the plan at least annually or as changes necessitate. Plan testing may include actual tests, simulations, or table top discussions and should be comprehensive enough to evaluate whether the plan can be successfully carried out. Test results should also be used to update or change the plan.

This finding is similar to a prior-year finding.

Santa Cruz County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

2014-04

The County should improve its purchasing procedures

Criteria: Arizona Revised Statutes (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 an estimated cost in excess of \$10,000 per transaction, or the aggregate dollar amount adopted by the board of supervisors that does not exceed \$100,000 (the state threshold). 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 competitive sealed bidding. In addition, A.R.S. §11-952 requires that counties enter into a direct contract or legal agreement with another political subdivision in order to use the subdivision's contracts for purchases of goods and services. Further, in accordance with the County's purchasing policies, blanket purchase orders should be issued for purchases of routine goods and services used by a department on a monthly or yearly basis, such as supplies, fuel, repairs, food, and building materials.

Condition and context: For two of seven purchases above \$35,000 tested, the County did not follow appropriate procurement procedures. For one of the purchases, the County used another political subdivision's contract to purchase construction equipment totaling \$151,962 without having a direct contract or legal agreement in place. Further, the equipment purchased did not follow the specifications contained within the contract. For the other purchase, the County used a blanket purchase order to purchase office furnishings totaling \$40,106. According to the County's purchasing policies, blanket purchase orders should be used for routine goods and services; however, the purchase tested did not fit that description and was not subjected to the County's bidding requirements.

Effect: The County did not comply with state statutes or its purchasing policies and could have paid more than necessary for goods and services.

Cause: The County's existing purchasing policies were not detailed enough to require the necessary agreements be in place prior to using another political subdivision's contracts. In addition, the County did not have adequate procedures to ensure blanket purchase orders were used for routine goods and services.

Recommendation: To help ensure compliance with state statutes and its procurement policies, the County should update its policies to include procedures for selecting and using other political subdivisions' contracts. Further, the County should only issue blanket purchase orders for routine goods and services and require the use of competitive bidding for purchases over \$35,000 in accordance with its policies.

This finding is similar to a prior-year finding.

Santa Cruz County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

Federal Award Findings and Questioned Costs

2014-101

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 Numbers and Years:	DE111013001, April 1, 2010 through June 30, 2014; ADES 14-05-4320, April 1, 2013 through June 30, 2018
Federal Agency:	U.S. Department of Labor
Pass-Through Grantor:	Arizona Department of Economic Security
Compliance Requirement:	Allowable Costs/Cost Principles
Questioned Costs:	\$294,240

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 \$294,240 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 to be paid for 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.

Santa Cruz County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

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.

This finding is similar to a prior-year finding.

2014-102

CFDA No. and Name:	97.067 Homeland Security Grant Program
Award Numbers and Years:	12-AZDOHS-OPSG-99436-02, November 1, 2012 through October 31, 2013; 11-AZDOHS-HSGP-888402-02, June 1, 2013 through May 31, 2014
Federal Agency:	U.S. Department of Homeland Security
Pass-Through Grantor:	Arizona Department of Homeland Security
Compliance Requirement:	Equipment and Real Property Management
Questioned Costs:	\$32,325

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

Condition and context: The County did not maintain effective control and accountability for equipment purchased with federal monies. Specifically, three radios and other equipment purchased in fiscal year 2014 with Homeland Security monies, totaling \$32,325, were not 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. Further, in total the County purchased 22 assets, with a total value of \$399,485, over the grant program's life that were not tagged or otherwise identified and were not properly recorded in the County's capital assets listing.

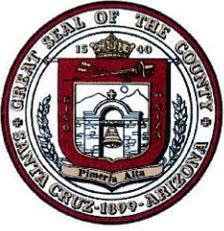
Effect: The County did not comply with federal regulations, and its failure to maintain control over equipment purchased with federal grant monies could result in equipment being lost, stolen, or misused.

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

Santa Cruz County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

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 assets listing.

This finding is similar to a prior-year finding.



ADMINISTRATIVE SERVICES
SANTA CRUZ COUNTY

Jennifer K. St. John, CPA
Director

March 27, 2015

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

Dear Ms. Davenport:

We have prepared the accompanying Corrective Action Plan as required by the standards applicable to financial audits contained in *Government Auditing Standards* and by U.S. Office of Management and Budget Circular A-133. Specifically, for each financial reporting finding we are providing you with the corrective action planned and for each federal award finding we are providing you with the names of the contact persons responsible for corrective action, the corrective action planned, and the anticipated completion date that is included in the 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, 2014

Financial Statement Findings

2014-01

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

Contact Person: Jennifer St. John, Administrative Services Director

Anticipated completion date: June 30, 2015

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

2014-02

The County should improve controls over deposits and investments.

Contact Person: Liz Gutfahr, County Treasurer

Anticipated completion date: December 31, 2015

Corrective Action: Since August 2013, the County has performed monthly reconciliations between the County's books and the financial institutions. The County currently 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 consultant 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.

2014-03

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

Contact Person: Raul Mavis, Information Technology Director

Anticipated completion date: June 30, 2015

Corrective Action: The County will continue to improve its written procedures over our financial information system. For about a year now, the IT Director has been working with the Auditor General's IT staff to strengthen our written policies and procedures. This practice will continue until the County adequately addresses the potential risks to our financial information system.

Santa Cruz County
Corrective Action Plan
Year Ended June 30, 2014

2014-04

The County should improve its purchasing procedures.

Contact Person: Jennifer St. John, Administrative Services Director

Anticipated completion date: June 30, 2015

Corrective Action: The County will continue to provide training to staff on procurement and take greater care to ensure that all procurement requirements are met during the fiscal year.

Federal Award Findings and Questioned Costs

2014-101

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: May 31, 2015

The County has been working with the Department of Economic Security (DES) to resolve this issue. DES recently issued an invoice to the County with disallowed costs of \$140,755. The County intends to pay the money back to DES and has not charged any capital lease payments or rent to WIA since last year when the County was notified that this was a potential issue.

2014-102

CFDA No. and Name: 97.067 **Homeland Security Grant Program**
Contact Person: Jennifer St. John, Administrative Services Director
Anticipated completion date: June 30, 2015

The County performed a physical inventory during fiscal year 2013-2014; however, due to a lack of staff, the County was not able to make all the additions (such as adding the unique identifier, tag number, serial number, physical location of the asset, etc.) based on the physical inventory to the fixed assets listing in a timely manner. With the additional accountant hired in July 2014 for the Finance Department, the listing is currently being updated and will be in compliance for the fiscal year 2015 audit.

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ADMINISTRATIVE SERVICES
SANTA CRUZ COUNTY

Jennifer K. St. John, CPA
Director

March 27, 2015

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

Dear Ms. Davenport:

We have prepared the accompanying Summary Schedule of Prior Audit Findings as required by U.S. Office of Management and Budget Circular A-133. Specifically, we are reporting the status of audit findings included in the prior audit's Schedule of Findings and Questioned Costs related to federal awards. This schedule also includes 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, 2014

Status of Federal Award Findings and Questioned Costs

CFDA No.: 17.258 **WIA Adult Program**
17.259 **WIA Youth Activities**
17.278 **WIA Dislocated Worker Formula Grants**

Finding No.: 2013-106

Status: Not corrected

As mentioned in the Corrective Action Plan, the County has been working with the Department of Economic Security (DES) to resolve this issue. A resolution has been agreed to and the County is in the final stages of changing the procedures used to allocate rent to WIA and refunding the unallowable costs back to DES.

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.: 2013-104, 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 and another physical inventory in late spring 2014.

For the findings related to the tagging of assets, the County hired two 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 were reviewed by the Administrative Services Director and approved by the Board of Supervisors. In addition, the County hired an additional accountant who will be in charge of the fixed assets listing and the physical inventory in future years; however, as mentioned in the Corrective Action Plan, the County was unable to ensure that all the missing information was corrected on the fiscal year 2014 fixed assets listing.

Santa Cruz County
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2014

CFDA No.: Not applicable
Finding No.: 2013-101, 12-101, 11-101, 10-101, and 09-101
Status: Fully corrected

CFDA No.: Not applicable
Finding No.: 2013-102, 12-102, 11-102, 10-102, and 09-102
Status: Fully corrected

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**
84.215 **Fund for the Improvement of Education**
84.334 **Gaining Early Awareness and Readiness for Undergraduate Programs**
95.001 **High Intensity Drug Trafficking Areas Program**
Finding No.: 2013-103 and 12-105
Status: Fully corrected

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.: 2013-105, 12-104, 12-106, 12-108, 12-109, 11-104, 11-105, and 11-106
Status: Fully corrected
