



REPORT HIGHLIGHTS

FINANCIAL STATEMENT AND SINGLE AUDITS

Our Conclusion

Santa Cruz County is responsible for preparing annual financial statements and a schedule of expenditures of federal awards, maintaining effective internal controls, and being accountable for its use of public monies. Our Office is responsible for auditing the County's financial statements, schedule, and major federal programs annually. A summary of the financial statements and schedule of expenditures of federal awards is presented to the right.

Based on our audits, we issued opinions on the County's financial statements and schedule of expenditures of federal awards and reports on its internal control and compliance over financial reporting and major federal programs. The information in the County's fiscal year 2014 financial statements and schedule of federal awards is reliable. Our Office identified internal control deficiencies and instances of noncompliance over financial reporting and major federal programs. These findings are summarized on the next page.



2014

Year Ended June 30, 2014

Condensed financial information

Statement of net position—This statement reports all of the County's assets, liabilities, and net position. Net position is reported in three major categories:

- **Net investment in capital assets**—shows the equity in land, buildings, equipment, and infrastructure.
- **Restricted**—shows the resources that must be used for restricted purposes as specified by donors and other external entities, such as the federal government.
- **Unrestricted**—shows the resources available for general operations.

Statement of activities—This statement reports all revenues, expenses, and the year's change in net position. Revenues include program revenues—those generated by or dedicated to a specific program—and general revenues such as taxes raised for general purposes. It also reports revenues and expenses as either governmental activities—primarily supported by taxes and grant monies—or business-type activities—primarily supported by user fees and charges. During fiscal year 2014, net position decreased by \$2.9 million, or 3.1 percent, compared to a decrease of \$4 million, or 4 percent, in fiscal year 2013.

Schedule of expenditures of federal awards—During fiscal year 2014, the County expended nearly \$5.9 million in federal awards. The County's federal award expenditures increased by approximately \$1.4 million, or 31 percent, compared to fiscal year 2013.

Condensed statement of net position Governmental and business-type activities As of June 30, 2014 (In thousands)

Assets	
Current and other assets	\$ 28,770
Capital assets, net	<u>130,766</u>
Total assets	<u>159,536</u>
Liabilities	
Current liabilities	2,662
Noncurrent liabilities	<u>64,430</u>
Total liabilities	<u>67,092</u>
Net position	
Net investment in capital assets	74,328
Restricted	9,515
Unrestricted	<u>8,601</u>
Total net position	<u>\$ 92,444</u>

Condensed statement of activities Governmental and business-type activities For the year ended June 30, 2014 (In thousands)

Program revenues	
Governmental activities	\$ 16,129
Business-type activities	1,694
General revenues	
Governmental activities	28,478
Business-type activities	<u>113</u>
Total revenues	<u>46,414</u>
Expenses	
Governmental activities	47,812
Business-type activities	<u>1,511</u>
Total expenses	<u>49,323</u>
Change in net position	(2,909)
Net position—beginning	<u>95,353</u>
Net position—ending	<u>\$ 92,444</u>

Condensed schedule of expenditures of federal awards by grantor agency For the year ended June 30, 2014 (In thousands)

Department of the Interior	\$ 1,889
Department of Education	1,158
Department of Homeland Security	606
Department of Health and Human Services	503
Department of Labor	478
Executive Office of the President	395
Other	<u>845</u>
Total federal expenditures	<u>\$ 5,874</u>

Summary of audit findings and recommendations

For the financial statement audit, we found four internal control weaknesses over financial reporting. For the federal compliance audit, we tested six federal programs under the major program guidelines established by the Single Audit Act and found that the County did not always have adequate internal controls and did not always comply with federal program requirements for two of its programs. Our Single Audit Report contains further details to help the County correct these deficiencies. The most significant deficiencies are summarized below.

County lacked adequate policies and procedures over preparing accurate financial statements, handling certain financial transactions, and protecting its sensitive financial data

The County's policies and procedures over financial statement preparation were inadequate. We found approximately \$17.1 million in errors that the County had to correct so that its financial statement amounts and note disclosures were reliable. In addition, the County Treasurer's Office did not investigate and resolve differences of \$552,000 between its records and the financial institutions' records; therefore, the County's cash balances may have been incorrect. Finally, the County did not have adequate policies and procedures over its information system security to fully protect its sensitive financial information and data.

Recommendations

The County should develop and implement comprehensive written policies and procedures for preparing its financial statements and note disclosures and for ensuring that it investigates and resolves any differences discovered during monthly reconciliations with its financial institutions' records. Also, the County should evaluate and update its information technology (IT) security policies and procedures to comply with the most current IT standards and best practices.

County failed to comply with federal program requirements

The County did not receive the required advance approval or perform the required lease versus purchase analysis of its Workforce Investment Act federal programs' building lease costs. The County's lease payments totaled \$294,240, which it paid for with the federal programs' monies.

The County did not maintain effective control and accountability over \$399,485 of equipment purchased with the Homeland Security federal program monies. The equipment was not always properly tagged or identified and recorded on the County's capital asset listing.

Recommendations

The County should:

- Ensure that it obtains advance approval and analyzes lease costs before spending Workforce Investment Act federal monies on its building lease.
- Ensure that county personnel follow its established policies and procedures that require equipment to be properly tagged and identified and recorded on the County's capital asset listing.