

Apache County, Arizona
Internal Control Reporting Package

Year ended June 30, 2015

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Year ended June 30, 2015**

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Report Issued Separately

Basic Financial Statements

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*

The Auditor General of the State of Arizona

The Honorable Board of Supervisors of
Apache 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, each major fund, and aggregate remaining fund information of Apache County, Arizona (the County), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated August 7, 2017.

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 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 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 as item 2015-001 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 deficiency described in the accompanying Schedule of Findings as item 2015-002 to be a significant deficiency.

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Apache County Responses to Findings

The County's responses to the findings identified in our audit are presented on page 4. 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Walker & Armstrong, LLP

Phoenix, Arizona
August 7, 2017

Apache County, Arizona
Schedule of Findings
Year ended June 30, 2015

2015-001 – Improve Internal Controls over Bank Accounts

Condition: Several bank reconciliations were not prepared in a timely manner after each month end. These bank reconciliations had significant reconciling items that required subsequent research to determine the proper recording of the cash and investments for financial statement reporting purposes. Furthermore, 10 bank accounts held in the County’s name were discovered during the audit process, three of which have never been reconciled. The exclusion of these cash accounts required a restatement of the beginning fund balances/net position to properly report them in the audited financial statements.

In addition, several County departments have their own bank accounts which increase the risk of misappropriation.

Recommendation: We recommend that the County reconcile their bank accounts on a monthly basis and perform timely research of noted reconciling items. We also recommend that the County inventory all bank accounts that are in the County’s name for timely reconciliation and inclusion in the accounting records.

Furthermore, we also recommend that the County limit the number of cash accounts held outside of the Treasurer’s Office to only those required by state statute unless the account is operationally critical. Doing so will reduce the number of bank accounts requiring reconciliation and also reduce the risk of misappropriation of monies.

Management Views and Corrective Action: See the accompanying response on page 4.

2015-002 – Improve Budgetary Controls

Condition: Arizona Revised Statutes (A.R.S.) §42-17106(A) prohibits the expenditure of funds or the creation of liabilities in excess of the adopted budget for the fiscal year. Expenditures may not legally exceed appropriations at the department level. In certain instances, transfers of appropriations between departments or from the contingency account to a department may be made upon the Board of Supervisors’ approval. During 2015, there were ten (10) instances in which the budgetary line items were over-expended. Although budgets are monitored on an ongoing basis, procedures have not been implemented to ensure that all departments comply with budget requirements. As such, the County over-expended monies in the general fund, the road fund and the junior college fund.

Recommendation: We recommend that the County implement policies and procedures such that budget requirements are enforced at all levels of the County’s departments.

Management Views and Corrective Action: See the accompanying response on page 4.

**Apache County, Arizona
Management's Response and Corrective Action Plan
Year ended June 30, 2015**

Financial Statement Findings:

2015-001 – Improve the Account Reconciliation Controls

Contact Person: Ryan Patterson

Anticipation Completion Date: Fiscal Year 2018

The County has implemented procedures to reconcile their bank accounts on a monthly basis and perform timely research of noted reconciling items. We have also implemented annual procedures to inventory all bank accounts that are in the County's name for timely reconciliation and inclusion in the accounting records. Furthermore, the Treasurer's Office is working with Elected Officials to limit the number of cash accounts held outside of the Treasurer's Office.

2015-002 – Improve Budgetary Controls

Contact Person: Ryan Patterson

Anticipation Completion Date: Fiscal Year 2018

The majority of the departments over budget are elected officials'. The consequence on an elected official is not termination or discipline, as it could be with a department head. There is documented evidence to the contrary that the budget was not monitored. The only possible consequence for an elected official that would have consequence would be to reduce their budget the same as the County's would be reduced if we exceed our expenditure limit the subsequent year.

During future budget processes, the Finance Director, in conjunction with the County Administrator, will advise and make recommendations to the Board of Supervisors as to the budgetary control options and alternatives available to control consistent over-expenditure of elected officials.