

Apache County, Arizona
Single Audit Reporting Package

Year ended June 30, 2017

Apache County, Arizona
Single Audit Reporting Package
Year ended June 30, 2017

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Report Issued Separately

Annual Financial Report

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 auditing standards generally accepted in the United States of America 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 the aggregate remaining fund information of Apache County, Arizona (the County), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated November 13, 2018. Our opinion on those financial statements was qualified for the Road Fund because we did not observe inventory reported in the Road Fund.

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.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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, we did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be material weaknesses which are listed as findings 2017-001 through 2017-003.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's financial statements are free from material misstatement, the auditor 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*.

County Responses to Findings

The County's responses to the findings identified in our audit are presented on pages 16 through 17. 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.

Walker & Armstrong, LLP

Phoenix, Arizona
November 13, 2018



**Independent Auditor's Report on Compliance for Each Major Federal Program;
Report on Internal Control over Compliance and Report on the Schedule of Expenditures
of Federal Awards Required by the Uniform Guidance**

The Auditor General of the State of Arizona

The Honorable Board of Supervisors of
Apache County, Arizona

Report on Compliance for Each Major Federal Program

We have audited Apache County's (the "County") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the County's major federal programs for the year ended June 30, 2017. The County's major federal programs are identified in the summary of audit results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards 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 auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 Qualified Opinion on the County's major Federal Programs

As described in the accompanying schedule of findings and questions costs, the County did not comply with the reporting requirements for U.S. Department of the Interior, *Payments in Lieu of Taxes* major program as described in finding 2017-101 by submitting the annual audit within nine (9) months after year-end. Compliance with this requirement is necessary in our opinion for the County to comply with the reporting requirements of the major program.

Qualified opinion on the County's major Federal Program

In our opinion, except for the noncompliance described in the basis for qualified opinion paragraph, the County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2017.

Other Matters

The County's responses to the findings identified in our audit are presented on pages 16 through 17. 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 the Uniform Guidance, 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.

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.

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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section 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, we identified a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2017-101, that we consider to be a material weakness.

The County's responses to the findings identified in our audit are described in the accompanying schedule of finding and questioned costs that on pages 16 through 17. 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the County as of and for the year ended June 30, 2017, and the related notes to the financial statement, which collectively comprise the County's basic financial statements. We issued our report thereon dated November 13, 2018, that contained unmodified opinions on those financial statements except for the Road Fund which is qualified.

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 the Uniform Guidance 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.

Walker & Armstrong, LLP

Phoenix, Arizona
November 13, 2018

Apache County, Arizona
Schedule of Findings and Questioned Costs
Year ended June 30, 2017

Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified except for the Road Fund which is Qualified	
	Yes	No
Internal control over financial reporting:		
Material weaknesses identified	X	
Significant deficiencies identified	None Reported	
Noncompliance material to the financial statements noted?		X

Federal Awards

Internal control over major programs:		
Material weaknesses identified	X	
Significant deficiencies identified	None Reported	
Type of auditor's report issued on compliance for major programs:	Qualified	
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	X	
Identification of major programs:		

CFDA No.	Name of Federal Program or Cluster		
15.226	Payments in Lieu of Taxes		
	Dollar threshold used to distinguish between Type A and Type B programs:	\$ 750,000	
	Auditee qualified as a low risk auditee?		X
Other Matters:			
	Auditee's Summary Schedule of Prior Audit Findings required to be reported in accordance with 2 CFR 200.511(b)?	X	

Schedule of Findings and Questioned Costs - Continued

B. Financial Statement Findings

Finding 2017-001 **Treasurer's Cash Was Not Properly Reconciled and Reported (Material Weakness)**

Criteria: As set forth in the Uniform Accounting Manual for Arizona County Treasurers (UAMACT), A.R.S. §11-493 requires Arizona County Treasurer's to keep an account of receipts and disbursements in the accounting records, including detailed subsidiary ledgers for each entity. Furthermore, U.S. generally accepted accounting principles and the Uniform Accounting Manual for Arizona Counties (UAMAC) requires the proper reporting of amounts held by the County Treasurer's investment pool between internal and external participants and agency funds.

Condition and Context: The County Treasurer improperly reported cash and investments in holding funds that were not properly allocated to various entities, including the County. Furthermore, funds were not properly identified as being County versus trust and agency funds.

Effect: The effect is that the County governmental funds, investment trust fund and agency funds were materially misstated requiring a restatement of beginning balances. In addition, County funds and non-County entities has monies that were reported in holding funds and not allocated as required by state statute. The County Treasurer was aware that the holding accounts required correction but did not reconcile the accounts in a timely manner.

Cause: The cause was a lack of adherence to policies and procedures and state statute.

Recommendation: We recommend that the County Treasurer properly record cash receipts to the correct entity and County fund. In addition, we recommend that the County properly report balances and activity to the correct fund for financial reporting purposes.

County's Response: The County's responsible officials' views and planned corrective action are in its corrective action plan at the end of the report.

Schedule of Findings and Questioned Costs - Continued

Finding 2017-002	Untimely Account Reconciliation and Financial Statement Preparation (Repeat Finding, Material Weakness)
Criteria:	Counties are required by Arizona Revised Statutes (A.R.S.) and Federal laws and regulations to prepare annual basic financial statements in accordance with U.S. generally accepted accounting principles and issue audited financial statements no later than nine (9) months after year-end. In addition, A.R.S. §41-1279.07(C) requires that the annual expenditure limitation report be filed with the Auditor General within nine (9) months after the close of the fiscal year.
Condition and Context:	As noted in prior year's finding 2016-002, several general ledger accounts were not reconciled until more than a year after the fiscal year ended resulting in untimely preparation and issuance of the financial statements, annual expenditure limitation report and the single audit reporting package. Furthermore, material corrections to cash, investments, intergovernmental receivables and deferred revenue resulted from our audit.
Cause:	The cause is a continued lack of resources and oversight devoted to the financial reporting process by the County's finance department.
Effect:	The effect is that the County did not meet its reporting obligations and County financial statement users did not have timely audited financial information necessary for decision making. Furthermore, the County has not complied with state statutes and federal regulations.
Recommendation:	We recommend that the County devote additional resources to the financial reporting and the audit process. Doing so will improve the timeliness of the County's preparation of the financial statements, expenditure limitation report and the single audit reporting package and submittal to the federal single audit clearinghouse.
County's Response:	The County's responsible officials' views and planned corrective action are in its corrective action plan at the end of the report. This finding is similar to prior year finding 2016-001.

Schedule of Findings and Questioned Costs - Continued

Finding 2017-003	Improve Budgetary Controls (Repeat Finding, Material Weakness)
Criteria:	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.
Condition and Context:	<p>During 2016, there were twenty-three (23) instances in which the budgetary line items were over-expended. Sufficient procedures have not been implemented to monitor the County's departments and ensure compliance with state statute. As such, the County over-expended monies in the general fund and the road fund and violated state statute. The Sheriff's Office reported the largest over expenditure amount of \$417,137. In addition, the continued losses incurred in the County's general fund make it more imperative to have strong budgetary controls.</p> <p>Furthermore, although the County appears to be under budget in the general fund by \$3,156,691, the County's budget reports a contingency line of \$3,000,000 in which only \$644,656 was expended. Accordingly, it appears that the contingency line item is being used primarily to cover over-expenditures in other departments.</p>
Cause:	The cause is from a continued lack of resources dedicated towards the monitoring and enforcement of the annual budget.
Effect:	The effect is that the several departments are over-budget which violates state statute.
Recommendation:	We recommend that the County implement policies and procedures such that budget requirements are enforced at all levels of the County's departments. We also recommend that the County only use the contingency line item to budget for unexpected expenditures.
County's Response:	The County's responsible officials' views and planned corrective action are in its corrective action plan at the end of the report. This finding is similar to prior-year finding 2016-003.

Schedule of Findings and Questioned Costs - Continued

C. Federal Award Finding

Finding 2017-101 **Single Audit Reporting Package Not Filed Timely (Repeat Finding, Material Weakness)**

CFDA Number: 15.226
Program Title: Payments in Lieu of Taxes
Federal Agency: U.S. Department of the Interior
Award Year: 2017
Award Number: N/A
Compliance Requirements: Reporting

Question Costs: None

Criteria: The terms of the County's federally funded grants and contracts and the Uniform Guidance require the submission of a single audit reporting package to the Federal Audit Clearinghouse within nine months of the auditees' fiscal year-end.

Condition and context: The County's single audit reporting package for the fiscal year ended June 30, 2017 was not submitted to the Federal Audit Clearinghouse within nine months after the County's year-end.

Cause: The cause was a continued lack of resources devoted to the accounting and year-end closing.

Effect: The effect is the untimely submission of the single audit reporting package resulting in noncompliance with federal requirements.

Recommendation: We recommend that the County evaluate its resources necessary to complete the year-end closing and financial reporting process and consider the need to devote additional resources to the financial reporting process. Doing so will improve the timeliness of the County's submittal to the Federal Audit Clearinghouse.

County's Response: The County's responsible officials' views and planned corrective action are in its corrective action plan at the end of the report. This finding is similar to prior year finding 2016-101.

Apache County, Arizona
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017

Federal Grantor/Program Title/Pass-Through Grantor	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures	Amount Provided to Subrecipients
<u>U.S. Department of Agriculture</u>				
<i>Passed through the Arizona Department of Health Services</i>				
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	ADHS14-053047	\$ 108,011	\$ -
SNAP Cluster:				
State Administrative Matching Grants for Supplemental Nutrition Assistance Program	10.561	ADHS16-106455	64,894	-
<i>Passed through Arizona State Forestry</i>				
Cooperative Forestry Assistance	10.664	WFHF 14-205	79,488	-
Total U.S. Department of Agriculture			252,393	-
<u>U.S. Department of Housing and Urban Development</u>				
<i>Passed through the Arizona Department of Housing</i>				
Community Development Block Grant	14.228	138-17	28,804	-
Total U.S. Department of Housing and Urban Development			28,804	-
<u>U.S. Department of the Interior</u>				
Payments in Lieu of Taxes	15.226	None	1,837,440	-
<u>U.S. Department of Justice</u>				
<i>Passed through the Arizona Criminal Justice Commission</i>				
State Criminal Alien Assistance Program	16.606	2018-H0146-AZ-AP	10,057	-
Edward Byrne Memorial Justice Assistance Grant Program	16.738	ARRA (DC-13-017)	33,226	-
Edward Byrne Memorial Justice Assistance Grant Program	16.738	DC-17-001	92,386	-
Total for CFDA No. 16.738			125,612	-
Total U.S. Department of Justice			135,669	-
<u>U.S. Department of Transportation</u>				
<i>Passed through the Governor's Office of Highway Safety</i>				
Highway Safety Cluster:				
State and Community Highway Safety	20.600	2016-OP-008	538	-
State and Community Highway Safety	20.600	2017-PT-001	6,413	-
Total U.S. Department of Transportation			6,951	-

The accompanying notes are an integral
part of this schedule.

Apache County, Arizona
Schedule of Expenditures of Federal Awards - Continued
For the Year Ended June 30, 2017

Federal Grantor/Program Title/Pass-Through Grantor	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures	Amount Provided to Subrecipients
<u>U.S. Department of Health and Human Services</u>				
<i>Passed through the Arizona Department of Health Services</i>				
Immunization Cooperative Agreements	93.268	ADHS13-039571	\$ 81,382	\$ -
Preventive Health Services_Sexually Transmitted Diseases Control Grants	93.977	ADHS14-071557	3,504	-
Maternal and Child Health Services Block Grant to the States	93.994	ADHS16-097960	58,826	-
Maternal and Child Health Services Block Grant to the States	93.994	ADHS13-034072	<u>14,706</u>	-
Total for CFDA No. 93.994			73,532	-
Public Health Emergency Preparedness	93.069	ADHS 17-133163	<u>216,725</u>	-
Total U.S. Department of Health and Human Services			<u>375,143</u>	<u>-</u>
Total expenditures of federal awards			<u>\$ 2,636,400</u>	<u>\$ -</u>

The accompanying notes are an integral
part of this schedule.

Apache County, Arizona
Notes to Schedule of Expenditures of Federal Awards
Year ended June 30, 2017

Note 1 - Basis of Accounting

The accompanying schedule of expenditures of federal awards (schedule) includes the federal grant activity of Apache County, Arizona for the year ended June 30, 2017. The information on this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Note 2 - Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

Note 3 - Catalog of Federal Domestic Assistance (CFDA) Numbers

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2017 *Catalog of Federal Domestic Assistance*.

Note 4 - Indirect Cost Rate

The County did not use the 10 percent de minimis indirect cost rate as covered in 2 CFR §200.414.



RYAN PATTERSON
COUNTY MANAGER/CLERK OF THE BOARD
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Corrective Action Plan

We have prepared the accompanying corrective action plan as required by the standards applicable to financial audits contained in *Government Auditing Standards* and by the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Specifically, for each finding we are providing you with the name of the contact individual responsible for corrective action, the corrective action planned, and the anticipated completion date. The findings below are consistently numbered with the finding numbers assigned in the schedule of findings and questioned costs.

Financial Statement Findings

Finding 2017-001 **Treasurer's Cash Was Not Properly Reconciled and Reported (Material Weakness)**

Contact Name: David Lamm, Interim Finance Director

Corrective Action Planned: The treasurer department has added more staff during fiscal year 2018 to manage the reconciliation of the cash.

Anticipated Completion Date: Fiscal year ending June 30, 2018

Finding 2017-002 **Untimely Account Reconciliation and Financial Statement Preparation (Repeat Finding, Material Weakness)**

Contact Name: David Lamm, Interim Finance Director

Corrective Action Planned: The finance department has added more staff during fiscal year 2018 in order to be able to dedicate more time to financial reporting.

Anticipated Completion Date: Fiscal year ending June 30, 2018

Finding 2017-003

Improve Budgetary Controls (Repeat Finding, Material Weakness)

Contact Name: David Lamm, Interim Finance Director

Corrective Action Planned: The finance department has added more staff during fiscal year 2018 to dedicate more time to the budgetary function.

Anticipated Completion Date: Fiscal year ending June 30, 2019

Federal Award Findings:

Finding 2017-101

Single Audit Reporting Package Not Filed Timely (Repeat Finding, Material Weakness)

CFDA Number: All major federal programs

Program Title: All major federal programs

Federal Agency: All major federal programs

Award Year: 2017

Award Number: Various

Compliance Requirements: Reporting

Contact Name: David Lamm, Interim Finance Director

Corrective Action Planned: The finance department has added more staff during fiscal year 2018 in order to be able to dedicate more time to financial reporting.

Anticipated Completion Date: Fiscal year ending June 30, 2018



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Summary Schedule of Prior Year Findings

We have prepared the accompanying summary schedule of prior year findings as required by the standards applicable to financial audits contained in *Government Auditing Standards* and by the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The findings below are consistently numbered with the finding numbers assigned in the schedule of findings and questioned costs.

Financial Statement Findings

Finding 2016-001

Bank Accounts Not Properly Reconciled and Recorded

Status:

This finding was fully resolved during the year ended June 30, 2017.

Finding 2016-002

Untimely Account Reconciliation and Financial Statement Preparation

Status:

The finding still exists (see current year finding 2017-002)

Finding 2016-003

Improve Budgetary Controls

Status:

The finding still exists (see current year finding 2017-003)

Federal Award Findings:

Finding 2016-101

Single Audit Reporting Package Not Filed Timely

Status:

The finding still exists (see current year finding 2017-101)

Finding 2016-102

Allocation of Forest Reserve Funds

Status:

The County did not receive any Forest Reserve Funds during the year ended June 30, 2017, therefore, this finding does not apply during 2017.