La Paz County, Arizona

Report on Internal Control and Compliance

June 30, 2015

Snyder & Butler, CPAs, PLLC

La Paz County, Arizona

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Report Issued Separately

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 Board of Supervisors of
La Paz 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 La Paz 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 April 21, 2016.

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 of the effectiveness of the County's internal control.

A deficiency in internal control exists when the design of 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 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. 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that consider to be material weaknesses. We did identify certain deficiencies in internal control described in the accompanying Schedule of Findings and Recommendations as items **2015-001**, **2015-002**, **2015-003, 2015-004** and **2015-005** that we consider to be significant deficiencies.

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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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and is described in the accompanying Schedule of Findings and Recommendations as item **2015-006**.

La Paz County Response to Findings

La Paz County's responses to the findings identified in our audit are presented on pages 3 through 8. 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.

Gilbert, Arizona
April 21, 2016

2015-001-Lack of Adequate Segregation of Accounting Duties (Significant Deficiency: Repeat Finding)

Criteria or Specific Requirement: To help ensure the accuracy of financial records and to help reduce the risk of misappropriation of assets, duties should be segregated whereby the individual with custody of assets should not be the same individual responsible for the recordkeeping of those assets. The Uniform Accounting Manual for Arizona Counties (UAMAC), section VI-C, published by the State of Arizona Auditor General's office requires Counties to develop and adhere to written policies and procedures to safeguard assets.

Condition: Adequate segregation of accounting duties was not in place in the Health Department as the personnel responsible for collecting various fees are often also responsible for the recordkeeping of these receipts and for billing and tracking accounts receivable. Independent third-party reconciliations of amounts collected and deposited to the expected receipts is not performed.

Cause and Effect: A detailed risk assessment was not performed for all County departments. As a result, policies have not been implemented to help ensure that duties are segregated, to the extent possible, that minimize control situations where individuals have the opportunity to misappropriate assets.

Auditor's Recommendation: The County should perform a formal risk assessment whereby all departments where cash handling occurs are evaluated to determine the level of risks and, based on these identified risks, implement additional policies and procedures to appropriately segregate accounting duties as necessary.

Managements Response:

> *Health and other Departments handling cash:* The County will perform an internal risk assessment whereby all departments handling cash are assessed. Where appropriate segregation of duties is lacking, suggestions will be made by Finance and Administration and implemented within the Department. These procedures will further be monitored consistently during the first year of implementation and randomly thereafter.

2015-002-Deficit Fund balances and Grants Receivable Analysis (Significant Deficiency: Repeat Finding)

Criteria or Specific Requirement: Generally Accepted Accounting Principles requires that inter-fund payables that are not expected to be repaid within a reasonable period of time should be eliminated and transfers recorded for these amounts. In addition, to help ensure that all grant revenue is appropriately recorded, grants should be periodically analyzed to determine if expenditures in excess of funding, giving rise to an interfund payable and deficit fund balance, is either unbilled grant revenue or an effective subsidy from another County fund, as the grant fund may not have the future resources to reimburse the other funds for this deficit.

Condition: Several County funds have reported deficit fund balances at fiscal year ending June 30, 2015 as well as corresponding interfund payable balances. The majority of these balances date back several years and the County has not yet developed and approved an action plan to eliminate the deficit balances and settle the interfund balances.

Auditor's Recommendations: U.S. generally accepted accounting principles requires the County to settle interfund balances within a reasonable amount of time. We recommend that the County develop an action plan to determine which departments and funds are ultimately responsible for settling deficit fund balances and interfund balances and proceed with settling the amounts. We also recommend that the County establish procedures where these funds are analyzed on at least an annual basis to determine the amount requiring a subsidy from other funds. These estimates should be included as part of the budgets and timely transfers should be made to eliminate these deficits.

Managements Response: This response is two-pronged. First, the matter of existing fund deficits that fall under a reduction plan, and second involves the need to consolidate the financial reporting and analysis to Finance, not the external departments.

Existing Fund balance deficits: The current situation regarding negative fund balances extends back approximately 10 years to 2004 when the audits and financial reporting and accounting began falling egregiously behind. In order to gain perspective on where we are now, and what we can and have accomplished, perspective is required. The timeliness of financial reporting was not addressed until 2009/10. At that time, audits were required to be belted out two at a time for multiple years in order to catch up. Because procedures were not in place, or were not followed, departments did not know what the results of their operations were, much less the final results on the fund balances thereof. 2013 is the first time in years that La Paz finally gained a clear picture of our financial status over the previous ten years. Once perspective and context were acquired, a plan was devised to correct the structural deficit in addition to ongoing monitoring and adjustments to the financials on a consistent basis. Unfortunately, the deficits were so large in some cases, that this approach required a multi-year approach and legislative assistance as well (use of the AZ Legislative "Flexibility language.) So, while the County continues to report some negative fund balances, many of the interfund balances were settled in 2014 and 2015. The remaining balances require agreement from elected officials regarding who is ultimately responsible for the deficit and resulting interfund obligation and the manner in which the balances will be settled.

Ongoing financial monitoring and reporting: It has long been the policy of La Paz County to allow each department the flexibility and access to their department's financial reports and to report to external agencies as required. However, after critical observation, the departments are falling short and the task needs to be consolidated for accuracy and timeliness under Finance. Whether it has been due to lack of accounting knowledge and procedure, lack of priority or ability, or other reason, various departments fail to comply with making timely transfers of matching funds, create inaccurate receivable statements based on partial data, and report from incomplete financial data. It is obvious that this function must remain a Finance function and financial reporting return to the experts practiced in the field and competent in governmental accounting knowledge and procedures.

Although the Board of Supervisors is statutorily responsible for the entity's financial reporting, Arizona Appellate case law, Hounshell v. White, has unfortunately redefined and limited the extent that a Board of Supervisor's may legally direct or demand that specific qualified personnel be assigned by other elected officials responsible for reporting financial information to external agencies. This creates an uncontrollable and potentially unmanageable situation, where a County may be in noncompliance but its Board of Supervisors cannot legally force another elected official to comply and should be taken into consideration.

The Finance Director, working in conjunction with the County Administrator, has been and will continue to work with the Board to correct the deficiencies. Many of these deficits were reduced or eliminated in FY 2014 and 2015. The County will continue to work on eliminating the remaining deficits over the next two years.

2015-003-County Treasurer's Reconciliation (Significant Deficiency)

Criteria or Specific Requirement: The County Treasurer's Office is responsible for managing and investing millions of dollars in public monies, including funds for the County and other political subdivisions. To ensure that balances on deposit with the County Treasurer are accurately identified for each political subdivision and to help ensure that the County's financial statements are accurately reported, the County and the County Treasurer's office should ensure that the cash on deposit with the Treasurer balances reflected in the County's financial records for its operating funds agree with those balances reflected by the County Treasurer as held for the County.

Condition: As of fiscal year end June 30, 2015, the balance reflected in the County Treasurer's records as held for the County was $78,583 less than the amount reflected within the County's operating funds.

Cause and Effect: Much of the discrepancy between the County's operating funds and the Treasurer's office relates to differences that have been carried forward for several years and are believed to be errors in the Treasurer's records rather than in the County's funds.

Auditor's Recommendation: The County should investigate the differences to the extent feasible and record adjustments within the County's funds or Treasurer's office, as necessary.

Managements Response: Management concurs and procedures have been established to have in place more timely reconciliations on a go-forward basis.

2015-004-Budgetary Control (Significant Deficiency: Repeat Finding)

Criteria or Specific Requirement: Arizona Revised Statutes (A.R.S.) §42-17101 and §42-17107 require the County to prepare and adopt a balanced budget for each governmental fund on an annual basis. The Board of Supervisors must approve such operating budgets on or before the third Monday in July to allow sufficient time for the legal announcements and hearings required for the adoption of the property tax levy on the third Monday in August. 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: There were several instances where budgetary line items were over-expended in fiscal year 2015.

Cause and Effect: 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 funds contrary to Arizona Revised Statutes.

Auditor's Recommendations: Implement policies and procedures to ensure that budget requirements are enforced at all levels of the County's departments.

Managements Response: 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 any meaning would be to reduce their budget the same as the County's would be reduced if we exceed our expenditure limit the subsequent year. This concept will be proposed for consideration during the next budget process. [See note above regarding Hounshell v. White.]

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 and implement by June 30, 2016.

2015-005- Capital Asset Inventory (Significant Deficiency: Repeat Finding)

Criteria: Per the Uniform Accounting Manual for Arizona Counties (UAMAC), section VI-E, and the standards required for recipients of federal monies, a physical inventory of furniture, equipment, and vehicles purchased with federal monies costing $5,000 or more, and having useful lives over 1 year should be conducted and reconciled to the capital asset list at least once every two years.

Condition: The County did not reconcile the results of the inventory observation performed in fiscal year 2015 to the capital asset schedules and make the appropriate adjustments as a result of the observation.

Cause and Effect: Due to turnover in the department, the County did not reconcile the results of the inventory observation to the capital asset records thereby not fully complying with the UAMAC or federal regulations

Auditors' Recommendations: The County should reconcile the inventory observation to the capital asset records and investigate and adjust records, as necessary.

Managements Response: During FY 2016, the County intends to complete the reconciliation of the results of the inventory observation to the accounting records and make the appropriate adjustments.

2015-006-Compliance-Budget for Property Tax Levy Funds (Repeat Finding)

Criteria or Specific Requirement: A.R.S. §42-17151(A)(1) requires the County to fix, levy, and assess the amount to be raised from primary property taxation and secondary property taxation. This amount, plus all other sources of revenue, as estimated, and restricted and unrestricted unencumbered balances from the preceding fiscal year, shall equal the total of the amounts proposed to be spent in the budget for the current fiscal year.

Condition: The General fund was not budgeted for a zero ending fund balance.

Effect: Lack of such policies and procedures could create a situation whereby the County could levy additional property taxes that could result in the County exceeding the primary property levy limit. If the primary property levy limit is exceeded the County would have to reduce the primary property tax levy in the subsequent year.

Auditor's Recommendations: The County should implement and develop procedures to ensure that the County's budget is in compliance with Arizona Revised Statutes.

Managements Response: If you consider the effect of (potentially) negating the deficit fund balances previously mentioned above, there is no net fund balance overage. There is no circumstance that would have led to the primary property tax levy exceeding the limit in this circumstance. Unfortunately, the overall long-term fix of the structural deficit requires that revenue exceed expenses in certain funds in order that prior years' funds be brought square in the current or near current periods.

La Paz County Arizona
Corrective Action Plan
Year Ended June 30, 2015

Audit Finding	Corrective Action Plan	Persons Responsible	Estimated Completion Date
2015-001	See management's response at the finding	Finance Director	June, 2016
2015-002	See management's response at the finding	Finance Director/ County Administrator	June, 2016
2015-003	See management's response at the finding	Finance Director/ County Administrator	June, 2016
2015-004	See management's response at the finding	Finance Director	June, 2016
2015-005	See management's response at the finding	Finance Director/ County Administrator	June, 2016
2015-006	See management's response at the finding	Finance Director	June, 2016