



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Single Audit

Santa Cruz County

Year Ended June 30, 2003



Debra K. Davenport
Auditor General

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Santa Cruz County, Arizona
Single Audit Reporting Package
Year Ended June 30, 2003

Table of Contents	Page
Comprehensive Annual Financial Report	
Issued separately	
Single Audit Section	
Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Basic Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	3
Schedule of Expenditures of Federal Awards	5
Schedule of Findings and Questioned Costs	
Summary of Auditors' Results	9
Financial Statement Finding	10
County Responses	
Corrective Action Plan	11
Summary Schedule of Prior Audit Findings	13



DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

**STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL**

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

**Independent Auditors' Report on Compliance and on Internal Control over
Financial Reporting 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 the financial statements of the governmental activities, each major fund, and aggregate remaining fund information of Santa Cruz County as of and for the year ended June 30, 2003, which collectively comprise the County's basic financial statements, and have issued our report thereon dated January 14, 2004. We conducted our audit 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.

Compliance

As part of obtaining reasonable assurance about whether the County's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of basic 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 that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we will report to the County's management in a separate letter.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on internal control over financial reporting. However, we noted a certain matter involving control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over financial reporting that, in our judgment, could adversely affect the County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the basic financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as item 03-01.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control over financial reporting would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness. We also noted other matters involving internal control over financial reporting that we will report to the County's management in a separate letter.

This report is intended solely for the information and use of the members of the Arizona State Legislature, the Board of Supervisors, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Dennis L. Mattheisen, CPA
Financial Audit Director

January 14, 2004



DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

**STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL**

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

**Independent Auditors' Report on Compliance with Requirements
Applicable to Each Major Program and on Internal Control over Compliance in
Accordance with OMB Circular A-133**

Members of the Arizona State Legislature

The Board of Supervisors of
Santa Cruz County, Arizona

Compliance

We have audited the compliance of Santa Cruz County with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. The County's major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

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. Our audit does not provide a legal determination on the County's compliance with those requirements.

In our opinion, Santa Cruz County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

Internal Control over Compliance

The County's management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of internal control over compliance would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur, and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and aggregate remaining fund information of Santa Cruz County as of and for the year ended June 30, 2003, and have issued our report thereon dated January 14, 2004. Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise Santa Cruz 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 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the members of the Arizona State Legislature, the Board of Supervisors, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Dennis L. Mattheisen, CPA
Financial Audit Director

January 14, 2004

Santa Cruz County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2003

Federal Grantor/Program Title/ Pass-Through Grantor	CFDA Number (Note 2)	Pass-Through Grantor's Number	Expenditures
U.S. Office of National Drug Control Policy			
High Intensity Drug Trafficking Area, passed through Pima County	07.I2PSAP549	01-11-S-130621-1001 01-11-O-128877-1001	\$ 414,079
High Intensity Drug Trafficking Area, passed through Pima County	07.I3PSAP549	01-11-S-132401-1002 01-11-O-132493-1002	<u>161,692</u>
Total U.S. Office of National Drug Control Policy			<u>575,771</u>
U.S. Department of Agriculture			
Forest Service Grant	10.unknown		5,015
Schools and Roads—Grants to States, passed through the Arizona State Treasurer	10.665	None	<u>62,128</u>
Total U.S. Department of Agriculture			<u>67,143</u>
U.S. Department of Housing and Urban Development			
Community Development Block Grants/State's Program, passed through the Arizona Department of Commerce	14.228	125-00	<u>4,346</u>
U.S. Department of the Interior			
Payments in Lieu of Taxes	15.226		<u>300,001</u>
U.S. Department of Justice			
Byrne Formula Grant Program, passed through the Arizona Criminal Justice Commission	16.579	CRI-02-051 CRI-03-063 PC-150-03 AC-200-03	416,838
Rural Domestic Violence and Child Victimization Enforcement Grant Program, passed through the Governor's Office for Domestic Violence Prevention	16.589	CCRT 2002-13	3,356
Local Law Enforcement Block Grants Program	16.592		9,455
Bulletproof Vest Partnership Program	16.607		2,240
Enforcing Underage Drinking Laws Program, passed through the Governor's Office of Highway Safety	16.727	2002-OJJOP-008	<u>3,328</u>
Total U.S. Department of Justice			<u>435,217</u>

(Continued)

See accompanying notes to schedule.

Santa Cruz County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2003
(Continued)

Federal Grantor/Program Title/ Pass-Through Grantor	CFDA Number (Note 2)	Pass-Through Grantor's Number	Expenditures
U.S. Department of Labor			
Welfare-to-Work Grants to States and Localities, passed through the Arizona Department of Economic Security	17.253	E5709066 Y78989008160	\$ <u>287,180</u>
WIA Cluster			
WIA Adult Program, passed through the Arizona Department of Economic Security	17.258	E5702012 E5703012	814,222
WIA Youth Activities, passed through the Arizona Department of Economic Security	17.259	E5702012 E5703012	954,079
WIA Dislocated Workers, passed through Pima County	17.260	E5702012 E5703012	<u>68,284</u>
Total WIA Cluster			<u>1,836,585</u>
Total U.S. Department of Labor			<u>2,123,765</u>
U.S. Department of Transportation			
Airport Improvement Program, passed through the Arizona Department of Transportation	20.106	DTFA08-03-C 21502	30,000
Highway Planning and Construction, passed through the Arizona Department of Transportation	20.205	ER-SSC-0(011)P SL43501D/01C	22,559
State and Community Highway Safety, passed through the Governor's Office of Highway Safety	20.600	2002-AL-004	<u>53,484</u>
Total U.S. Department of Transportation			<u>106,043</u>
U.S. Department of Education			
Adult Education—State Grant Program, passed through the Arizona Department of Education	84.002	V002A00003	51,500
Title I Program for Neglected and Delinquent Children, passed through the Administrative Office of the Courts	84.013	25134	22,319
Special Education—Grants to States, passed through the Administrative Office of the Courts	84.027	25134	3,253
Safe and Drug-Free Schools and Communities— State Grants, passed through the Administrative Office of the Courts	84.186	25134	500
Projects with Industry	84.234		86,282

(Continued)

See accompanying notes to schedule.

Santa Cruz County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2003
(Continued)

Federal Grantor/Program Title/ Pass-Through Grantor	CFDA Number (Note 2)	Pass-Through Grantor's Number	Expenditures
Innovative Education Program Strategies, passed through the Administrative Office of the Courts	84.298	25134	\$ 449
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334		269,123
Arts in Education	84.351		<u>174,022</u>
Total U.S. Department of Education			<u>607,448</u>
 U.S. Department of Health and Human Services			
Centers for Disease Control and Prevention— Investigations and Technical Assistance, passed through the Arizona Department of Health Services	93.283	252043	96,875
Social Services Block Grant, passed through the Southeastern Arizona Governments Organization	93.667	03-07	60,675
HIV Prevention Activities—Health-Department Based, passed through the Arizona Department of Health Services	93.940	152018	13,104
Preventive Health Services—Sexually Transmitted Diseases Control Grants, passed through the Arizona Department of Health Services	93.977	05-2008	4,200
Maternal and Child Health Services Block Grant to the States, passed through the Arizona Department of Health Services	93.994	961095	<u>38,157</u>
Total U.S. Department of Health and Human Services			<u>213,011</u>
 U.S. Department of Homeland Security			
Hazard Mitigation Grant, passed through the Arizona Department of Emergency and Military Affairs	97.039	58-0104-0-1-453	91,635
Emergency Management Performance Grants, passed through the Arizona Department of Emergency and Military Affairs	97.042	58-0102-0-1-999	51,593
State and Local All Hazards Emergency Operations Planning, passed through the Arizona Department of Emergency and Military Affairs	97.051	None	7,897
Community Emergency Response Teams, passed through the Arizona Department of Emergency and Military Affairs	97.054	None	<u>178</u>
Total U.S. Department of Homeland Security			<u>151,303</u>
Total Expenditures of Federal Awards			<u>\$ 4,584,048</u>

See accompanying notes to schedule.

Santa Cruz County
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2003

Note 1 - Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Santa Cruz County 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 *2003 Catalog of Federal Domestic Assistance*. When no CFDA number had been assigned to a program, the two-digit federal agency identifier, a period, and the federal contract number were used. When there was no federal contract number, the two-digit federal agency identifier, a period, and the word "unknown" were used.

Note 3 - Subrecipients

The County did not provide any federal awards to subrecipients during the year ended June 30, 2003.

Santa Cruz County
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2003

Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:		Unqualified	
	Yes	No	
Material weakness identified in internal control over financial reporting?	___	<u>X</u>	
Reportable condition identified not considered to be a material weakness?	<u>X</u>	___	
Noncompliance material to the financial statements noted?	___	<u>X</u>	

Federal Awards

Material weakness identified in internal control over major programs?	___	<u>X</u>	
Reportable conditions identified not considered to be material weaknesses?	___	<u>X</u>	(None reported)

Type of auditors' report issued on compliance for major programs:		Unqualified	
Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (section .510[a])?	___	<u>X</u>	

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
15.226	Payments in Lieu of Taxes
	Workforce Investment Act Cluster of Programs
17.258	WIA Adult Program
17.259	WIA Youth Activities
17.260	WIA Dislocated Workers
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs

Dollar threshold used to distinguish between Type A and Type B programs:		\$ 300,000	
Auditee qualified as low-risk auditee?	___	<u>X</u>	

Other Matters

Auditee's Summary Schedule of Prior Audit Findings required to be reported in accordance with Circular A-133 (section .315[b])?	<u>X</u>	___	
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Santa Cruz County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2003

Financial Statement Finding

03-01

The Treasurer's Office needs to accurately account for its cash and investments

The Treasurer's primary responsibility is to manage public and trust monies of the County and other political subdivisions. At June 30, 2003, the Treasurer's Office had been entrusted with approximately \$22 million in public monies. To fulfill the responsibilities of managing these monies, the Treasurer's Office should ensure adequate internal controls are followed; maintain accurate accounting records of receipts, disbursements, and cash balances; reconcile cash and investment journals and reports; and safeguard assets from misappropriation. However, the Treasurer's Office has not established essential internal controls such as completely and accurately reconciling the Treasurer's cash journal to the Treasurer's Report, daily cash reconciliation, bank statement, or investment ledger. This lack of accurate reconciliations resulted in unexplained differences at June 30, 2003. For example, the unreconciled difference between the Treasurer's cash journal and the Treasurer's Report was over \$311,000. In addition, reconciling items that have been identified are often not investigated, or corrected as indicated by more than 100 uncorrected reconciling items dating back to 1993. Further, over \$1.2 million of warrants paid by the Treasurer's servicing bank and \$324,000 of deposits made prior to June 30, 2003, were not recorded in the June 30, 2003, Treasurer's Report.

Also, all three authorized check signers could prepare, approve, and sign checks, and had access to the blank checks. Further, one of the authorized signers also prepared the checking account reconciliation, and no further review of the reconciliation was performed.

To help ensure accurate account balances for the County and other political subdivisions and safeguard assets, the Treasurer's Office should perform the following:

- Implement prior audit management letter recommendations.
- Reconcile the Treasurer's cash journal to the Treasurer's Report, daily cash reconciliation, bank statement, and the investment ledger at least monthly.
- Identify and promptly investigate all reconciling items and propose appropriate correcting adjustments to record the items or instruct the bank to correct its records.
- Record all transactions in the appropriate fiscal year.
- Establish the necessary guidelines to ensure the Treasurer's Office effectively separates employee responsibilities.

Similar recommendations have been previously provided in our Management Letters to the County for several years; however, the unreconciled differences and uncorrected errors have increased substantially from the prior year.

BOARD OF SUPERVISORS
SANTA CRUZ COUNTY

MANUEL RUIZ
District 1

ROBERT DAMON
District 2

JOHN MAYNARD
District 3

February 25, 2004

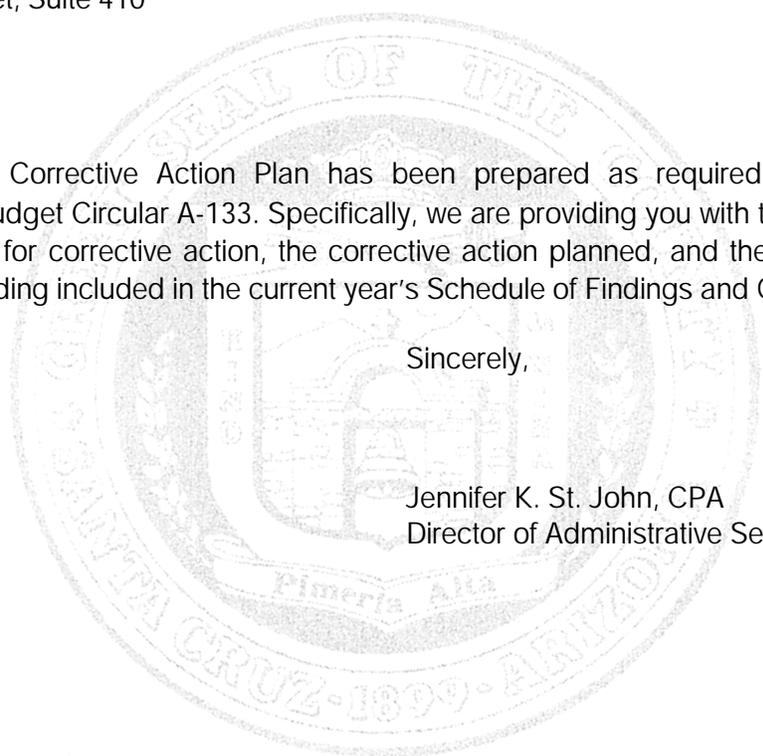
Ms. Debbie Davenport, Auditor General
State of Arizona, Office of the Auditor General
2910 North 44th Street, Suite 410
Phoenix, AZ 85018

Dear Ms. Davenport:

The accompanying Corrective Action Plan has been prepared as required by the U.S. Office of Management and Budget Circular A-133. Specifically, we are providing you with the name of the contact person responsible for corrective action, the corrective action planned, and the anticipated completion date for the audit finding included in the current year's Schedule of Findings and Questioned Costs.

Sincerely,

Jennifer K. St. John, CPA
Director of Administrative Services



SANTA CRUZ COUNTY, ARIZONA
Corrective Action Plan
Year Ended June 30, 2003

Financial Statement Finding

03-01

The Treasurer's Office needs to accurately account for its cash and investments
Contact Person: Caesar Ramirez, Santa Cruz County Treasurer
Anticipated Completion Date: April 30, 2004

As of February 9, 2004, the County Treasurer and the Senior Accountant in the Finance Department investigated and reconciled all differences between the Treasurer's cash journal, Treasurer's Report, daily cash reconciliations, bank statements, and the investment journal for fiscal year 2002-2003. Journal entries to correct the differences were prepared and posted to the County's accounting system as needed and will be reflected in the February financial statements. Currently, the County Treasurer is reconciling the Treasurer's cash journal with the various other reports for July 2003 through February 2004. All discrepancies are being investigated, and journal entries to the County's accounting system will be made as necessary. We anticipate this process to be completed by March 2004. Our next and final step is to investigate and reconcile all outstanding items prior to July 1, 2003, and make any resulting corrections to the County's accounting system. We anticipate this process being completed by April 2004.

Finally, the Administrative Services Director will be reviewing the monthly bank reconciliations until the County can hire an additional accountant position for the Treasurer's Office. This will provide an independent review of the reconciliations.

Santa Cruz County
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2003

Status of Federal Award Findings and Questioned Costs

CFDA No. 84.334–Gaining Early Awareness and Readiness for Undergraduate Programs (Gear Up)
Finding No. 01-101
Fully corrected

CFDA No. 17.258 / 17.259–WIA Adult Program / WIA Youth Activities
Finding No. 02-101
Fully corrected

CFDA No. 84.334–Gaining Early Awareness and Readiness for Undergraduate Programs (Gear Up)
Finding No. 02-102
Fully corrected

CFDA No. 84.334–Gaining Early Awareness and Readiness for Undergraduate Programs (Gear Up)
Finding No. 02-103
Fully corrected