



REPORT HIGHLIGHTS FINANCIAL STATEMENT AND FEDERAL COMPLIANCE AUDITS

Summary

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 its major federal programs annually. A summary of those financial statements and schedule of expenditures of federal awards is presented to the right.

Based on our audits, we issued reports that included our 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 2013 financial statements and schedule of federal awards is reliable. Our reports identified internal control weaknesses and instances of noncompliance over financial reporting and major federal programs. These findings are summarized on the following pages.



2013

Year Ended June 30, 2013

Condensed financial information

Statement of net position—This statement reports all of the County's assets, liabilities, and net position using the accrual basis of accounting. 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 2013, net position decreased by \$4 million, or 4.0 percent, compared to a decrease of \$2.6 million, or 2.6 percent, in fiscal year 2012.

Schedule of expenditures of federal awards—During fiscal year 2013, the County expended nearly \$4.5 million in federal awards. The County's federal award expenditures decreased by approximately \$1.7 million, or 27.4 percent, compared to fiscal year 2012.

Condensed statement of net position Governmental and business-type activities As of June 30, 2013 (In thousands)

Assets	
Current and other assets	\$ 29,204
Capital assets, net	134,521
Total assets	<u>163,725</u>
Liabilities	
Current	1,469
Noncurrent	66,903
Total liabilities	<u>68,372</u>
Net position	
Net investment in capital assets	76,568
Restricted	9,190
Unrestricted	<u>9,595</u>
Total net position	<u>\$ 95,353</u>

Condensed statement of activities Governmental and business-type activities For the year ended June 30, 2013 (In thousands)

Program revenues	
Governmental activities	\$ 16,887
Business-type activities	<u>1,269</u>
General revenues	
Governmental activities	26,159
Business-type activities	<u>29</u>
Total revenues	<u>44,344</u>
Expenses	
Governmental activities	45,902
Business-type activities	<u>2,432</u>
Total expenses	<u>48,334</u>
Change in net position	(3,990)
Net position—beginning	<u>99,343</u>
Net position—ending	<u>\$ 95,353</u>

Condensed schedule of expenditures of federal awards by grantor agency For the year ended June 30, 2013 (In thousands)

Department of Education	680
Department of Justice	698
Department of Agriculture	617
Executive Office of the President	598
Department of Homeland Security	544
Department of Health and Human Services	504
Other	<u>117</u>
Total federal expenditures	<u>\$ 4,472</u>

Summary of audit findings and recommendations

For the financial statement audit, we found eight 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 the six programs tested. Our Single Audit Report includes a Schedule of Findings and Questioned Costs that contains further details to help the County correct these deficiencies. The most significant findings and recommendations are summarized below.

Improvements needed for accurate financial reporting

The County did not prepare accurate draft financial statements and did not always follow generally accepted accounting principles (GAAP). We noted the following internal control weaknesses and errors during the financial statement audit:

- The County had not developed and implemented comprehensive policies and procedures for preparing its financial statements.
- The County's draft financial statements contained some errors. Specifically, the County did not include a road project valued at \$5.5 million. In addition, the County included \$460,000 of grant revenues and receivables when no monies were due from grantor agencies. The County adjusted its draft financial statements to correct these errors.
- The County did not always report expenditures and accounts payable in the year that goods and services were received, which could result in significant errors in the County's financial statements.
- The County Treasurer's Office did not investigate and resolve all reconciling items noted during the monthly reconciliation of deposit and investment balances. As a result, at June 30, 2013, there was an unreconciled difference of \$853,000 between the County's records and the records of the financial institutions holding the County's deposits and investments.
- The County did not always deposit cash receipts from landfill fees in a timely manner and did not reconcile the receipts with deposits on a daily basis, which exposed these receipts to potential misuse.

Recommendations

To help improve internal controls over financial reporting, the County should develop and implement comprehensive written policies and procedures for preparing its financial statement information and accompanying note disclosures. These policies and procedures should include detailed instructions for obtaining information from the accounting system, as well as obtaining information not readily available from the accounting system but necessary for financial statement preparation. An employee not responsible for financial statement preparation should perform a detailed review of them to help ensure they are accurate, in accordance with GAAP, and properly supported. In addition, the County should develop and implement comprehensive written policies and procedures that ensure the following:

- Capital assets are properly identified and recorded in the County's financial statements.
- Grant revenues and receivables are reported only when monies are due from grantor agencies.
- Expenditures and accounts payable are recorded in the year that goods and services are received.
- Differences noted during monthly reconciliations of deposits and investments are investigated and resolved.
- Landfill receipts are deposited timely and daily reconciliations between landfill receipts and cash received are performed.

Noncompliance with federal program requirements

- The County paid employees who worked on three federal grant programs \$354,744 but did not obtain certifications or personnel activity reports to demonstrate that the employees worked on these programs' activities. This deficiency resulted in the County's noncompliance with federal payroll regulations for the three grant programs.
- The County did not receive an advance approval from a pass-through grantor to make payments totaling \$336,888 on a building lease. Additionally, the County did not ensure that the total lease payments were less than the building's purchase price at the lease's inception, as the program required.
- The County did not maintain effective control and accountability over \$207,428 of equipment purchased with federal monies. Specifically, equipment was not always tagged or otherwise identified and properly recorded on the County's capital assets listing. This deficiency resulted in the County's noncompliance with federal capital asset regulations over two federal grant programs.
- The County did not always follow its procurement policies and procedures for obtaining verbal price quotations for purchases totaling \$23,050 made with federal monies for one grant program.

Recommendations

To improve controls over the County's federal programs and help ensure compliance with federal requirements, the County should:

- Develop and implement policies and procedures to help ensure department personnel comply with federal payroll requirements.
- Ensure that it obtains advance approval from the awarding agency before using federal grant monies to lease a building, and ensure that the total lease payments are less than the building's purchase price.
- Ensure that personnel follow established policies and procedures that require them to tag and record all equipment items on its capital assets listing.
- Develop and implement monitoring procedures to ensure departments follow established purchasing policies and procedures.



Santa Cruz County

Copies of the County's Comprehensive Annual
Financial Report and Single Audit Report are
available at: www.azauditor.gov
Contact person: David Glennon (602) 553-0333

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Year Ended June 30, 2013