

La Paz County, Arizona
Single Audit Reporting Package
June 30, 2017

La Paz County, Arizona
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**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, 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 December 19, 2018.

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.

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 and questioned costs, 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 financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items **2017-004**, **2017-005**, **2017-007** and **2017-008** to be material weaknesses.

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 deficiencies described in the accompanying schedule of findings and questioned costs as items **2017-001**, **2017-002**, **2017-003**, and **2017-006** to be significant deficiencies.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and are described in the accompanying schedule of findings and questioned costs as items **2017-002** and **2017-009**.

La Paz County Response to Findings

La Paz County's responses to the findings identified in our audit are presented in its corrective action plan at the end of this report. 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.

Insole & Butler, CPAs, PLLC

Tempe, Arizona
December 19, 2018

Independent Auditors' Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

The Auditor General of the State of Arizona
The Board of Supervisors of
La Paz County, Arizona

Report on Compliance for Each Major Federal Program

We have audited La Paz County's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017. The County's major federal programs are identified in the Summary of Auditors' Results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's 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.

Opinion on Each Major Federal Programs

In our opinion, La Paz 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 programs for the year ended June 30, 2017.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, that are required to be reported in accordance with the Uniform Guidance and that are described in the accompanying schedule of findings and questioned costs as items **2017-101** and **2017-102**. Our opinion on each major federal program is not modified with respect to these matters.

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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph 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 have not been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

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 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. We consider the deficiency in internal control over compliance described in the accompanying schedule of finding and questioned costs as item **2017-103** to be a material weakness.

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items **2017-101** and **2017-102** to be significant deficiencies.

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.

La Paz County's response to findings

La Paz County's responses to the findings identified in our audit are included in its corrective action plan at the end of this report. 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 schedule of expenditures of federal awards required by the Uniform Guidance

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of La Paz 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. We issued our report thereon dated December 19, 2018, that contained unmodified opinions on those financial statements. 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.

Insole & Butler, CPAs, PLLC

Tempe, Arizona
December 19, 2018

**La Paz County Arizona
Schedule of Findings and Questioned Costs
Year Ended June 30, 2017**

Section I - Summary of Auditors' Results

Financial Statements

Type of auditor's report issued on whether the financial statements audited were prepared in accordance with generally accepted accounting principles: Unmodified

Internal control over financial reporting:
 Material weaknesses identified? Yes

Significant deficiencies identified? Yes

Non-Compliance material to financial statements noted? Yes

Federal Awards

Internal control over major programs:
 Material weaknesses identified? Yes

Significant deficiencies identified? Yes

Identification of major programs and type of auditor's report issued on compliance for major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>	
15.226	Payments in Lieu of Taxes	Unmodified
93.069	Public Health Emergency Preparedness	Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)A Yes

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? No

Other Matters

Auditee's summary schedule of prior audit findings required to be reported in accordance with 2 CFR 200.511 (b)? Yes

La Paz County Arizona
Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

Section II-Financial Statement Findings

2017-001- 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 Treasurer's office, Parks Department and Sheriff's office as the personnel responsible for collecting various fees are often also responsible for reconciling, depositing, and recordkeeping of these receipts. Independent third-party reconciliations of amounts collected to amounts deposited were 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.

This finding is similar to prior-year finding 2016-001.

La Paz County Arizona
Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

2017-002- Budgetary Control (Compliance with Laws and Regulations/ 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 2017.

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.

This finding is similar to prior-year finding 2016-004.

2017-003- Capital Asset Inventory (Significant Deficiency: Repeat Finding)

Criteria: To help safeguard the County's assets and to help ensure accurate accounting records, physical inventories of capital assets should be periodically performed and reconciled to the accounting records. According to 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

La Paz County Arizona
Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

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

This finding is similar to prior-year finding 2016-005.

2017-004- Golf Course Tournament Account (Material Weakness: Repeat Finding)

Criteria: To properly safeguard assets and to comply with Arizona Revised Statutes, all receipts generated by County sponsored activities should be deposited in appropriate bank accounts in the County's name and this activity should be recorded in the County's accounting system.

Condition: The Golf Course sponsors golf tournaments. Although corrected subsequent to year-end, approximately \$63,000 of receipts were deposited in and \$63,000 in disbursements were made from an account established in a Golf Course employee's name and accounting records were not maintained during 2017.

Cause and Effect: The County did not have adequate monitoring policies and procedures in place to ensure that decentralized cash collection and disbursement procedures conform to County policy. As a result, there is an increased risk of misappropriation or accounting errors.

Auditors' Recommendations: The County should develop and implement policies and procedures to ensure that all County-generated funds are maintained in an appropriately authorized bank account and that all activity is recorded in the accounting records. Further, monitoring procedures should be developed to help ensure that decentralized cash handling procedures conform with County policies.

This finding is similar to prior-year finding 2016-007.

2017-005- Golf Course Volunteers (Material Weakness: Repeat Finding)

Criteria or Specific Requirement: The County should ensure that individuals providing services to the County without direct pay are not considered employees under the Internal Revenue Code due to other forms of remuneration. The County should also ensure that adequate records are maintained for any benefits received and used by these individuals.

Condition: The County Golf Course relies heavily on what the County considers "volunteer" services. These individuals receive green fee vouchers that systematically accumulate based on each hour worked. As such, these green fees may be considered wages under the Internal Revenue Code. The County has not formally determined or recorded the potential payroll liability for the costs associated with these services provided. In addition, controls were not sufficient to ensure that all vouchers redeemed were subsequently reduced from the voucher tracking system. Finally, the County's policies do not clearly state if the individuals that received green fee vouchers and have vouchers outstanding at year end (totaling 16,492 in vouchers) have any recourse to the County if these are not redeemed through the normal process.

La Paz County Arizona
Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

Cause and Effect: The Golf Course utilizes the services of these individuals and provides them free green fees as a benefit for their services in an attempt to reduce overall costs. However, adequate written policies regarding recourse to the County were not provided to these individuals and the County was not aware of the potential classification of employee issues outlined in the Internal Revenue Code. As result, there may be unrecorded liabilities at the Golf Course.

Auditor's Recommendations: The County should strengthen its procedures for tracking volunteer service hours and green fee vouchers provided and used. In addition, the County should consult legal Counsel to determine its position regarding whether these individuals are considered employees under the Internal Revenue Code and whether there is any potential recourse that the employees could demand if the vouchers are not redeemed.

This finding is similar to prior-year finding 2016-008.

2017-006- Golf Course Pro Shop Inventory (Significant Deficiency: Repeat Finding)

Criteria or Specific Requirement: Inventory held for sale should be identified and recorded in the accounting records for the golf course enterprise fund. Additionally, physical inventory counts should be performed periodically and reconciled to the accounting records.

Condition: The golf course pro shop had goods held for sale at the end of the fiscal year, but no inventory was recorded and a physical inventory was not performed.

Cause and Effect: The Golf Course does not have adequate policies and procedures to ensure that all pro shop inventory is recorded and safeguarded. The inventory and expenses could therefore be misstated in the accounting records. The lack of controls over the inventory also leaves the County more susceptible to theft or fraud.

Auditor's Recommendations: The County should implement policies and procedures to ensure that inventories are identified and recorded. Physical inventories should be performed periodically and reconciled to the accounting records.

This finding is similar to prior-year finding 2016-010.

La Paz County Arizona
Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

**2017-007- Timely Account Reconciliation and Financial Statement Preparation
(Material Weakness: Repeat Finding)**

Criteria: To help ensure that financial reports, including audited financial statements, are accurate and prepared timely enough to meet filing requirements and provide useful information for decision making, general ledger accounts, including the County Treasurer Investment Pool, should be reconciled monthly and annual financial statements should be prepared within a reasonable period after year-end.

Condition: The County Treasurer system was not reconciled to the County's general ledger on a monthly basis, resulting in a prior period adjustment of \$356,984 and certain other general ledger accounts were not reconciled by the County or the County's consultant until several months after fiscal year end causing significant delays in the completion of the annual required audit and expenditure limitation report.

Cause and Effect: Due to employee turnover within the finance department the County did not have the necessary resources to properly reconcile and adjust account balances. As a result, the County may have not had accurate and timely financial information for decision making and its annual financial statement audit was significantly delayed.

Auditors' Recommendations: The County should evaluate its resources necessary to complete monthly reconciliations and the year-end closing and financial reporting process and consider the need to devote additional resources to the financial reporting process. Also, see finding **2017-102**.

This finding is similar to prior-year finding 2016-013.

2017-008- Monitoring of Liability Accounts (Material Weakness)

Criteria: To help ensure that financial reports, including audited financial statements, are accurate and to help ensure timely payment of liabilities, all liability accounts should be known by management and monitored for accuracy.

Condition: In fiscal year 2013 the County recorded a liability of \$114,819 relating to amounts determined to be an overpayment from the United States Treasury. The liability is still reported in the fiscal year 2017 financial statements and County personnel had not determined if this amount had been paid or if a liability was still outstanding.

Cause and Effect: The County employees previously responsible for monitoring these accounts are no longer employed by the County and procedures have not been implemented to review all liability accounts throughout the year. As a result, penalties may have accrued relating to this overpayment from the United States Treasury. In addition, the County may have not had accurate and timely financial information for decision making and its annual financial statement audit was significantly delayed.

Auditors' Recommendations: The County should contact the United States Treasury to determine if the \$114,819 is a valid payable and if so, determine and accrue any necessary penalties. Additionally, the County should monitor and reconcile all balance sheet accounts, including liability accounts, to ensure that amounts are researched, paid, or eliminated if necessary.

La Paz County Arizona
Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

2017-009- Court Fees and Assessments (Compliance with Laws and Regulations)

Criteria: Arizona Revised Statutes §12-116.01 and §12-116.02 require that certain penalties and assessments collected by the County's courts be remitted to the County Treasurer by the end of each month and the County Treasurer is then required to remit these amounts to the Arizona State Treasurer by the fifteenth of the subsequent month.

Condition: Instead of submitting the fees by the last day of the month as required, the County's courts do not remit the fees and assessments to the County Treasurer until the subsequent month. As result, the amounts submitted to the State Treasurer by the fifteenth of each month are for fees collected by the courts two months prior. For example, the County Treasurer remitted \$135,915.78 to the State Treasurer for court fees and assessments on July 13, 2017. This report indicated that it was for the report period of June 1, 2017 through June 30, 2017. However, the County's courts did not transfer any of the fees that were collected in June 2017 to the County Treasurer by July 13, 2017. As a result, the amounts actually transmitted to the State Treasurer in July 2017 related to May 2017 fees collected by the courts, which is in violation of the Arizona Revised Statutes.

Cause and Effect: The courts were not aware of the requirement to submit the amounts to the County Treasurer by the last day of the month. As a result, fees were ultimately submitted to the State Treasurer one month late, in non-compliance with the Arizona Revised Statutes.

Auditors' Recommendations: The County should ensure that amounts are submitted to the Treasurer by the end of each month and the County Treasurer should monitor these submittals to ensure that the reports the County Treasurer generated accurately reflect the correct report period.

**La Paz County Arizona
Schedule of Findings and Questioned Costs
Year Ended June 30, 2017**

Section III-Federal Award Findings and Questioned Costs

2017-101- Capital Asset Inventory (Significant deficiency, Compliance finding: Repeat Finding)

Federal program information:

Funding agencies:	Department of Interior, Department of Health and Human Services
Titles	Payments in Lieu of Taxes, Public Health Emergency Preparedness
CFDA numbers:	15.226, 93.069
<i>Compliance Requirements:</i>	Equipment and Real Property Management
<i>Questioned Costs:</i>	N/A

Criteria: To satisfy the standards required for recipients of federal funds, 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 records 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. As a result, the County did not fully comply with the UAMAC or federal regulations.

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

This finding is similar to prior year finding 2016-101.

2017-102- Single Audit Submission (Significant deficiency, Compliance finding: Repeat Finding)

Federal program information:

Funding agencies:	Department of Interior, Department of Health and Human Services
Titles	Payments in Lieu of Taxes, Public Health Emergency Preparedness
CFDA numbers:	15.226, 93.069
<i>Compliance Requirements:</i>	Reporting
<i>Questioned Costs:</i>	N/A

Criteria: Section 200.512 of the Uniform Guidance requires that the County submit an annual single audit reporting package and submit the data collection form prior to nine months after the end of the audit period.

Condition: The County did not submit its single audit reporting package or data collection form within the required deadline.

La Paz County Arizona
Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

Cause and Effect: Due to employee turnover within the finance department the County did not have the necessary resources to properly reconcile and adjust account balances. As a result, the County is not in compliance with the requirements of the Uniform Guidance.

Auditors' Recommendations: The County should 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.

This finding is similar to prior-year finding 2016-102.

2017-103- Timely Account Reconciliation and Financial Statement Preparation
(Material Weakness: Repeat Finding)

Federal program information:

Funding agencies:	Department of Interior, Department of Health and Human Services
Titles	Payments in Lieu of Taxes, Public Health Emergency Preparedness
CFDA numbers:	15.226, 93.069
<i>Compliance Requirements:</i>	Allowable Costs/Cost Principles
<i>Questioned Costs:</i>	N/A

Criteria: To help ensure that financial reports, including audited financial statements, are accurate and prepared timely enough to meet filing requirements and provide useful information for decision making, general ledger accounts, including the County Treasurer Investment Pool, should be reconciled monthly and annual financial statements should be prepared within a reasonable period after year-end.

Condition: The County Treasurer system was not reconciled to the County's general ledger on a monthly basis, resulting in a prior period adjustment of \$356,984, and certain other general ledger accounts were not reconciled by the County or the County's consultant until several months after fiscal year end, increasing the risk of accounting errors and causing significant delays in the completion of the annual required audit.

Cause and Effect: Due to employee turnover within the finance department the County did not have the necessary resources to properly reconcile and adjust account balances. As a result, the County may have not had accurate and timely financial information for decision making and its annual financial statement audit was significantly delayed.

Auditors' Recommendations: The County should evaluate its resources necessary to complete monthly reconciliations and the year-end closing and financial reporting process and consider the need to devote additional resources to the financial reporting process. Also, see finding **2017-102**.

This finding is similar to prior-year finding 2016-013.

County's Section

La Paz County Arizona
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

Federal Grantor / Pass-Through Grantor / Program or Cluster Title	Federal CFDA Number	Pass-Through Entity or Other Identifying Number	Expenditures
U.S. Department of Housing and Urban Development			
Passed through the Western Arizona Council of Governments			
Community Development Block Grants	14.218	126.16	\$ 11,138
Total U.S. Department of the Interior			<u>11,138</u>
U.S. Department of the Interior			
Payments in Lieu of Taxes	15.226		1,982,313
Total U.S. Department of the Interior			<u>1,982,313</u>
U.S. Department of Justice			
Passed through Arizona Criminal Justice Commission			
Crime Victim Assistance	16.575	VA 14-023	21,561
Crime Victim Compensation	16.576	VC 14-055	32,458
ARRA - Recovery Act Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to Units of Local Government	16.804	DC 14-037	91,719
Total U.S. Department of Justice			<u>145,738</u>
U.S. Department of Labor			
Passed through Mohave County Board of Supervisors			
		88389441, 88389445, 88389442, 88389446, 88289457, 88489445, 88489442, 88489446	
WIA - Adult Program (WIOA Cluster)	17.258		107,560
		88389451, 88389455, 88489451, 88489455	
WIA - Youth Activities (WIOA Cluster)	17.259		26,078
		88189463 88189464 88189465 88189466 88189468 88489470 88489476 88589470	
WIA - Dislocated Workers (WIOA Clusters)	17.260		4,130
Total WIOA Cluster			<u>137,768</u>
Total U.S. Department of Labor			<u>137,768</u>
U.S. Department of Transportation			
Passed through Arizona Governor's Office of Highway Safety			
		2012-AL-023, 2012-OP-012, 2013-AL-040	
State and Community Highway Safety	20.600		15,648
Passed through Arizona Department of Emergency and Military Affairs			
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	HM-HMP-0036-13-01-00	1,776
Total U.S. Department of Transportation			<u>17,424</u>
U.S. Department of Education			
Passed through the Arizona Department of Education			
Adult Education-Basic Grants to States	84.002	V002A000003 17FESCBG-713205-09A 17FECCBP-713205-37A	80,481
Special Education-Grants to States	84.027	17FESSCG-713205-55B	53,674
Total U.S. Department of Education			<u>134,155</u>

See accompanying notes to schedule.

La Paz County Arizona
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

(continued)

Federal Grantor / Pass-Through Grantor / Program or Cluster Title	Federal CFDA Number	Pass-Through Entity or Other Identifying Number	Expenditures
U.S. Department of Health and Human Services			
Passed through Western Arizona Council of Governments			
Special Program for the Aging, Title III, Part B, Grants for Supportive Services and Senior Centers	93.044	E72-1612647-201-01-1	55,574
Passed through Arizona Department of Health Services			
Public Health Emergency Preparedness Project Grants and Cooperative Agreements for Tuberculosis Control Program	93.069	ADHS-17-133193	190,045
Family Planning-Services	93.116	HG854554	5,306
Immunization Cooperative Agreements	93.217	ADHS-16098348	33,367
National Public Health Improvement Initiative	93.268	ADHS-13041542	69,836
Teenage Pregnancy Prevention Program	93.292	ADHS-16098348	11,634
HIV Care Formula Grants	93.297	ADHS-16098348	53,570
Maternal and Child Health Services Block Grant to the States	93.917	ADHS-040482	42,097
Total U.S. Department of Health and Human Services	93.994	ADHS-16098348	<u>34,445</u> <u>495,874</u>
Executive Office of the President			
Passed through the City of Tucson			
High Intensity Drug Trafficking Areas Program	95.001	HT19-09-1010	17,637
Total Executive Office of the President			<u>17,637</u>
U.S. Department of Homeland Security			
Passed through River City United Way			
Emergency Food and Shelter National Board Program	97.024	32-00254-00-012	157
Disaster Grants - Public Assistance	97.036		17,584
Passed through Arizona Department of Emergency and Military Affairs			
Disaster Grants-Public Assistance (Presidentially Declared Disasters)	97.036	13-AZDOHS-HSPG-130505-03	122,870
Total CFDA 97.036			<u>140,454</u>
Passed through Arizona Department of Homeland Security			
Homeland Security Grant Program	97.067	14-AZDOHS-OPSG-140434-01	27,203
Emergency Management Performance Grants	97.042	None	71,350
Total U.S. Department of Homeland Security			<u>239,164</u>
Total expenditures of federal awards			<u>\$ 3,181,211</u>

See accompanying notes to schedule.

La Paz 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 includes La Paz County's federal grant activity for the year ended June 30, 2017. The information in 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) number

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 elect to use the 10 percent de minimis indirect cost rate as covered in 2 CFR §200.414.

Corrective Action Plan



La Paz County Board of Supervisors

1108 Joshua Avenue
Parker, Arizona 85344

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D. L. Wilson	- District 1	Ron Drake	- County Administrator
Duce Minor	- District 2	Diane Green	- Clerk of the Board
Holly Irwin	- District 3		

December 19, 2018

Ms. Lindsey Perry, Auditor General
State of Arizona, Office of the Auditor General
2910 N. 44th St., Ste. 410
Phoenix, AZ 85018

Dear Ms. Perry:

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 names of the contact people responsible for corrective action, the corrective action planned, and the anticipated completion date.

Sincerely,

Terry Krukemyer, Finance Director

Financial Statement Findings

2017-001- Lack of Adequate Segregation of Accounting Duties

Contact person: Ron Drake, County Administrator

Anticipated completion date: June 30, 2018

Finding: Adequate segregation of accounting duties was not in place in the Treasurer's office, Parks Department and Sheriff's office as the personnel responsible for collecting various fees are often also responsible for reconciling, depositing, and recordkeeping of these receipts. Independent third-party reconciliations of amounts collected and deposited to the expected receipts is not performed. The auditor recommended that the County 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.

Corrective Action: 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.

2017-002- Budgetary Control

Contact person: Terry Krukemyer, Finance Director

Anticipated completion date: June 30, 2018

Finding: There were several instances where budgetary line items were over-expended in fiscal year 2017. The auditor recommended that the County implement policies and procedures to ensure that budget requirements are enforced at all levels of the County's departments.

Corrective Action: The County has improved its budgeting process and has a new method for monitoring year-to-date expenditures in comparison with the budget and reporting overages to the elected officials.

2017-003- Capital Asset Inventory

Contact person: Terry Krukemyer, Finance Director

Anticipated completion date: June 30, 2018

Finding: 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. The auditor recommended that the County reconcile the inventory observation to the capital asset records and investigate and adjust records, as necessary.

Corrective Action: During FY 2018, the County intends to complete the reconciliation of the results of the inventory observation to the accounting records and make the appropriate adjustments.

2017-004- Golf Course Tournament Account

Contact person: Terry Krukemyer, Finance Director

Anticipated completion date: December 31, 2017

Finding: The Golf Course sponsors an annual tournament. Receipts and disbursements were from an account established in a Golf Course employee's name and accounting records were not maintained.

Corrective Action: The current County Administrator immediately demanded the closure of this bank account and cash activity for all departments will be processed through a bank account held in the County's name and reconciled by the County's Finance Department. The County is working on adopting new monitoring policies and procedures for all departments with decentralized cash receipts.

2017-005- Golf Course Volunteers

Contact person: Ken McFarland, Finance Department

Anticipated completion date: June 30, 2018

Finding: The County Golf Course relies heavily on what the County considers "volunteer" services. These individuals receive green fee vouchers that systematically accumulate based on each hour worked. As such, these green fees may be considered wages under the Internal Revenue Code. The County has not formally determined or recorded the potential payroll liability for the costs associated with these services provided. In addition, controls were not sufficient to ensure that all vouchers redeemed were subsequently reduced from the voucher tracking system. Finally, the County's policies do not clearly state if the individuals that received green fee vouchers and have vouchers outstanding at year end (totaling 16,492 in vouchers) have any recourse to the County if these are not redeemed through the normal process. The auditor recommended that the County strengthen its procedures for tracking volunteer service hours and green fee vouchers provided and used. In addition, the County should consult legal Counsel to determine its position regarding whether or not these individuals are considered employees under the Internal Revenue Code and whether or not there is any potential recourse that the employees could demand if the vouchers are not redeemed.

Corrective Action: The County is implementing a new system to improve the tracking of hours, green fee vouchers provided and used and is working with its outside accountants and legal counsel to determine whether the volunteers are considered employees.

2017-006- Golf Course Proshop Inventory

Contact person: Terry Krukemyer, Finance Director

Anticipated completion date: June 30, 2018

Finding: The golf course proshop had goods held for sale at the end of the fiscal year, but no inventory was recorded. Further, a physical inventory was not completed during fiscal year 2016. The auditor recommended that the County implement policies and procedures to ensure that inventories are identified and recorded. Physical inventories should be performed periodically and reconciled to the accounting records.

Corrective Action: The County has implemented policies and procedures for the golf course that requires an annual physical inventory of the Proshop effective for the year ended June 30, 2018. The general ledger will be reconciled annually to the year-end physical inventory.

2017-007- Timely Account Reconciliation and Financial Statement Preparation

Contact person: Terry Krukemyer, Finance Director

Anticipated completion date: June 30, 2018

Finding: The County Treasurer system was not reconciled to the County's general ledger on a monthly basis and certain general ledger accounts were not reconciled by the County or the County's consultant until several months after fiscal year end causing significant delays in the completion of the annual required audit.

The auditor recommended that the County evaluate its resources necessary to complete monthly reconciliations and the year-end closing and financial reporting process and consider the need to devote additional resources to the financial reporting process.

Corrective Action: The County has restructured its Finance Department to improve the timeliness of the account reconciliations and the year-end closing process.

2017-008- Monitoring of Liability Accounts

Contact person: Terry Krukemyer, Finance Director

Anticipated completion date: March 31, 2019

Finding: In fiscal year 2013 the County recorded a liability of \$114,819 relating to amounts determined to be an overpayment from the United States Treasury. The liability is still reported in the fiscal year 2017 financial statements and County personnel had not determined if this amount had been paid or if a liability was still outstanding.

The auditor recommended that the County should contact the United States Treasury to determine if the \$114,819 is a valid payable and if so, determine and accrue any necessary penalties.

Additionally, the County should monitor and reconcile all balance sheet accounts, including liability accounts, to ensure that amounts are researched, paid, or eliminated if necessary.

Corrective Action: The County has the structure in place now to proactively investigate and resolve historical liability balances, including the payable to the United States Treasury.

2017-009- Court Fees and Assessments

Contact person: Terry Krukemyer, Finance Director

Anticipated completion date: March 31, 2019

Finding: Instead of submitting the fees by the last day of the month as required, the County's courts do not remit the fees and assessments to the County Treasurer until the subsequent month. As a result, the amounts submitted to the State Treasurer by the fifteenth of each month are for fees collected by the courts two months prior. For example, the County Treasurer remitted \$135,915.78 to the State Treasurer for court fees and assessments on July 13, 2017. This report indicated that it was for the report period of June 1, 2017 through June 30, 2017. However, the County's courts did not transfer any of the fees that were collected in June 2017 to the County Treasurer. As a result, the amounts actually transmitted to the State Treasurer in July 2017 related to May 2017 fees collected by the courts, which is in violation of the Arizona Revised Statutes.

The auditor recommended that the County should ensure that amounts are submitted to the Treasurer by the end of each month and the County Treasurer should monitor these submittals to ensure that the reports the County Treasurer generated accurately reflect the correct report period.

Corrective Action: The Finance Department will communicate with the La Paz County Courts and make sure moneys are remitted according to statutory requirements.

Federal Award Findings and Questioned Costs

2017-101 - Capital Asset Inventory

Contact person: Terry Krukemyer, Finance Director

Anticipated completion date: June 30, 2018

CFDA numbers: 15.226, 93.069

Program names: Department of Interior, Department of Health and Human Services, Payments in Lieu of Taxes and Public Health Emergency Preparedness

Finding: The County did reconcile the results of the inventory observation performed in fiscal year 2015 to the capital asset listing and make the appropriate adjustments as a result of the observation. The auditor recommended that the County reconcile the inventory observation to the capital asset records and investigate and adjust the accounting records, as necessary.

Corrective Action: During FY 2018, the County intends to complete the reconciliation of the results of the inventory observation to the accounting records and make the appropriate adjustments.

2017-102 - Single Audit Submission

Contact person: Terry Krukemyer, Finance Director

Anticipated completion date: June 30, 2018

CFDA numbers: 15.226, 93.069

Program names: Department of Interior, Department of Health and Human Services, Payments in Lieu of Taxes and Public Health Emergency Preparedness

Finding: The County did not submit its single audit reporting package or data collection form within the required deadline. The auditor recommended 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.

Corrective Action: The County has restructured its Finance Department to improve the timeliness of the year-end closing process.

2017-103- Timely Account Reconciliations

Contact person: Terry Krukemyer, Finance Director

Anticipated completion date: June 30, 2018

CFDA numbers: 15.226, 93.069

Program names: Department of Interior, Department of Health and Human Services, Payments in Lieu of Taxes and Public Health Emergency Preparedness

Finding: The County Treasurer system was not reconciled to the County's general ledger on a

monthly basis and certain general ledger accounts were not reconciled by the County or the County's consultant until several months after fiscal year end causing significant delays in the completion of the annual required audit.

Corrective Action: The County has restructured its Finance Department to improve the timeliness of the year-end closing process.

2015 -102 - Payroll Distribution

Contact person: Terry Krukemyer, Finance Director

Anticipated completion date: June 30, 2018

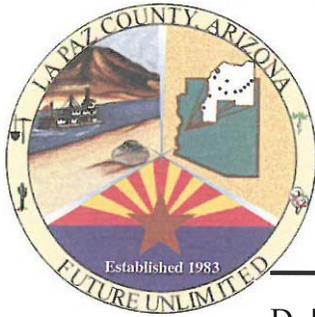
CFDA number: 97.036

Program name: Disaster Grants-Public Assistance-Presidentially Declared Disasters

Finding: During fiscal year 2015, the County recorded \$306,188 of expenditures in a separate fund relating to various projects funded through this award. During the year, the County billed and collected a total of \$77,275, of which \$12,008 related to force account labor recorded in other County funds which is not supported by personnel activity reports or equivalent documentation. Although \$12,008 of Force Account labor was billed to the grantor and received during fiscal year 2015, the various projects that are ongoing under this award allow for an additional \$130,113 in Force Account Labor to be reimbursed by the grantor upon completion of each project. Much of this labor cost was incurred during fiscal year 2015 but has not been identified and included within the Schedule of Expenditures of Federal Awards. As a result, we were unable to determine if these additional federal expenditures were adequately supported nor were we able to verify that the Schedule of Expenditures of Federal Awards was correctly stated for this program.

The auditor recommended that the County establish and implement County-wide policies and procedures that provide reasonable assurance that the charges for salaries and wages for each federal program is identified during the year of expenditure and reflected in the Schedule of Expenditures of Federal Awards. Additionally, these policies should ensure that personnel activity reports or equivalent documentation are completed and maintained.

Corrective Action: The County is implementing a new timekeeping system to better track time for its federal programs.



La Paz County Board of Supervisors

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D. L. Wilson **2017-101** District 1
Duce Minor **2017-102** District 2

Holly Irwin
Ron Drake

- District #3
County Administrator

December 19, 2018

Ms. Lindsey Perry, Auditor General
State of Arizona, Office of the Auditor General
2910 N. 44th St., Ste. 410
Phoenix, AZ 85018

Dear Ms. Perry:

We have prepared the accompanying summary schedule of prior audit findings as required 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, we are reporting the status of audit findings included in the prior audit's schedule of findings and questioned costs. This schedule also includes the status of audit findings reported in the prior audit's summary schedule of prior audit findings that were not corrected.

Sincerely,

Terry Krukemyer, Finance Director

**La Paz County
Summary Schedule of Prior Audit
Findings Year ended June 30, 2017**

Status of Financial Statement Findings

Finding no.: 2016-001, Lack of Adequate Segregation of Accounting Duties (Significant Deficiency: Repeat Finding)

Status: Not corrected. The County had significant changes in administration and this finding was not yet corrected. See the corrective action plan for **2017-001**.

Finding no.: 2016-002, Budget for Property Tax Levy Funds (Compliance with Laws and Regulations)

Status: Corrected

Finding no.: 2016-003, Expenditure Limitation Report (Compliance with Laws and Regulations)

Status: Corrected.

Finding 2016-004-Budgetary Control (Significant Deficiency: Repeat Finding)

Status: Not corrected. The County had significant changes in administration and this finding was not yet corrected. See the corrective action plan for **2017-002**.

Finding 2016-005- Capital Asset Inventory (Significant deficiency: Repeat Finding)

Status: Not corrected. The County had significant changes in administration and this finding was not yet corrected. See the corrective action plan for **2017-003**.

Finding 2016-006- Anti-Racketeering Revolving Fund (Material Weakness)

Status: Corrected

Finding 2016-007- Golf Course Tournament Account (Material Weakness: Repeat Finding)

Status: Not corrected. Corrected subsequent to year-end. See the corrective action plan for **2017-004**.

Finding 2016-008- Golf Course Volunteers (Material Weakness: Repeat Finding)

Status: Not corrected. The County had significant changes in administration and this finding was not yet corrected. See the corrective action plan for **2017-005**.

Finding 2016-009- Golf Course Deposits/Personal Check Cashing (Significant Deficiency)

Status: Corrected

Finding 2016-010- Golf Course Pro Shop Inventory (Significant Deficiency: Repeat Finding)

Status: Not corrected. The County had significant changes in administration and this finding was not yet corrected. See the corrective action plan for **2017-006**.

Finding 2016-011- Cash Controls Parks Department (Material Weakness)

Status: Partially Corrected. See the corrective action plan for **2017-001**.

Finding 2016-012- Nepotism Policies and Procedures (Significant Deficiency)

Status: Corrected

Finding 2016-013- Timely Account Reconciliation and Financial Statement Preparation (Material Weakness: Repeat Finding)

Status: Not corrected. The County had significant changes in administration and this finding was not yet corrected. See the corrective action plan for **2017-007**.

Status of Federal Award Findings and Questioned Costs

Finding 2016-101- Capital Asset Inventory (Significant deficiency: Repeat Finding)

CFDA number and program name: 15.226, Department of Interior, Payments in Lieu of Taxes

Status: Not corrected. The County had significant changes in administration and this finding was not yet corrected. See the corrective action plan for **2017-101**.

Finding 2016-102- Single Audit Submission (Other Compliance Finding: Repeat Finding)

CFDA number and program name: 15.226, Department of Interior, Payments in Lieu of Taxes

Status: Not corrected. The County had significant changes in administration and this finding was not yet corrected. See the corrective action plan for **2017-102**.

Finding 2015-102- Payroll Distribution

CFDA number: 97.036

Program name: Disaster Grants-Public Assistance-Presidentially Declared Disasters

Status: Not corrected. The County did not have the funding available to implement a new timekeeping system in FY 2017. See the corrective action plan.