

INDEPENDENT ACCOUNTANT'S REPORT

The Board of Supervisors of
Graham County, Arizona

We have examined Graham County, Arizona's (County) compliance as to whether highway user revenue fund monies received by the County pursuant to Arizona Revised Statutes title 28, chapter 18, article 2 and any other dedicated state transportation revenues received by the County are being used solely for the authorized transportation purposes during the fiscal year ended June 30, 2006. Management is responsible for Graham County, Arizona's compliance with those requirements. Our responsibility is to express an opinion on Graham County, Arizona's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about Graham County, Arizona's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on Graham County, Arizona's compliance with specified requirements.

In our opinion, Graham County, Arizona complied, in all material respects, with the aforementioned requirements for the fiscal year ended June 30, 2006.

This report is intended solely for the information and use of the members of the Arizona State Legislature, the Board of Supervisors and management 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.

Cronstrom, Osuch + Company, P.C.
Cronstrom, Osuch & Company, P.C.

September 18, 2007



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OFFICE OF THE PRESIDENT

The Board of Supervisors of
Graham County, Arizona

In planning and performing our audit of the financial statements of Graham County, Arizona (County) for the year ended June 30, 2006 we considered Graham County, Arizona's internal control in order to determine our auditing procedures for the purpose of expressing opinions on the financial statements and not to provide an opinion on internal control.

However, during our audit, we became aware of the following matters that are opportunities for strengthening internal controls and operating efficiency. This letter does not affect our report dated September 18, 2007, on the financial statements of the Graham County, Arizona.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various County personnel, and we will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. Our comments are summarized as follows:

PAYROLL

- Condition* Federal tax withholding allowances were not updated in the payroll system.

Context The calendar year 2005 and 2006.

Criteria OMB Circular E and internal control procedures.

Effect Noncompliance with OMB Circular E and internal control weakness.

Cause The County was not aware that the federal tax withholding allowance needed to be updated separately from the federal tax withholding table.

Recommendation In order to comply with OMB Circular E and strengthen internal controls, federal tax withholding allowances should be updated in the payroll system at the beginning of each calendar year.

PAYROLL (CONCL'D)

2. *Condition* Federal tax withholdings were not always withheld at the rate authorized by the employee.
- Context* Two of thirty employees tested.
- Criteria* OMB Circular E and internal control procedures.
- Effect* Noncompliance with OMB Circular E and internal control weakness.
- Cause* Clerical oversight.
- Recommendation* In order to comply with OMB Circular E and strengthen internal controls, federal tax withholdings should be withheld at the rate authorized by the employee.

PAYROLL/DISBURSEMENTS

- Condition* The responsibilities of accounts payable and payroll processing were not properly segregated among employees.
- Context* The same individual responsible for preparing accounts payable has access to signed checks and is responsible for mailing checks to vendors.
The same individual responsible for preparing payroll has access to signed checks.
A supervisor does not approve the payroll register prior to printing checks.
- Criteria* Internal control procedures.
- Effect* Internal control weakness.
- Cause* Due to the limited number of staff, the County is unable to segregate duties and have personnel authorize transactions.
- Recommendation* In order to strengthen internal controls, responsibilities of accounts payable and payroll processing should be segregated among employees. If a segregation of duties is not possible due to staff size, compensating controls should be instituted that would require authorization by another employee or supervisor.

DAN HINTON DISBURSEMENTS

1. *Condition* Invoices were not always properly cancelled.
Context Ten of fifteen disbursements tested.
Criteria Internal control procedures.
Effect Internal control weakness.
Cause Clerical error.
Recommendation In order to strengthen internal controls and prevent duplicate payment of an invoice, invoices should be properly cancelled following a payment to a vendor.

2. *Condition* A receiving report or the receiving copy of the purchase order was not always signed and dated to indicate the receipt of goods in satisfactory condition.
Context Four of fifteen disbursements tested.
Criteria Internal control procedures.
Effect Internal control weakness.
Cause Clerical error.
Recommendation In order to strengthen internal controls, a receiving report or a receiving copy of the purchase order should be signed and dated to indicate the receipt of goods in satisfactory condition.

COUNTY SCHOOL SUPERINTENDENT DISBURSEMENTS

1. *Condition* Purchase orders were not always dated prior to the invoice date.
Context One of fifteen expenditures tested.
Criteria Internal control procedures.
Effect Internal control weakness.
Cause Clerical error.
Recommendation In order to strengthen internal controls, purchase orders should be prepared, signed and approved prior to ordering goods and/or services.

COUNTY SCHOOL SUPERINTENDENT DISBURSEMENTS (CONCL'D)

2. *Condition* A receiving report or the receiving copy of the purchase order was not always signed and dated to indicate the receipt of goods in satisfactory condition.
- Context* Two of fifteen disbursements tested.
- Criteria* Internal control procedures.
- Effect* Internal control weakness.
- Cause* Clerical error.
- Recommendation* In order to strengthen internal controls, a receiving report or a receiving copy of the purchase order should be signed and dated to indicate the receipt of goods in satisfactory condition.

BIDDING

- Condition* Proper procurement procedures were not always followed.
- Context* For two of five purchases tested between \$5,000 and \$10,000, at least three oral quotes were not obtained.
For two of five purchases tested greater than \$10,000, sealed bids or proposals were not performed.
- Criteria* County procurement policies.
- Effect* Noncompliance with County procurement policies.
- Cause* Clerical oversight.
- Recommendation* In order to comply with County procurement policies, at least three oral quotes should be obtained for purchases of services, supplies or materials between \$5,000 and \$10,000 and fuel purchases between \$5,000 and \$25,000. Sealed bids or proposals should be obtained for purchases of services, supplies or materials greater than \$10,000 and fuel greater than \$25,000.

CAPITAL ASSETS

1. *Condition/Context* Capital assets and capital assets depreciation were maintained and calculated in Excel spreadsheets rather than a capital assets management system.
- Criteria* Internal control procedures.
- Effect* Internal control weakness.
- Cause* The County is currently in the process of transferring assets to a capital assets management system; however, due to the County's limited staff size, the project has not been completed.
- Recommendation* In order to strengthen internal controls, the County should transfer all assets to the capital assets management system. After completing the transfer, the County should reconcile the balances in the capital assets management system to the Excel spreadsheets to determine the beginning balances for cost and accumulated depreciation reconcile by category and function. Any variances should be investigated and resolved.
2. *Condition* Documentation authorizing the disposal of capital assets was not always maintained.
- Context* Three of three capital asset disposals tested.
- Criteria* Internal control procedures.
- Effect* Internal control weakness
- Cause* Clerical oversight.
- Recommendation* In order to strengthen internal controls, the County should maintain documentation authorizing the disposal of capital assets.

We wish to thank the County staff for their support and assistance during our audit.

This report is intended solely for the information and use of the Graham County, Arizona, Board of Supervisors, management and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

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September 18, 2007