UNIFORM
ACCOUNTING MANUAL
FOR
ARIZONA COUNTIES

AUDITOR GENERAL

UNIFORM ACCOUNTING MANUAL

FOR

ARIZONA COUNTIES

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INTRODUCTION

The *Uniform Accounting Manual for Arizona Counties* (UAMAC) was developed pursuant to Arizona Revised Statues (A.R.S.) §41-1279.21, which requires the Auditor General to develop a uniform system of accounting for counties. The UAMAC prescribes internal controls for accounting and financial reporting by Arizona counties, in conformity with statutory requirements and generally accepted accounting principles.

The board of supervisors is responsible for establishing and maintaining appropriate internal controls for properly administering all county departments. The procedures recommended in this manual are provided as examples of sound financial and administrative practices. Counties may use alternative procedures if they provide the same level of internal control for accounting and financial reporting.

Sources used in developing the manual include the **Arizona Constitution**; **Arizona Revised Statutes**; the *Codification of Governmental Accounting and Financial Reporting Standards* published by the Governmental Accounting Standards Board; the American Institute of Certified Public Accountants' Audit and Accounting Guides, *State and Local Governments*, *Government Auditing Standards and Circular A-133 Audits*, and *Assessing and Responding to Audit Risk in a Financial Statement Audit*; the *Codification of Statements on Auditing Standards* published by the American Institute of Certified Public Accountants; *Government Auditing Standards* issued by the Comptroller General of the United States; *Governmental Accounting, Auditing and Financial Reporting*, published by the Government Finance Officers Association; and the Office of Management and Budget's *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.*

CONTENTS

The following is a list of significant events concerning counties as prescribed by Arizona Revised Statutes (A.R.S.); the ***Arizona Administrative Code* (A.A.C.)**; the U.S. Department of the Treasury, Internal Revenue Service (IRS), Circular E, *Employer's Tax Guide;* and the *Code of Federal Regulations*. This list may not be all-inclusive.

MONTHLY EVENTS

Date	Activity	Authority	Manual Section
Each month	The board of supervisors must hold regular board meetings on a working day or days of each month designated by the board. The board must notify the public of the location and the day or days designated. Within 3 working days after each board meeting, the minutes, or a recording of the meeting, must be made available to the public in accordance with A.R.S. §38-431.01. The minutes must also be made available at the office of the clerk of the board and the public libraries in the county.	A.R.S. §§11-214 and 11-217	
1st of the month	County officers entitled to receive or collect fees must prepare an itemized statement of all fees earned during the last month in the conduct of their official duties, and file the statement with the clerk of the board of supervisors and the county treasurer. Fees collected must be deposited with the county treasurer when the statement is filed.	A.R.S. §11-414	**§VI-C, Cash**
On or before the 5th of the month	The board of supervisors must make payments to the State Treasurer for the hospitalization and medical care of the indigent sick.	A.R.S. §11-292(F)	
15th of the month	The county treasurer must report public monies collected, disbursed, and on account for the preceding month to the board of supervisors. The county treasurer also must deposit all paid warrants issued by the board of supervisors with the clerk of the board.	A.R.S. §11-501	UAMACT §V

Date	Activity	Authority	Manual Section
15th of the month	If a county has a County Attorney Victim Compensation Fund and/or a Clerk of the Superior Court Victim Location Fund, the clerk of the superior court must transmit to the county treasurer interest earned on criminal bonds and restitution, and juvenile restitution monies that are received by the court in a fiduciary capacity accumulated during the previous month. The county treasurer must deposit 75 percent of interest transmitted in the County Attorney Victim Compensation Fund and 25 percent of interest transmitted in the Clerk of the Superior Court Victim Location Fund.	A.R.S. §12-286 (D) and (E)	

ANNUAL EVENTS

Date	Activity	Authority	Manual Section
Not later than July 10	Each special district subject to the provisions of A.R.S. §48-252 must file a copy of its annual budget with the county treasurer and the board of supervisors.	A.R.S. §48-252	
On or before the 3rd Monday in July	The board of supervisors must prepare a full and complete statement of the county's financial affairs for the preceding fiscal year and an estimate of the different amounts that will be required to meet the public expense of the county for the current fiscal year. The estimate of expenses must be entered in the board of supervisors' minutes and fully itemized in accordance with forms supplied by the Auditor General. After its tentative adoption, the estimate of expenses, or a summary of the estimate of expenses, and hearing notice must be published once a week for at least 2 consecutive weeks in the county's official newspaper.	A.R.S. §§42-17101, 42-17102, and 42-17103	**§IV, Budgeting**
On or before July 31	The county must provide to the Auditor General the name of the chief fiscal officer designated to submit the current year's annual expenditure limitation report.	A.R.S. §41-1279.07(E)	**§IX, Audit Requirements**
On or before July 31	The county must pay tax anticipation notes following the end of the fiscal year in which the notes were issued.	A.R.S. §35-465.04	
On or before August 1	Each fire district subject to the provisions of A.R.S. §48-807 must file a copy of its annual budget with the board of supervisors.	A.R.S. §48-807(E)	
On or before August 15	The county treasurer must submit to the board of supervisors an annual report that shows the amount of taxes assessed for the previous year, the total collections for that year, the increase or decrease due to corrections, and the amount of unpaid taxes as of June 30.	A.R.S. §42-18002	UAMACT §IV-F

Date	Activity	Authority	Manual Section
On or before the 14th day before the day in August when the board levies taxes	The board of supervisors must hold a public hearing and special board meeting, and any taxpayer may appear and be heard in favor of or against any proposed expenditure or tax levy. The final budget must then be adopted at the special board meeting.	A.R.S. §§42-17104 and 42-17105	**§IV, Budgeting**
On or before the 3rd Monday in August	The board of supervisors must fix, levy, and assess the amount to be raised from primary and secondary property taxation for county purposes. In addition, the board of supervisors must assess the amount of taxes that is levied for city and town purposes.	A.R.S. §§42-17151 and 42-17254	**§IV, Budgeting**
On or before the 3rd Monday in August	A county jail district must certify to the board of supervisors the amount of property taxes to be levied on the district's taxable property for the taxable year. The board of supervisors must levy a secondary property tax on the taxable property in the district at the same time as county taxes are levied, sufficient to provide the amount certified by the district, subject to restrictions in A.R.S. §48-4023.	A.R.S. §48-4023	
At the time of levying other taxes	The board of supervisors must levy a tax on property not located in a school district in accordance with A.R.S §15-991.01; levy school district taxes on property in each school district that is not eligible for equalization assistance and for which additional amounts are required in accordance with A.R.S. §15-992; and levy a state equalization assistance property tax on property within the county in accordance with A.R.S. §15-994.	A.R.S. §§15-991.01, 15-992, and 15-994	
Within 3 days after the final levies are determined	The chief county fiscal officer must notify the Property Tax Oversight Commission of the amount of the primary property tax levied.	A.R.S. §42-17151(C)	
On or before the 3rd Thursday in August	The board of supervisors must compute and report to the city, town, or political subdivision the amount of property taxes that would otherwise be payable on the city's, town's, or political subdivision's remote municipal property.	A.R.S. §42-15253	

Date	Activity	Authority	Manual Section
Within 10 days after the board of supervisors adopts the resolution	The clerk of the board of supervisors must transmit to the State Treasurer a written statement showing the amount of taxes due to the State and contained in the annual roll.	A.R.S. §42-18004	
60 days after the beginning of the fiscal year	The county's balance of any encumbrances outstanding at fiscal year-end lapses, and the remaining fund balance reverts to the appropriate county fund. No further payments may be made on any claim for expenditures of the prior fiscal year.	A.R.S. §11-624.01	**§VI-F, Purchasing**
On or before August 31	The county chief fiscal officer must submit an annual report to the Supreme Court showing the total amount of receipts and expenditures in each account of the Juvenile Probation Fund for the preceding fiscal year.	A.R.S. §12-268	**§VI-C, Cash**
Within 90 days after the fiscal year-end	Counties must file with the clerk of the board of supervisors a copy of the annual report accounting for the collection and use of development fees.	A.R.S. §11-1102(F)	**§IV, Budgeting**
On or before October 1	The board of supervisors must compile a report of all special taxing districts existing in the county during the preceding fiscal year organized under Title 48 with certain exceptions.	A.R.S. §11-251.07	
On or before October 1	The board of supervisors must deliver the assessment roll, tax roll, and cross-index to the county treasurer.	A.R.S. §42-18003	
Not later than October 31 or extension due date	Counties must submit their audited annual expenditure limitation report and annual financial statements to the Auditor General.	A.R.S. §41-1279.07(C)	**§IX, Audit Requirements**
On or before November 1	The county must file a report with the Arizona Department of Revenue that includes any tangible or intangible property presumed abandoned and subject to custody as unclaimed property as of the last 12 months before July 1 of that year. The county must also deliver the reported abandoned property to the Department.	A.R.S. §§44-307 and 44-308	

Date	Activity	Authority	Manual Section
On or before November 1	The county must file a report with the Arizona Criminal Justice Commission of all monies collected for and expenditures from the Criminal Justice Enhancement Fund for the preceding fiscal year.	A.R.S. §41-2401(B)	**§VI-C, Cash**
On or before the 1st Monday in November	The board of supervisors must prepare a list of the real property in the county that the State holds by tax deed. The list is used in advertising and auctioning the property at a tax sale.	A.R.S. §42-18301	
By December 1	The board of supervisors must certify whether the total revenues received by the justice courts and the superior court, including the clerk of the superior court, exceed the amount received in fiscal year 1997-98. Based on the board’s certification, the board must distribute monies in accordance with A.R.S. §41-2421, or as otherwise provided by law.	A.R.S. §41-2421(G)	
Within 240 days after the close of the special district’s fiscal year	Each special district organized under Title 48 and not exempted must submit its annual report to the board of supervisors.	A.R.S. §48-251	
Within 240 days after the close of the special district’s fiscal year	Each special district required to have an audit or financial review by A.R.S. §48-253 must submit a copy of its completed audit or financial review to the county treasurer and the board of supervisors.	A.R.S. §48-253	
At the board’s regular monthly meeting in January	The board of supervisors must prepare and file a statement detailing the county’s indebtedness, a description and estimated value of all property the county owns, and the rate of taxation for county purposes. A copy must be forwarded to the State Treasurer.	A.R.S. §11-663	

Date	Activity	Authority	Manual Section
On or before January 20	The clerk of the board of supervisors must prepare an abstract of the assessment roll containing the valuations by taxing jurisdictions of all property in the county, including the total personal property tax roll, and other information required by the Arizona Department of Revenue. The clerk must file one copy of the abstract in the office of the board of supervisors and transmit additional copies to the state or county board of equalization, as appropriate, and to the Arizona Department of Revenue.	A.R.S. §42-15155	
Not later than January 31	Counties must prepare and distribute Form W-2 to each employee and Form 1099 to applicable vendors for the calendar year just ended.	IRS Circular E, A.R.S. §43-413	**§VI-G, Payroll**
Not later than January 31	Counties must submit the Employer's Annual Federal Unemployment Tax Return (IRS Form 940), along with the balance of any federal unemployment taxes due, with the IRS.	IRS Circular E	**§VI-G, Payroll**
By March 31	The board of supervisors must submit a report to the Legislature and the Governor on whether certain special districts complied with A.R.S. §48-251(A) by submitting their annual reports to the county in a timely manner. The report must include a list of districts required to submit the reports, a list of districts in compliance and not in compliance, and whether the reports were sufficient. The board must notify each district that is not in compliance with the reporting requirements to comply within 30 days and must assess a penalty on districts that do not comply.	A.R.S. §48-251(F) and (G)	
On or before February 10	The county assessor must certify and transmit to the Property Tax Oversight Commission and to the board of supervisors the values that are required to compute the levy limit prescribed by A.R.S. §42-17051.	A.R.S. §§42-17052 and 42-17107	

Date	Activity	Authority	Manual Section
On or before February 15	The board of supervisors must make available for public inspection the values described in A.R.S. §42-17051(A), which provides the formula for computing the maximum allowable primary property tax levy.	A.R.S. §42-17055	
On or before February 28	Counties must file Form A-1R, Arizona Annual Withholding Reconciliation Return, and copies of the W-2 forms, with the Arizona Department of Revenue. Counties must also file Form 1096, Annual Summary and Transmittal of U.S. Information Returns, and copies of the 1099 forms, with the IRS.	A.R.S. §43-412 and IRS Circular E	**§VI-G, Payroll**
On or before the last day in February	Counties must file Form W-3, Transmittal of Wage and Tax Statements, and copies of the W-2 forms, with the Social Security Administration.	IRS Circular E	**§VI-G, Payroll**
On or before May 1	The county board of health must submit to the board of supervisors an estimate of the cost of maintaining the health department for the following fiscal year and the monies that may be available from unexpended grants or donations.	A.R.S. §36-185(A)	**§IV, Budgeting**
3rd Tuesday in May	If no primary property taxes were levied in the previous tax year, a proposed primary property tax amount must be submitted to the voters for approval.	A.R.S. §42-17056	**§IV, Budgeting**
Last business day in June	The county treasurer must report public monies collected, disbursed, and on account for the fiscal year to the board of supervisors.	A.R.S. §11-501	UAMACT §V
On or before June 30	Each county department or agency having outstanding liabilities at fiscal year-end must file an advice of encumbrance with the board of supervisors.	A.R.S. §11-624.01	**§VI-F, Purchasing**
Annually	The county treasurer must submit to the board of supervisors the amount of anticipated revenues for the Taxpayers' Information Fund.	A.R.S. §11-495	**§VI-C, Cash**

Date	Activity	Authority	Manual Section
Annually	The county recorder must submit to the board of supervisors the amount of projected revenues to be raised for the Document Storage and Retrieval Conversion and Maintenance Fund.	A.R.S. §11-475.01	**§VI-C, Cash**
Annually	The presiding juvenile judge of the superior court must present to the board of supervisors for approval a detailed expenditure plan for the Juvenile Probation Fund accounts.	A.R.S. §12-268	**§IV, Budgeting**

PERIODIC EVENTS

Date	Activity	Authority	Manual Section
Within 5 working days after each payroll period	The county must pay employee withholdings and county contributions to the Corrections Officer Retirement Plan.	A.R.S. §38-891	**§VI-G, Payroll**
Within 10 working days after each payroll period	The county treasurer must pay employee withholdings and county contributions to the Elected Officials' Retirement Plan.	A.R.S. §38-810	**§VI-G, Payroll**
Within 10 working days after each payroll period	The county must pay employee withholdings and county contributions to the Public Safety Personnel Retirement System.	A.R.S. §38-843	**§VI-G, Payroll**
Within 14 days after each payroll period	The county must pay employee withholdings and county contributions to the Arizona State Retirement System.	A.A.C. R2-8-122	**§VI-G, Payroll**
On or before January 15, April 15, July 15, and October 15	The county attorney must file with the board of supervisors a report indicating the source of all monies and all expenditures from the county Bad Check Trust Fund for the previous calendar quarter.	A.R.S. §13-1811	**§VI-C, Cash**
By April 30, July 31, October 31, and January 31	Counties must file an Unemployment Tax and Wage Report (Form UC-018) and submit the amount due to the Arizona Department of Economic Security. Counties must also submit federal unemployment taxes to the IRS if the amount due in any quarter is more than $500.	A.A.C. R6-3-1704 and IRS Circular E	**§VI-G, Payroll**
By April 30, July 31, October 31, and January 31	Counties must file the Arizona Withholding Tax Return (Form A1-QRT) and submit its state income tax withholdings to the Arizona Department of Revenue quarterly if the average amount of Arizona income taxes withheld during the preceding four calendar quarters does not exceed $1,500. If it exceeds $1,500, the county must make payments to the Department at the same time it is required to deposit federal taxes.	A.R.S. §43-401	**§VI-G, Payroll**

Date	Activity	Authority	Manual Section
By April 30, July 31, October 31, and January 31 if the accumulated tax liability for the quarter will not exceed $2,500 **or** Within 15 days after the end of each month for monthly depositors[1] **or** By the following Wednesday for taxes withheld from payments made on Wednesday, Thursday, and/or Friday; by the following Friday for taxes withheld from payments made on Saturday, Sunday, Monday, and/or Tuesday for semi-weekly depositors[1] **or** By the close of the next banking day if the accumulated tax liability is $100,000 or more on any day during the deposit period[1]	Counties must file the Employer's Quarterly Federal Tax Return (IRS Form 941). In addition, federal income tax withholdings and Social Security and Medicare tax withholdings and contributions must be deposited on the appropriate schedule, with a financial institution authorized to accept federal tax deposits.	IRS Circular E	**§VI-G, Payroll**

[1] Consult IRS Circular E for information on monthly or semi-weekly depositor status.

Date	Activity	Authority	Manual Section
Each quarter	The clerk of the board of supervisors of each county that insures its workers' compensation liability with the State Compensation Fund must furnish to the Fund a true payroll showing the total amount paid to employees during each month of the quarter.	A.R.S. §23-962	**§VI-G, Payroll**
On the 1st Monday of January, April, July, and October	The county attorney must file with the board of supervisors an account of all monies received in the county attorney's official capacity during the preceding three months, and remit such monies to the county treasurer.	A.R.S. §11-532	**§VI-C, Cash**
No later than the 1st Monday in March of award year	The board of supervisors must notify qualified banks of the time and place to submit servicing bids.	A.R.S. §35-325	**§VI-C, Cash**
No later than the 4th Monday in April of award year	The board of supervisors must meet to receive the servicing bank bids. Bids must be evaluated based on response, price, services, qualifications, and other scope of work factors detailed in the bid documents. The qualified bank representing the highest rated bid shall be designated as the county's servicing bank.	A.R.S. §35-325	**§VI-C, Cash**
At least once every 2 years	Counties must take a physical inventory of furniture, equipment, and vehicles purchased with federal monies costing $5,000 or more, and having useful lives over 1 year, and reconcile it to the capital assets list.	A-102 Common Rule §__.32, as codified by each federal funding agency in its title of the *Code of Federal Regulations*	**§VI-E, Capital Assets**
At least once every 3 years	Counties should take a physical inventory of furniture, equipment, and vehicles and reconcile it to the capital assets and stewardship lists.	UAMAC	**§VI-E, Capital Assets**

CONTENTS

INTRODUCTION

A chart of accounts provides the basic framework for classifying the county's financial transactions. Establishing a uniform chart of accounts helps to ensure that all county financial transactions and budgetary information are accurately reflected in the accounting records and reported to management and external parties in a consistent manner. A uniform chart of accounts also improves the comparability of counties' financial and budget information by legislators, taxpayers, and others.

Counties should adopt the standardized descriptions in this section for funds, functions, departments, and object codes. Using subobject codes and their descriptions is also recommended, and subobject codes may be expanded to satisfy the particular needs of management or to assist in meeting external or internal reporting requirements.

Counties may treat infrastructure assets the same as other capital assets or report infrastructure assets under the modified approach. Under the modified approach, eligible infrastructure assets are not depreciated. Rather, all expenditures made to maintain and preserve those assets, except additions and improvements, should be expensed in the period incurred. See **§VI-E Capital Assets**. A county should use the applicable elements of the chart of accounts based on its method for recording and reporting infrastructure.

ACCOUNT CODE STRUCTURE

The account code structure consists of predefined numerical codes that represent specific categories of information suitable for financial and budgetary systems.

The chart of accounts consists of the following elements.

1. **Fund**—A fund is a separate accounting entity, and its operations are accounted for in a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance/net assets, revenues, and expenditures/expenses. Funds are categorized based on their nature or purpose, such as general, special revenue, or capital projects funds.
2. **Function**—A group of related activities aimed at accomplishing a major service or regulatory program for which the county is responsible. For example, general government, public safety, and highways and streets are functional categories.
3. **Department**—A functional county unit charged with carrying out one or more activities or programs, such as assessor, sheriff, and finance.
4. **Object**—Identifies specific types of assets, liabilities, fund balances/net assets, revenues, expenditures/expenses, other financing sources/uses, or budgetary accounts. Examples of object codes include cash, accounts payable, real property taxes, and salaries and wages.
5. **Subobject**—Identifies detailed types of assets, liabilities, fund balances/net assets, revenues, expenditures/expenses, other financing sources/uses, or budgetary accounts. For example, cash on hand, current real property taxes, and overtime wages are subobject categories.

The following is an example of a 14-digit code structure that provides counties with a complete fund accounting system for recording assets, liabilities, revenues, expenditures/expenses, and fund balances/net assets.

Example	Fund	Function	Department	Object	Subobject
General Fund	100				
General Government		01			
Board of Supervisors			0100		
Personal Services—Salaries and Wages				401	
Regular Salaries and Wages					.10

FUNDS

Governmental Fund Types

100 **General Fund**—The General Fund is the county's current operating fund, and accounts for all resources used to finance county services except those required to be accounted for in other funds.

200-349 **Special Revenue Funds**—Special Revenue Funds account for the proceeds from specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes. This list is not all inclusive and other funds may be added, as necessary.

Fund	Fund Name	A.R.S. §
201	Assessor's Special Registration	28-2005
202	Assessor Postage	
203	Auto License	
204	Assessor's Property Information Storage and Retrieval Conversion and Maintenance	11-269.06
205	Document Storage and Retrieval Conversion and Maintenance—Recorder	11-475.01
206	Taxpayers' Information	11-495
207	Public Facility Development	11-1102
208	Bad Check Trust	13-1811
209	Special Merit Award	38-614
210	Elderly Assistance	42-17401
211	Public Transportation	48-5103
217	Juvenile Delinquency Restitution	8-346
218	County Attorney Juvenile Diversion	11-537
219	County Attorney Victim Compensation	11-538
220	State Aid to County Attorneys	11-539
221	State Aid to Indigent Defense	11-588
222	Criminal Case Processing and Enforcement Improvement	12-102.01

223	State Aid to the Courts	12-102.02
224	Local Courts Assistance	12-102.03
225	Judicial Collection Enhancement	12-113
226	Time Payment Fee *(court retained amount)*	12-116
227	Public Defender Training	12-117
228	Local Alternative Dispute Resolution	12-135.01
229	Adult Probation Services	12-267
230	Juvenile Probation	12-268
231	Conciliation Court	12-284(E)
232	Document Storage and Retrieval Conversion—Clerk of the Superior Court	12-284.01
233	Clerk of the Superior Court Victim Location	12-287
234	Law Library	12-305
235	Building Repair—Courthouse	12-305
236	Anti-Racketeering Revolving	13-2314.03
237	Superior Court Probate	14-5433
238	Special Services	31-121
239	Inmate Health Services	31-162
240	Criminal Justice Enhancement	41-2401
241	Juvenile Crime Reduction	41-2401(D)(5)
242	County Jail Enhancement	41-2401(D)(9)
243	Victim Compensation and Assistance	41-2407
245	County Jail Facilities	42-6109
246	County Flood Control Assistance	45-1445
252	Road	28-6712
253	Highway Users Revenue	AZ Constitution, Article IX, §14
254	Street Lighting Improvement Districts	48-960
256	Limited Infrastructure Construction Finance Revolving	48-986.01
262	Health Department	11-251
263	Rabies Control	11-1011
264	Public Health Services District	48-5805
265	Air Pollution	Title 49, Chapter 3, Article 3
266	Special Public Health	49-480(E)

267	Family Counseling	8-261 et seq
268	Children's Issues Education	25-354
269	Expedited Child Support and Parenting Time	25-412
270	Domestic Relations Education and Mediation	25-413
276	Law Enforcement and Boating Safety	5-383
277	County Fair	11-258
278	Arts Support	11-262
279	County Sports Authority	11-704
280	County Free Library District	11-913
281	Public Parks	11-937
282	County Parks Operation and Enhancement	11-941(A)
283	County Parks Publication and Souvenir Revolving	11-941(B)
284	County Stadium District	48-4231
290	Small District Service Program	15-365
291	Detention Center Education	15-913
292	County Jail Education	15-913.01
293	County School	15-1000
294	Special County School Reserve	15-1001
300	Groundwater Basin Economic Development	11-606
306	Community Development	
307	County Housing Trust	11-381
308	Housing Authority	36-1404

35X **Debt Service Funds**—Debt Service Funds account for the accumulation of resources for, and the payment of, general long-term debt principal and interest. Debt service funds are required if legally mandated, or if financial resources are being accumulated for principal and interest payments maturing in future years.

350	General Obligation Bonds	
351	Interest-Highway Improvement Revenue Bonds	28-7656
352	Redemption-Highway Improvement Revenue Bonds	28-7656
353	Interest-Bridge Construction Revenue Bonds	28-7656
354	Redemption-Bridge Construction Revenue Bonds	28-7656

40X **Capital Projects Funds**—Capital Projects Funds account for financial resources to be used for the acquisition or construction of major capital facilities other than those financed by Proprietary and Trust Funds.

401	County Improvement District	48-902

402	Domestic Water Improvement District	48-902
403	Sanitary District	48-2001
404	Special Flood Control District	48-3602
406	County Development	11-1102
407	Transportation and Capital Projects	42-6111

45X **Permanent Funds**—Permanent Funds account for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the county's programs, i.e., which benefit the county or its citizenry.

Proprietary Fund Types

5XX **Enterprise Funds**—Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. An enterprise fund is required for any activity in which (1) debt is secured solely by a pledge of revenues from fees and charges of the activity, (2) the cost of providing services must legally be recovered through fees or charges, or (3) fees or charges were established in accordance with the county's policy to recover the cost of providing services. In addition, enterprise funds are required for the separately issued financial statements of public-entity risk pools.

501	Hospital Enterprise	11-309
502	Special Hospital Fund	11-309(D)
503	Arizona Health Care Cost Containment System (AHCCCS)	
504	Alternative Long-Term Care System	36-2952
505	Third-Party Liability	
506	Medical Care System	
507	Landfill	
508	Wastewater Management	
509	County Fair	11-258
510	Planning and Development Services	
511	Nursing Home	

6XX **Internal Service Funds**—Internal Service Funds are used to account for any activity that provides goods or services to other funds, departments, or agencies of the county and its component units, or to other governments, on a cost-reimbursement basis. If other governments are involved, an Internal Service Fund should be used only if the county is the predominant participant in the activity. Otherwise, the activity should be accounted for in an enterprise fund.

601	Management Information Systems
602	Equipment Services
603	Facilities Management

604	Materials Management (Purchasing and Warehousing)	
605	Risk Management	
606	Telecommunications	
607	Health Services Administration	
608	Fleet Management/Motor Pool	
609	Duplicating and Printing Services	

Fiduciary Fund Types

7XX **Trust Funds**—Trust Funds account for assets held by the county in a trustee capacity for individuals, private organizations, and other governments. These funds include pension (and other employee benefit) trust funds, investment trust funds, and private-purpose trust funds. Generally, these funds are distinguished from agency funds by the existence of a trust agreement that affects the degree of management involvement and the length of time that the resources are held. In addition, investment trust funds should include the external participants in a county sponsored investment pool, such as an investment pool operated by a county treasurer.

8XX **Agency Funds**—Agency Funds account for monies or other resources the county holds in a purely custodial capacity. Agency funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.

801	Justice of the Peace Suspension	22-116
808	Anti-Racketeering Revolving	13-2314.03
813	Excess Property Tax Collections	
814	Unapportioned Taxes	11-492
817	Taylor Grazing Act Fees	37-723
818	Deferred Compensation Plan	11-251(34)
820	Clerk of the Superior Court Bond, Trust, and Restitution Accounts	12-286

FUNCTIONS

01 **General Government**—Expenditures associated with the general administration of the county, including the Board of Supervisors, Superior Court, and County Manager.

02 **Public Safety—**Expenditures for the direct protection of persons and property are charged to this function. Included are expenditures related to police protection, fire protection, flood control, corrections, and protective inspection, such as building, plumbing, and electrical inspection. Medical services that police and fire departments provide should be included as well as expenditures made to construct, operate, and maintain correctional institutions.

03 **Highways and Streets—**Expenditures for the construction, maintenance, and repair of highways, streets, alleys, sidewalks, bridges, aqueducts, storm drainage, and street lighting are charged to this function. Expenditures for roadways, walkways, and lighting in parks and recreation areas should be charged to the culture and recreation function.

04 **Sanitation—**Expenditures for the removal and disposal of sewage and other wastes are charged to this function. Examples of sanitation expenditures include administration of sanitation activities, street cleaning, garbage collection and disposal, sewer construction and maintenance, and the construction and operation of sewage treatment plants.

05 **Health and Welfare**

Health—Expenditures incurred from direct involvement in the conservation and improvement of public health are charged to this function. Examples of health expenditures include the administration of public health activities, rabies and animal control, sanitary inspections of businesses and institutions, educational programs for the prevention and treatment of communicable diseases, and expenditures for operating health centers and clinics operating for treatment of certain diseases.

Welfare—Expenditures to provide public assistance and institutional care for individuals who are economically unable to provide for themselves are charged to this function. Examples of welfare expenditures include administration of public welfare activities, construction and operation of welfare institutions, direct assistance to welfare recipients, and payments the county makes to another government for welfare programs administered by the other government.

06 **Culture and Recreation—**Expenditures for cultural and recreational activities maintained for the benefit of county residents and visitors are charged to this function. Included are expenditures for participant recreation such as playgrounds, golf courses, and swimming pools. Also included are spectator recreation expenditures and expenditures for operating and maintaining county parks and libraries.

07 **Education—**Expenditures incurred in the operation of the County School Superintendent's office, including salaries, employee benefits, supplies, and other direct expenditures are charged to this function.

08 **Economic Opportunity—**Expenditures for various programs designed to eliminate or ameliorate poverty and its causes should be charged to this function.

09 **Conservation—**Expenditures for activities designed to conserve and develop such natural resources as water, soil, forests, minerals, agricultural resources, and fish and game are charged to this function.

10 **Urban Redevelopment and Housing—**Expenditures for the redevelopment of substandard and blighted physical facilities within the county are charged to this function. Such expenditures include those incurred for the rehabilitation and clearance of designated portions of urban areas; the relocation of individuals, families, and businesses from clearance areas; and the acquisition, furnishing, maintenance, and operation of the county's public housing projects.

DEPARTMENTS

General Government

0100 Board of Supervisors

0200 Treasurer

0300 Assessor

0400 Auto License

0500 Recorder

0600 Elections

0700 Voter Registration

0800 Attorney

0900 Clerk of the Superior Court

1000 Superior Court

1100 Justice Court

1200 Constables

1300 Victims' Assistance

1400 Public Defender

1500 Law Library

1600 County Manager

1700 Internal Audit

1800 Budget

1900 Finance

2000 Purchasing

2100 Personnel

2200 Facilities Management

2300 Risk Management

2400 Management Systems Analysis

2500 Information Technology
2600 Communications
2700 Planning and Zoning
2800 Airport
2900 Maintenance—Buildings and Grounds

Public Safety

3000 Adult Probation
3100 Juvenile Court—Probation
3200 Medical Examiner
3300 Sheriff
3400 Jail
3500 Emergency Services
3600 Flood Control
3700 Building, Electrical, Plumbing Inspection

Highways and Streets

4000 Road
4100 Street Lighting
4200 Public Works Reserve

Sanitation

4500 Sanitary Landfill
4600 Wastewater—Solid

Health

5000 Air Pollution
5100 Public Health Services
5200 Family Planning
5400 Health
5500 Rabies and Animal Control

Welfare

5600 AHCCCS
5800 Long-Term Care System
5900 Housing
6000 Community Services
6100 Public Fiduciary

Culture and Recreation

7000 County Library

7100 Fairs

7200 Parks and Recreation

7300 Racing

Education

8000 School Superintendent

Economic Opportunity

8500 (County may determine necessary departments)

Conservation

9000 (County may determine necessary departments)

Urban Redevelopment and Housing

9500 Community Development

9600 Housing Authority

OBJECT CODES

Asset Object Codes

Object Code	Subobject Code	Description
100		**Cash in Bank and on Hand**—Currency, coin, checks, money orders, bank drafts, and demand deposits with financial institutions including amounts in revolving fund checking accounts.
	.10	In bank
	.20	On hand
	.30	Change fund
	.40	Petty cash
101		**Cash and Investments Held by the County Treasurer**
102		**Certificates of Deposit**
103		**Investments**—Securities and other instruments held for the production of income.
	.10	Government securities
	.20	Repurchase agreements
	.90	Other
104		**Cash and Investments Held by Trustee**—Cash and investments such as certificates of deposit and government securities held by trustees, such as commercial banks, for the payment of matured bonds and interest.
105		**Unamortized Premium on Investments** (debit)—The excess of the amount paid for investments, excluding amounts paid for accrued interest, over their face value, which remains to be amortized over the life of the investments.
106		**Unamortized Discount on Investments** (credit)—The excess of the investments' face value over the amount paid for them, excluding accrued interest.
110		**Real Property Taxes Receivable—Current**—The uncollected portion of property taxes on real property that has been levied and has become due, but for which no penalty has yet been assessed for nonpayment.
111		**Real Property Taxes Receivable—Delinquent**—Property taxes on real personal property remaining unpaid on or after the date on which a penalty for nonpayment attaches.
	.10	First preceding year
	.20	Second preceding year
	.30	Third preceding year
	.40	Fourth preceding year
	.50	Fifth preceding year
	.60	Prior to fifth preceding year

Asset Object Codes

Object Code	Subobject Code	Description
112		**Allowance for Uncollectible—Current Real Property Taxes**—That portion of current real property taxes receivable that it is estimated will never be collected. Real Property Taxes Receivable—Current is shown net of this amount on the balance sheet.
113		**Allowance for Uncollectible—Delinquent Real Property Taxes**—That portion of delinquent real property taxes receivable that it is estimated will never be collected. Real Property Taxes Receivable—Delinquent is shown net of this amount on the balance sheet.
	.10	First preceding year
	.20	Second preceding year
	.30	Third preceding year
	.40	Fourth preceding year
	.50	Fifth preceding year
	.60	Prior to fifth preceding year
114		**Personal Property Taxes Receivable—Current**—The uncollected portion of taxes on personal property that has been levied and has become due but on which a penalty has not yet been assessed for nonpayment.
115		**Personal Property Taxes Receivable—Delinquent**—Personal property taxes remaining unpaid on or after the date on which a penalty for nonpayment attaches.
	.10	First preceding year
	.20	Second preceding year
	.30	Third preceding year
	.40	Fourth preceding year
	.50	Fifth preceding year
	.60	Prior to fifth preceding year
116		**Allowance for Uncollectible—Current Personal Property Taxes—**That portion of current personal property taxes receivable that it is estimated will never be collected. Personal Property Taxes Receivable—Current is shown net of this amount on the balance sheet.
117		**Allowance for Uncollectible—Delinquent Personal Property Taxes—**That portion of delinquent personal property taxes receivable that it is estimated will never be collected. Personal Property Taxes Receivable—Delinquent is shown net of this amount on the balance sheet.
	.10	First preceding year
	.20	Second preceding year
	.30	Third preceding year
	.40	Fourth preceding year
	.50	Fifth preceding year

Asset Object Codes

Object Code	Subobject Code	Description
	.60	Prior to fifth preceding year
118		**Interest and Penalties Receivable on Taxes**—The uncollected portion of interest and penalties receivable on taxes.
	.10	Interest
	.20	Penalties
119		**Allowance for Uncollectible—Interest and Penalties**—That portion of interest and penalties receivable that it is estimated will never be collected. Interest and Penalties Receivable on Taxes are shown net of this amount on the balance sheet.
	.10	Interest
	.20	Penalties
120		**Accounts Receivable—**Amounts owing on open accounts from patients, other private individuals, or organizations for goods or services furnished by the county, but not including Property Taxes Receivable, Special Assessments Receivable, or amounts due from other funds or from other governmental units.
121		**Allowance for Uncollectible—Accounts Receivable**—That portion of accounts receivable that it is estimated will never be collected. Accounts Receivable is shown net of this amount on the balance sheet.
122		**Allowance for Contractual Adjustments**—**Accounts Receivable**—That portion of accounts receivable owing from third-party reimbursers of patient services representing the difference between amounts billed and amounts payable under the third-party reimbursement program.
123		**Special Assessments Receivable—Current**—The uncollected portion of special assessments that a county has levied and that has become due but on which a penalty has not yet been assessed for nonpayment.
124		**Special Assessments Receivable—Delinquent**—Special assessments remaining unpaid on or after the date on which a penalty for nonpayment is attached.
125		**Allowance for Uncollectible—Current Special Assessments**—That portion of current special assessments receivable that it is estimated will never be collected. Special Assessments Receivable—Current is shown net of this amount on the balance sheet.
126		**Allowance for Uncollectible—Delinquent Special Assessments**—That portion of delinquent special assessments receivable that it is estimated will never be collected. Special Assessments Receivable—Delinquent is shown net of this amount on the balance sheet.
127		**Special Assessments Receivable—Noncurrent**—Special assessments that have been levied but are not yet due.
128		**Notes Receivable**—Amounts that the county has a legal right to receive based on an unconditional written promise signed by the maker.
129		**Loans Receivable**—Amounts that have been loaned to entities external to the county, such as a County Improvement District.

Asset Object Codes

Object Code	Subobject Code	Description
130		**Accrued Interest Receivable**—Amount of interest receivable on investments, including interest purchased.
131		**Deposits Held in Custody by Others**—Monies held by others that are refundable to the county based on the passage of time or certain events.
132		**Due from Other Funds**—Amounts owed to a particular fund by another fund within the county for goods sold or services rendered.
	.10	Due from General Fund
	.20	Due from Road Fund
	.30	Due from Health Department Fund
	.90	Due from other funds
133		**Due from Other Governments**
	.10	Due from federal government
	.20	Due from state government
	.30	Due from county governments
	.40	Due from city governments
	.90	Other
134		**Interfund Receivables**—Amounts receivable arising in connection with short-term loans between funds and the current portion of advances between funds.
	.10	From General Fund
	.20	From Road Fund
	.90	From other funds
140		**Inventory of Materials and Supplies**—Materials and supplies on hand.
	.10	Office
	.20	Operating
	.30	Repair and maintenance
	.40	Small tools and minor equipment
	.50	For resale
	.90	Other
150		**Prepaid Items**—Charges recorded in the accounts for benefits not yet received. Prepaid items differ from deferred charges in that they are spread over a shorter period than deferred charges and are regularly recurring costs of operation.
	.10	Prepaid rent
	.20	Prepaid insurance premiums
151		**Deferred Charges**—Nonregularly recurring, noncapital costs of operations that benefit future periods, such as bond issuance costs recorded in a Proprietary Fund.

Asset Object Codes

Object Code	Subobject Code	Description
152		**Advance to Other Funds**—Amounts that are owed, other than charges for goods and services rendered, to a particular fund by another county fund, and that are not due within one year.
160		**Land**—Land purchased or otherwise acquired by the county. Includes costs incurred to put the land in condition for its intended use.
161		**Buildings**—Permanent structures (and improvements thereon) purchased or otherwise acquired by the county. Includes costs incurred in the acquisition of buildings.
162		**Accumulated Depreciation—Buildings**—A contra-asset account used to report the accumulation of periodic credits to reflect the expiration of the estimated service life of buildings attributable to wear and tear through use and lapse of time, obsolescence, inadequacy, or other physical or functional cause. (See **§VI-E, Capital Assets**.)
163		**Improvements Other Than Buildings**—Permanent improvements other than buildings that add value to land or leaseholds. Examples include fences, retaining walls, sidewalks, and parking lots.
164		**Accumulated Depreciation—Improvements Other Than Buildings**—An account of the same nature and used in the same manner as Accumulated Depreciation—Buildings.
165		**Machinery and Equipment**—Tangible property of a permanent nature, other than land, buildings and improvements. Examples include machinery, tools, vehicles, and furnishings.
166		**Accumulated Depreciation—Machinery and Equipment**—An account of the same nature and used in the same manner as Accumulated Depreciation—Buildings.
167		**Construction in Progress**—The cost of construction projects undertaken but not yet completed.
168		**Infrastructure**—Long-lived capital assets that are normally stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets. Examples include roads, bridges, tunnels, drainage systems, water and sewer systems, dams, and lighting systems.
169		**Accumulated Depreciation—Infrastructure**—An account of the same nature and used in the same manner as Accumulated Depreciation—Buildings.

Liability Object Codes

Object Code	Subobject Code	Description
200		**Warrants Payable**—Amount of warrants outstanding and unpaid.
201		**Accounts Payable**—Amounts owed to private individuals or organizations on open account for goods and services received (but not including amounts due to other funds or to other governments).
202		**Contracts Payable**—Amounts due on contracts for goods and services furnished to the county.
	.10	Automotive
	.20	Office equipment
	.30	Construction
	.31	Construction equipment
	.40	Communication equipment
	.50	Medical and laboratory equipment
	.60	Buildings
	.70	Grounds
	.80	Infrastructure
	.90	Other
203		**Contracts Payable—Retainage**—Amounts withheld on completed construction contracts pending final inspection or the lapse of a specified time, or both.
204		**Accrued Payroll and Employee Benefits**—Amounts due to employees for salaries and wages earned between the last payroll payment date and the last day of the reporting period. Includes matching amounts provided by the county for social security, retirement, insurance, and other benefits, and for other payroll-related liabilities, such as unemployment compensation insurance, that have not been paid to the appropriate agencies.
	.10	Salaries and wages
	.20	Social Security contributions
	.21	Medicare contributions
	.30	Arizona state retirement
	.31	Public safety personnel retirement
	.32	Elected officials retirement
	.33	Corrections officers retirement
	.40	Health insurance
	.41	Dental insurance
	.42	Life insurance
	.50	Unemployment compensation insurance
	.51	Workers' compensation insurance

Liability Object Codes

Object Code	Subobject Code	Description
	.60	Compensated absences (vacation, sick leave)
	.90	Other
205		**Employee Payroll Withholdings and Deductions—**A liability for deductions from employees' salaries and wages that have not yet been paid to the appropriate agencies.
	.10	Federal income taxes
	.20	State income taxes
	.30	Social Security contributions
	.31	Medicare contributions
	.40	Arizona state retirement
	.41	Public safety personnel retirement
	.42	Elected officials retirement
	.43	Corrections officers retirement
	.50	Health insurance
	.51	Dental insurance
	.52	Life insurance
	.60	Credit union
	.70	Savings bonds
	.71	Deferred compensation
	.80	Dues
	.90	Other
206		**Accrued Taxes**—A liability for taxes that have accrued since the last payment date but are not yet due. Normally, this liability is found only in Enterprise Funds.
207		**Accrued Interest**—Amount reflecting interest cost that has been incurred but is not due until a later date. Does not include bond interest.
208		**Claims and Judgments Payable**—Amounts owed as the result of administrative or court decisions, including workers' compensation, unemployment, improper arrests, property damage, and condemnation awards.
209		**Notes Payable**—Unconditional written promise to pay a certain sum of money on demand or at a fixed or determinable time.
	.10	Grant anticipation
	.20	Revenue anticipation
	.30	Tax anticipation
	.40	Bond anticipation
220		**Due to Other Funds**—Amounts owed by a particular fund to another fund in the same county for goods sold or services rendered.

Liability Object Codes

Object Code	Subobject Code	Description
	.10	Due to General Fund
	.20	Due to Road Fund
	.30	Due to Health Department Fund
	.90	Due to other funds
221		**Due to Other Governments**—Amounts owed by the county to the named government.
	.10	Due to federal government
	.20	Due to state government
	.30	Due to county governments
	.40	Due to city governments
	.90	Other
222		**Interfund Payables**—Obligations arising from short-term loans between funds and the current portion of advances between funds.
	.10	To General Fund
	.20	To Road Fund
	.90	To other funds
223		**Due to Fiscal Agent**—Amounts due to fiscal agents, such as commercial banks, for servicing maturing indebtedness.
224		**Deposits Held for Others**—Monies held that are refundable based on the passage of time or certain events.
225		**Claims Reported but Unpaid**—The amount required, according to a county self-insurance program, to provide for settling claims for reported events that have occurred and for which the county is liable.
226		**Claims Incurred but Not Reported**—The amount required, according to a county self-insurance program, to provide for settling claims that have occurred but have not yet been reported.
230		**Installment Purchase Contracts Payable**—Discounted present value of total future stipulated payments on installment-purchase contracts. Such contract agreements may extend beyond one year only if the Board of Supervisors has the option, at the end of each fiscal year, to cancel the agreement.
231		**Obligations Under Capital Leases**—Discounted present value of total future stipulated payments on capital leases. Such lease agreements may extend beyond one year only if the Board of Supervisors has the option, at the end of each fiscal year, to cancel the agreement.
235		**Landfill Closure and Postclosure Care Costs Payable**—That portion of Municipal Solid Waste Landfill closure and postclosure care estimated total current cost allocated to the current and previous periods that will result in a disbursement near or after the date the landfill stops accepting solid waste.

Liability Object Codes

Object Code	Subobject Code	Description
240		**Bond Interest Payable**—Amount of interest accrued on bonds at the end of the reporting period that has not been paid.
241		**General Obligation Bonds Payable**—Face value of general obligation bonds issued and outstanding.
242		**Revenue Bonds Payable**—Used in Enterprise Funds to record bonds issued when the resources for repayment are the net revenues generated by the enterprise activity.
243		**Special Assessment Debt with Government Commitment**—That portion of special assessment debt to be repaid from special assessment revenues and for which the county is obligated in some manner.
244		**Unamortized Premiums on Bonds—**The unamortized portion of the excess of bond proceeds over their face value, excluding accrued interest and issuance costs.
245		**Unamortized Discounts on Bonds**—The unamortized portion of the excess of the bond's face value over the amount received from their sale, excluding accrued interest and issuance costs.
250		**Advance from Other Funds**—Amounts that are owed, other than charges for goods and services rendered, by a particular fund to another fund within the county and that are not due within one year.
255		**Deferred Revenues—**Amounts for which revenue recognition criteria have not been met but asset recognition criteria have been met. Examples include revenues collected before they are earned, or revenues that are measurable, but not available such as property taxes or grants.
257		**Other Noncurrent Liabilities**

Fund Balance/Net Assets Object Codes

Object Code	Subobject Code	Description
270		**Net Assets—Invested in capital assets, net of related debt—**In the Proprietary Fund, the portion of net assets invested in capital assets less accumulated depreciation and debt directly related to capital assets.
280		**Net Assets—Restricted**—The accumulated earnings of a Proprietary Fund that have been retained in the fund and are restricted for specific purposes. Restrictions may be externally imposed by creditors, grantors, contributors, or laws or regulations of other governments. In addition, restrictions may be imposed by law through constitutional provisions or enabling legislation.
	.10	Restricted for bond retirement
	.20	Restricted for bond renewal and replacement
281		**Net Assets—Unrestricted**—The accumulated earnings of a Proprietary Fund that have been retained in the fund and are not restricted for any specific purpose.
	.10	Designated
	.20	Undesignated
290		**Fund Balance—Reserved—**Those portions of fund balance that are not appropriable for expenditure or that are legally segregated for a specific future use.
	.10	Reserved for inventories
	.20	Reserved for loans
	.30	Reserved for debt service
	.40	Reserved for self-insurance
	.50	Reserved for prepaid items
	.60	Reserved for advance to other funds
	.90	Reserved for other purposes
291		**Fund Balance—Unreserved**—That portion of fund balance that is available for appropriation.
	.10	Designated
	.20	Undesignated

Revenue Object Codes

Object Code	Subobject Code	Description
300		**Taxes**
301		**Real Property Taxes**
	.10	Current
	.20	First preceding year
	.30	Second preceding year
	.40	Third preceding year
	.50	Fourth preceding year
	.60	Fifth preceding year
	.70	Prior to fifth preceding year
302		**Personal Property Taxes**
	.10	Current
	.20	First preceding year
	.30	Second preceding year
	.40	Third preceding year
	.50	Fourth preceding year
	.60	Fifth preceding year
	.70	Prior to fifth preceding year
303		**Interest and Penalties on Delinquent Taxes**—Amounts collected as penalties for delinquent tax payment, and the interest charged on delinquent taxes from the due date to the date of actual payment.
	.10	Interest
	.20	Penalties
305		**Excise Tax**
	.10	Transportation excise tax
	.20	County hotel excise tax
	.30	County general excise tax
	.40	County jail district excise tax
309		**Other Taxes**
310		**Special Assessments Levied—Taxing Districts**
	.10	Special Assessments Levied—Capital improvement
	.20	Special Assessments Levied—Service
311		**Special Assessments Levied—Nontaxing Districts**
	.10	Special Assessments Levied—Capital improvement
	.20	Special Assessments Levied—Service
320		**Licenses and Permits**

Revenue Object Codes

Object Code	Subobject Code	Description
321		**Business Licenses and Permits**—Revenues from license and permit fees of businesses and occupations that must be licensed before doing business within the county.
	.10	Peddlers' licenses
	.20	Pawn shop licenses
	.30	Bingo licenses
	.40	Cable television licenses and operating fees
	.50	Liquor licenses
	.90	Other business licenses and permits
322		**Nonbusiness Licenses and Permits—**Revenues from nonbusiness licenses and permits levied according to benefits presumably conferred by the license or permit.
	.10	Building safety and construction permits
	.20	Mobile home/trailer use permits
	.30	Planning variance permits
	.40	Marriage licenses
	.50	Flood control licenses
	.51	Groundwater transportation fees
	.60	Animal licenses
	.70	Air pollution permits
	.71	Environmental installation, operating, and general permits
	.90	Other nonbusiness licenses or permits
330		**Intergovernmental**
331		**Federal Grants—**Contributions or gifts of cash or other assets from the federal government to be used or expended by the county for a specified purpose, activity, or facility.
332		**Federal Shared**—Revenues levied by the federal government but shared with the county on a predetermined basis, often in proportion to the amount collected at the county level.
	.10	National forest fees
333		**Federal Payments in Lieu of Taxes—**Payments from the federal government relating to federally owned properties falling within the county's geographical boundaries on which it cannot levy property taxes.
	.10	Public lands
335		**State Grants—**Contributions or gifts of cash or other assets from the State to be used or expended by the county for a specified purpose, activity, or facility.

Revenue Object Codes

Object Code	Subobject Code	Description
336		**State Shared**—Revenues levied by the state government but shared with the county on a predetermined basis, often in proportion to the amount collected at the county level.
	.10	Sales tax
	.20	Liquor licenses
	.30	Highway user revenues
	.40	Transient occupancy bed tax
	.50	County assistance
	.60	Local transportation assistance
	.70	Vehicle license tax
337		**State Payments in Lieu of Taxes**
338		**Payments from Local Units in Lieu of Taxes**
	.10	Salt River Project
	.20	Cities
340		**Charges for Services**
		General Government
	.10	Court fees
	.11	Legal services/attorneys' fees
	.12	Jury fees
	.13	Probate fees
	.14	Notary bond fees
	.15	Zoning application fees
	.16	Subdivision fees
	.17	Recording fees
	.18	Certification fees
	.19	Public facility development fees
	.20	Other
		Public Safety
	.21	Special law enforcement services
	.22	Probation program—room and board charges
	.23	Correctional housing—federal, state, city
		Highways and Streets
	.30	Street, sidewalk, and curb repairs
	.31	Subdivision inspection fees

Revenue Object Codes

Object Code	Subobject Code	Description
		Sanitation
	.40	Landfill charges
	.41	Sewer connection fees
		Health
	.50	Birth/death certificates
	.51	Hazardous materials/environmental inspection fees
	.52	Medical services fees
	.53	Kennel/impound/animal adoption fees
	.59	Other
		Welfare
	.60	Institutional charges
		Culture and Recreation
	.70	Golf course fees
	.71	Park entrance fees
	.72	Target range fees
	.73	Camping and campground registration fees
	.75	Recreational activities fees
	.79	Other
		Internal Service Fund Charges
	.80	Data processing services
	.81	Equipment services
	.82	Communication services
	.83	Self-insurance
	.84	Warehouse services
	.85	Automotive/transportation services
	.86	Print shop services
345		**Patient Services**—Charges to patients and third-party reimbursers for nursing and professional services.
346		**Inpatient Services**—Charges for services provided to patients expected to remain at least overnight.
	.10	Regular
	.20	Medicare
	.30	Insurance
	.40	County
	.50	AHCCCS

Revenue Object Codes

Object Code	Subobject Code	Description
347		**Outpatient Services**—Charges for services provided to patients who are not confined to overnight care.
	.10	Regular
	.20	Medicare
	.30	Insurance
	.40	County
	.50	AHCCCS
348		**Long-Term Care**
	.10	Long-Term Care Facilities
	.20	Home Health
350		**Fines and Forfeits**
351		**Fines**—Monies derived from fines and penalties imposed for the commission of statutory offenses, violation of lawful administrative rules and regulations, and for the neglect of official duty.
	.10	Court
	.20	Library
352		**Forfeits—**Includes monies derived from confiscated deposits held as performance guarantees.
360		**Investment—**Revenue from holdings invested for earning purposes.
	.10	Interest on investments—Includes interest received from securities and other instruments held for the production of income.
	.20	Net increase/(decrease) in the fair value of investments—The difference between the fair value of investments at the beginning of the fiscal year and at the end of the fiscal year, taking into consideration investment purchases, sales, and redemptions.
370		**Rents, Royalties, and Commissions—**Amounts derived from others' use of the county's tangible and intangible assets.
380		**Contributions**
	.10	From public enterprises
	.20	From private sources
390		**Miscellaneous**
	.10	Concessions
	.20	Indirect cost/overhead reimbursement
	.30	Escheat

Revenue Object Codes

Object Code	Subobject Code	Description
395		**Deductions from Revenue (Contra Revenue)**
	.10	Contractual adjustments
	.20	Administrative adjustments

Expenditure Object Codes

Object Code	Subobject Code	Description
400		**Personal Services**—Amounts paid for salaries, wages, and related employee benefits provided for county employees.
401		**Salaries and Wages**—Gross salary and wages for personal services rendered by both permanent and temporary employees.
	.10	Regular salaries and wages—Salaries and wages, excluding overtime, paid to permanent full-time and permanent part-time employees.
	.20	Temporary employees—Full-time or part-time wages paid to employees hired on a temporary or substitute basis.
	.30	Overtime—Amounts paid to either permanent or temporary employees for work performed in addition to the normal work period for which the employee is compensated.
	.40	On-call pay
	.50	Shift differential
	.60	Holiday pay—Wages paid for actual hours worked on legal holidays as authorized by statute.
	.70	Lobbyist compensation—Salaries and wages paid to county employees engaged in lobbying activities.
402		**Employee Benefits**—Amounts the county paid on behalf of employees. These amounts are not included in gross salary.
	.10	Social Security contributions
	.11	Medicare contributions
	.20	Arizona state retirement
	.21	Public safety personnel retirement
	.22	Elected officials retirement
	.23	Corrections officers retirement
	.30	Health insurance
	.31	Dental insurance
	.32	Life insurance
	.40	Unemployment compensation insurance
	.41	Workers' compensation insurance
	.90	Other
410		**Supplies**—Amounts paid for items that are consumed or materially altered when used.
411		**Office Supplies**
412		**Operating Supplies**
	.10	Agricultural/landscaping
	.20	Food

Expenditure Object Codes

Object Code	Subobject Code	Description
	.21	Food preparation/kitchen and dining
	.30	Drugs and medicine
	.40	Laboratory
	.50	Cleaning and sanitation
	.60	Fuel, oil, and lubricants
	.61	Oxygen and chemicals
	.70	Household, laundry, and institutional
	.80	Clothing, uniforms, and safety apparel
	.90	Recreational arts and crafts
	.91	Other
413		**Repair and Maintenance Supplies**
	.10	Buildings and grounds
	.20	Painting
	.30	Structural steel, iron, and related metals
	.40	Plumbing
	.50	Electrical
	.60	Motor vehicle repair
	.70	Road repair
	.80	Communication equipment
	.90	Other
414		**Small Tools and Minor Equipment**—Cost of items less than $5,000 but of a durable, nonconsumable nature.
420		**Other Services and Charges**—Amounts expended for services other than Personal Services that are required by the county in the administration of its assigned functions.
421		**Professional Services**—Professional services rendered by individuals not on the county payroll.
	.10	Legal
	.11	Arbitration
	.12	Reporting and transcribing
	.13	Expert witnesses and interpreters
	.20	Data processing
	.30	Accounting and auditing
	.40	Consulting
	.50	Medical

Expenditure Object Codes

Object Code	Subobject Code	Description
	.60	Laboratory and X-ray
	.70	Architectural and engineering
	.80	Lobbyist
	.90	Other
422		**Utilities**
	.10	Electricity
	.20	Natural gas
	.30	Water
	.40	Refuse disposal
	.50	Sewage disposal
	.90	Other utility services—Cost of butane, coal, firewood, fuel oil, and other heating and cooling supplies.
423		**Communications**—Cost of transmitting or receiving messages or information.
	.10	Telephone
	.20	Internet
	.30	Postage
424		**Travel and Transportation**—Charges for personal car use, employee travel expense, charges for vehicles accounted for in an Internal Service Fund, and charges for shipping goods and other assets. Travel expenses relating to lobbying should be recorded under object code 425.
	.10	Travel expenses—in-state
	.20	Travel expenses—out-of-state
	.30	Travel expenses—witnesses
	.40	Travel expenses—extradition and investigation
	.50	Motor pool charges
	.60	Freight charges
	.70	Moving expenses
	.90	Other
425		**Lobbying**—Amounts expended for meals, lodging, or other items incurred by a county employee or professional lobbyist in attempting to influence the passage or defeat of any legislation by communicating with any legislator on behalf of the county.
	.10	Food or beverages
	.20	Speaking engagement
	.30	Travel and lodging
	.40	Flowers

Expenditure Object Codes

Object Code	Subobject Code	Description
	.90	Other
426		**Advertising**—Amounts expended for publication of notices and reports, excluding printing and binding costs.
	.10	Legal notices
	.20	Tax sales
427		**Printing and Microfilming**—Expenditures for printing, microfilming, duplicating, or binding, whether done in-house or by outside vendors.
	.10	Printing and microfilming
	.20	Binding
	.30	Duplicating
428		**Insurance**—All insurance costs other than those related to Personal Services.
	.10	Automotive
	.20	Boiler
	.30	Property
	.40	Fire
	.50	General liability
	.60	Malpractice
	.61	False arrest
	.70	Official and blanket bonds
	.80	Claims service fees
	.90	Other
429		**Operating Leases and Rentals**—Lease and rental payments for land, buildings, grounds, equipment, polling places, and storage space. Periodic payments on capital leases should be recorded under object code 464—Other Long-Term Debt Principal Retirement and object code 465—Other Long-Term Debt Interest.
	.10	Office equipment
	.20	Medical equipment
	.30	Maintenance equipment
	.40	Communication equipment
	.50	Duplicating equipment
	.60	Buildings
	.70	Land
	.80	Autos and trucks (excluding travel status rentals)
	.90	Other

Expenditure Object Codes

Object Code	Subobject Code	Description
430		**Repairs and Maintenance**—Charges for repairing or maintaining buildings, structures, improvements, infrastructure, and equipment.
	.10	Automotive
	.20	Office equipment
	.30	Construction equipment
	.40	Communication equipment
	.50	Medical and laboratory equipment
	.60	Buildings
	.70	Grounds
	.80	Data processing/computer equipment
	.85	Infrastructure
	.90	Other
431		**Aid to Other Governments**—Contributions to other governmental entities that benefit the county in some way.
	.10	Agricultural Extension Service
	.20	Immigration Commission
	.30	Arizona Safety Council
	.40	Arizona State Fair
	.50	Fire districts
	.90	Other
432		**Support and Care of Persons**—Expenditures for indigents or others, for whom the county has assumed the burden of support in other than county facilities, excluding medical services.
	.10	County inmates
	.20	Foster home
	.30	Transportation and ambulance
	.40	Search and rescue
	.50	Nursing home
	.60	Burials
	.90	Other
433		**Interest**
	.10	Registered warrants
	.20	Revolving line of credit
	.30	Grant anticipation notes
	.40	Revenue anticipation notes

Expenditure Object Codes

Object Code	Subobject Code	Description
	.50	Tax anticipation notes
	.60	Bond anticipation notes
	.90	Other
434		**Miscellaneous**
	.10	Court costs and investigations
	.20	Judgments and damages
	.30	Dues, memberships and subscriptions
	.40	Information and credit services
	.41	Laundry services
	.50	Jury fees and expenses
	.60	Education
	.70	Use tax and assessments
	.80	Bad debt expense
	.90	Other
435		**Landfill Closure and Postclosure Care Costs**—For Municipal Solid Waste Landfill activities accounted for in an Enterprise Fund, the portion of estimated total current cost of closure and postclosure care recognized as an expense in the current year.
440		**Depreciation**—Used to record charges relating to the expiration of the service life of buildings, improvements, infrastructure, and equipment attributable to wear and tear, deterioration, inadequacy, or obsolescence.
	.10	Buildings
	.20	Improvements other than buildings
	.30	Machinery and equipment
	.40	Infrastructure
450		**Capital Outlay**
451		**Land**—Amounts expended for the acquisition of land. Include in this account land costs for appraisal and negotiation fees, escrow fees and title insurance, cost of obtaining consents, payments for damages, clearing land for use, cost of demolishing or relocating structures, and like costs incurred to put the land in condition for its intended use.
452		**Buildings**—Amounts expended for the acquisition of buildings and for building improvements. Include in this account the cost of fixtures attached to and forming a permanent part of existing buildings such as boilers, air conditioning units, and permanent walls.
453		**Improvements Other Than Buildings**
	.10	Parking lots

Expenditure Object Codes

Object Code	Subobject Code	Description
	.20	Fences
	.30	Piers and launching ramps
	.90	Other
454		**Machinery and Equipment**
	.10	Motor vehicles
	.20	Communications
	.30	Furniture
	.40	Office machines
	.50	Data processing
	.60	Construction
	.70	Engineering and scientific
	.80	Kitchen and laundry
	.90	Medical and laboratory
	.95	Watercraft
455		**Construction in Progress**
456		**Infrastructure**
	.10	Sewer systems
	.20	Water systems
	.30	Roads
	.40	Bridges
	.90	Other
460		**Debt Service**
461		**Bond Principal Retirement**—Bond principal maturing in the current fiscal year.
462		**Bond Interest**—Interest on bonded debt only.
463		**Bond Fiscal Charges**—Payments to financial institutions for services rendered in paying interest and redeeming debt at maturity.
464		**Other Long-Term Debt Principal Retirement**—Principal maturing in the current fiscal year on long-term debt other than bonds.
	.10	Capital lease payments
	.20	Installment purchase contracts
	.30	Other long-term debt payments
465		**Other Long-Term Debt Interest**—Interest on long-term debt other than bonds.
	.10	Capital leases
	.20	Installment purchase contracts

Expenditure Object Codes

Object Code	Subobject Code	Description
	.30	Other long-term debt
466		**Advance Refunding Escrow**—Payments made to an escrow agent from sources other than refunding bond proceeds. Payments made from refunding bond proceeds should be recorded as object code 543—Payment to Refunded Bond Escrow Agent.

Other Financing Sources and Uses Object Codes

Object Code	Subobject Code	Description
500		**Other Financing Sources and Uses**—Certain increases and decreases in Governmental Fund resources not classified as revenues and expenditures.
510		**Proceeds from Sale of General Obligation Bonds**—Financial resources provided by the issuance of bonds backed by the county's full faith and credit.
511		**Proceeds from Sale of Refunding Bonds**—Financial resources provided by the issuance of new debt issued to retire bonds already outstanding.
512		**Proceeds from Sale of Revenue Bonds**—Financial resources provided by the issuance of bonds that will be repaid from the earnings of an Enterprise Fund.
513		**Proceeds from Sale of Special Assessment Bonds—**Financial resources provided by the issuance of bonds for which the county is obligated in some manner to repay, and which will be repaid from general governmental resources.
520		**Capital Lease Agreements—**Present value amount of the minimum lease payments at the inception of a capital lease.
530		**Installment Purchase Agreements—**Present value amount of the minimum installment purchase payments at the inception of an installment purchase.
540		**Proceeds from Sale of Capital Assets—**Amounts provided from the sale of capital assets purchased with governmental funds resources.
541		**Gain/(Loss) on Sale of Capital Assets—**Used in Proprietary Funds to account for the excess or deficiency of proceeds from the sale of capital assets over/under the cost of the assets less accumulated depreciation.
543		**Payment to Refunded Bond Escrow Agent—**Payments to an escrow agent from resources provided by issuance of refunding bonds. If such payment is made from other than refunding bond proceeds, it should be recorded as object code 466—Advance Refunding Escrow.
544		**Compensation for Loss of Capital assets—**Amounts received from insurance claims for the casualty loss of capital assets.
550		**Interfund Transfers In—**All interfund transfers from other funds.
560		**Interfund Transfers Out—**All interfund transfers to other funds.
570		**Special Items—**Significant transactions or other events within the control of management that are either unusual in nature or infrequent in occurrence.
580		**Extraordinary Items—**Transactions or other events that are both unusual in nature and infrequent in occurrence.

Budgetary Accounts Object Codes

Object Code	Subobject Code	Description
600		**Estimated Revenues—**A budgetary account used to estimate revenues to be received or to become receivable during the fiscal year. At the end of the fiscal year, the account is closed.
601		**Revenues—**Increases in fund financial resources other than from interfund transfers and debt issue proceeds. This account appears only in financial statements prepared during the fiscal year, and is shown as a deduction from Account 600—Estimated Revenues, to arrive at the amount of estimated revenues remaining to be realized. The account is closed out at fiscal year-end and does not appear in a financial statement prepared as of the close of the fiscal year.
610		**Appropriations—**A budgetary account used to record the expenditures adopted in the annual budget. At the end of the fiscal year, this account is closed.
611		**Expenditures—**Decreases in fund financial resources other than through interfund transfers. This account appears only in financial statements prepared during the fiscal year and designates the total of expenditures charged against appropriations during such year. The account is shown in interim financial statements as a deduction from Account 610—Appropriations, to arrive at the unexpended balance of total appropriations. The account is closed out at fiscal year-end and does not appear in a financial statement prepared as of the close of the fiscal year.
620		**Encumbrances—**Commitments related to unperformed (executory) contracts for goods or services represented by purchase orders, contracts, or salary commitments that are chargeable to an appropriation and for which a part of the appropriation is reserved. In interim financial statements, encumbrances are deducted along with the expenditures from appropriations to show the unencumbered balance of appropriations. The account is closed out at fiscal year-end and does not appear in a financial statement prepared as of the close of the fiscal year.
630		**Reserve for Encumbrances—**A reserve segregating a portion of a fund balance to provide for unliquidated encumbrances. The account is closed out at fiscal year-end and does not appear in a financial statement prepared as of the close of the fiscal year.

CONTENTS

INTRODUCTION

The budgeting process enables counties to implement an itemized, authorized, and systematic plan of operation. Budgets assist in management control and provide the legal authority to levy taxes, collect revenue, and make expenditures in accordance with the budget. The budgeting process provides an opportunity to examine the makeup and feasibility of a county's resources, programs, and activities and results in a document that reflects a county's objectives and priorities. The budget is used to monitor and control operations for the fiscal year.

Although budgets are developed internally by county management, they are also influenced by taxpayers, legislators, government agencies, private industry, and county staff. The concerns of these special interest groups should be addressed either directly or indirectly in the budgeting process.

The Office of the Auditor General develops annual county budget forms as required by Arizona Revised Statutes (A.R.S.) §§42-17101 and 42-17102. Each county must complete the official budget forms in accordance with the detailed instructions provided. However, a county may choose to add more information or detail than is required.

Counties must prepare annual budgets for all funds except internal service, agency, investment trust, and private-purpose trust funds. Such budgets include estimated revenues and expenditures/expenses for the fiscal year and other information required by statute. Fund financial statements are prepared on the modified accrual or accrual basis of accounting, as appropriate. For consistency, the budget should be prepared on a similar basis. The modified accrual basis of accounting is required for budgets of the general, special revenue, debt service, capital projects, and permanent funds. The accrual basis of accounting is required for budgets of enterprise funds. Annual budgets for internal service, agency, investment trust, and private-purpose trust funds, while not required, may be prepared for internal management purposes.

Counties may prepare flexible budgets for the enterprise funds to be used as an internal management tool. Generally, the nature of operations financed and accounted for through enterprise funds is such that the demand for the goods and services provided primarily determines the level of revenues earned and expenses incurred.

Also, as an internal management tool, counties may develop long-term budgets for the acquisition and financing of major capital facilities. The capital budget should cover a specified number of years, be revised annually, and be extended each year to keep its length constant. The capital budget should outline expenditures for new construction, major repairs or renovations, and major equipment items. Capital budgets are useful in establishing long-term goals and planning for resources to achieve those goals.

LEGAL REQUIREMENTS

The legal requirements governing county budgeting are primarily derived from A.R.S. and are summarized below. A summary of pertinent dates in the budgeting process is presented in **§II, Calendar of Events**.

1. The board of supervisors must determine the budgets of all elected and appointed county officers listed under A.R.S. §11-401. A.R.S. §11-201(A)(6)

2. On or before the third Monday in July each year, the county must prepare:
   - A full and complete statement of the county's financial affairs for the preceding fiscal year,
   - An estimate of the different amounts that will be required to meet the county's expenditures/expenses for the current fiscal year entered in the minutes of the board of supervisors and containing the items prescribed by A.R.S. §42-17102, and
   - A summary schedule of estimated expenditures and revenues in accordance with forms supplied by the Office of the Auditor General that must also be entered in the board's minutes. A.R.S. §42-17101
3. The budget estimates must be fully itemized in accordance with forms developed by the Office of the Auditor General, reporting under separate headings:
   - Estimated amounts for each department, public office, or official.
   - A complete disclosure and statement of the estimated expenditures for the current fiscal year, showing total expenditures by fund and the total for all funds. A.R.S. §42-17102(B)
4. Estimated total expenditures must not exceed the county's annually adjusted expenditure limitation as provided by the Economic Estimates Commission. A.R.S. §42-17102(C)
5. Once the budget is tentatively adopted, the county must publish its proposed budget, or summary thereof, and a notice of a public hearing and special meeting of the board of supervisors to hear taxpayers and make tax levies at designated times and places. The proposed budget, or summary thereof, and notice must be published once a week for at least 2 consecutive weeks in the official newspaper of the county, if there is one, and if not, in a newspaper of general circulation in the county. If a truth in taxation notice and hearing is required by A.R.S. §42-17107, the board may combine, in one publication, the proposed budget and notice of public hearing and special meeting of the board with the truth in taxation notice. When publishing the truth in taxation notice, the first publication must be at least 14 but not more than 20 days before the date of the truth in taxation hearing; the second publication must be at least 7 but not more than 10 days before the date of the hearing. A.R.S. §§42-17103 and 42-17107
6. The board of supervisors must hold the public hearing and special meeting (as noted in No. 5 above) on or before the 14th day before the day on which it levies taxes as stated in the notice under A.R.S. §42-17103. If a truth in taxation hearing is required under A.R.S. §42-17107, the board may combine the hearing on the proposed budget and the special meeting of the board with the truth in taxation hearing. If the Board of Supervisors fails to comply with the requirements of A.R.S. §42-17107, the Board must not fix, levy, or assess an amount of primary property taxes that exceeds the preceding year's amount, except for amounts attributable to new construction. A.R.S. §§42-17104 and 42-17107
7. After the hearing on the proposed budget is concluded, the board of supervisors must convene in a special meeting and finally determine and adopt the estimates of proposed expenditures. The adopted estimates constitute the budget of the county. A.R.S. §42-17105(A) and (B)
8. Total expenditures/expenses adopted in the final budget must not exceed total expenditures/expenses that were estimated in the proposed budget. A.R.S. §42-17105(C)

9. Except as provided in No. 10, a county may not:
   - Expend monies for a purpose that is not included in its budget.
   - Expend monies or incur or create a debt, obligation, or liability in excess of the amount stated for each purpose in the adopted budget for that year, regardless of whether the county has received, or has on hand, sufficient monies to do so. A.R.S. §42-17106(A)
10. The board of supervisors may transfer monies between budget items if all of the following apply:
    - The monies are available.
    - The transfer is in the public interest and based on a demonstrated need.
    - The transfer does not result in a violation of the limitations prescribed in Article IX, §§19 and 20, of the Arizona Constitution.
    - The board of supervisors approves the transfer by a majority vote at a public meeting. A.R.S. §42-17106(B)
11. On or before February 10 of the tax year, the county assessor must transmit and certify to the property tax oversight commission and the board of supervisors the total net primary assessed values that are required to compute the levy limit prescribed by A.R.S. §42-17051. For the purposes of A.R.S. §42-17052, these values must not be changed for the official calculation of levy limits and tax rates after February 10 without the approval of the Property Tax Oversight Commission. These values must include the finally equalized valuation of all property, less estimated exemptions, appearing on the tax roll for the current tax year. In addition, the values must include the value of the property on the personal property tax roll determined in accordance with A.R.S. §42-17053. If the proposed primary property tax levy, excluding amounts that are attributable to new construction, is greater than the amount levied in the preceding year, then the county must comply with truth in taxation requirements. A.R.S. §§42-17052 and 42-17107
12. When a tax rate is to be determined and taxes are levied, the county assessor must make an estimate of the personal property to be added to the tax roll for purposes of computing the property tax rates pursuant to A.R.S. §42-17151. A.R.S. §42-17053
13. On or before February 15 of the tax year, the board of supervisors must make available for public inspection the values determined in each numbered paragraph of A.R.S. §42-17051(A), relating to the computation of the maximum allowable primary property tax levy limit. A.R.S. §42-17055(A)
14. On or before the third Monday in August each year, the board of supervisors must:
    - Fix, levy, and assess the amount to be raised from primary and secondary property taxation. This amount, plus all other estimated sources of revenue and unencumbered balances from the preceding fiscal year, must equal budgeted expenditures for the current fiscal year.
    - Designate the amounts to be levied for each purpose included in the adopted budget.
    - Set primary and secondary property tax rates, rounded to four decimal places on each $100 of taxable property shown by the finally equalized valuations of property, less exemptions, that appear on the tax rolls for the fiscal year as determined by the assessor on or before February 10 of the tax year. When extended, those valuations will produce the entire amount to be raised by direct taxation for that year. A.R.S. §42-17151(A)

15. The board of supervisors must not fix, levy, or assess an amount of primary property taxes in excess of the amount permitted by A.R.S. §§42-17051(A)(7) or 42-17005 as determined by the property tax oversight commission. In addition, within 3 days after the final levies are determined, the county's chief fiscal officer must notify the property tax oversight commission of the amount of the primary property taxes levied. A.R.S. §42-17151(B) and (E)

16. The first half of the amount of taxes on real and personal property is due and payable on October 1 and the remaining half of the taxes is due and payable on the following March 1. The first half of the amount of taxes on real and personal property that is unpaid is delinquent after 5 p.m. on the first business day of November and the remaining half that is unpaid is delinquent after 5 p.m. on the first business day of the following May. If the total amount of taxes is $100 or less, then the entire amount is due and payable on October 1 and becomes delinquent after 5 p.m. on the first business day of November. A.R.S. §42-18052

17. The board of supervisors may by a two-thirds vote of its membership request a property tax levy limit override, which constitutes secondary property taxes. The request for a secondary property tax levy must be submitted to county voters at an election held on the first Tuesday following the first Monday in November. A.R.S. §42-17201(B) and (C)

18. The special secondary property tax levy amounts collected pursuant to A.R.S. §42-17201:

    - Must not be included in the primary property tax levy limitation prescribed by A.R.S. §42-17051 for any subsequent year, except as provided in A.R.S. §42-17201.
    - Must be collected from a levy of secondary property taxes.
    - Are not subject to limitations on taxes prescribed by Article IX, §18, of the Arizona Constitution.

19. Property taxes collected as a result of a property tax override election must be used only for the purposes stated in the resolution requesting approval of the levy and must be deposited in a separate account with the county treasurer. A.R.S. §42-17201(F) and (G)

20. For those years a property tax override is in effect, the maximum amount of taxes that the board may levy is the amount stated in the resolution requesting voter approval of the levy. The board must levy the tax in the same manner as county secondary property taxes as provided in A.R.S. §42-17151. A.R.S. §42-17201(E)

21. The board of supervisors must separately budget for expenditures approved by voters in an election to exceed the county's constitutional expenditure limitation. A.R.S. §41-563.02(F)

22. The board of supervisors must, at the time of levying other property taxes, levy a county fire district assistance tax on the taxable property in the county, not to exceed 10 cents per $100 of assessed valuation. A.R.S. §48-807(A)

23. By August 1 each year, a fire district must submit to the board of supervisors an itemized estimate of the amounts required for the equipment and maintenance of the district for the ensuing year. The board must, in addition to any tax levied to pay bonds issued in accordance with A.R.S. §48-806, levy a tax not more than $3.25 per $100 of assessed valuation against all property within the district's boundaries and appearing on the last assessment roll. The levy must be made and the taxes collected as provided by law for the collection of general county taxes. A.R.S. §48-807(E) and (F)

24. A county that is not in an organized community college district may conduct an election to authorize a property tax levy for community college purposes that is not within the limitation on primary property taxes that is otherwise prescribed by A.R.S §42-17051. The board must submit the request for a property tax levy to the county voters at an election held on the first Tuesday following the first Monday in November. A.R.S. §42-17203(A) and (C)

25. The property tax levy amounts collected pursuant to A.R.S. §42-17203:

    - Must not be included in the levy limitation pursuant to A.R.S. §42-17051 for any subsequent year.
    - Must be collected from a levy of secondary property taxes.
    - Are not subject to levy limitations prescribed by Article IX, §19, subsection 5, of the Arizona Constitution, except as provided in A.R.S. §42-17203.

26. In addition to any other limitation that may be imposed, a county must not levy primary property taxes in any year in excess of an aggregate amount computed pursuant to A.R.S. §42-17051(A).

27. If, pursuant to A.R.S. §41-1279.07, the Office of the Auditor General holds a hearing and determines that in any fiscal year a county has exceeded its expenditure limitation, the county must reduce its maximum allowable primary property tax levy in the fiscal year following the year of the hearing by the amount which the county exceeded its expenditure limitation. A.R.S. §42-17051(C)

28. The board of supervisors may budget funds for foster home care during the school week for mentally retarded and otherwise handicapped children who reside within the county and attend a school for the handicapped in a city or town within the county. A.R.S. §11-251(32)

29. The board of supervisors, on behalf of a political subdivision that has issued refunding bonds, during each year the bonds are outstanding, must levy a tax on all property in the political subdivision for which the bonds are issued, sufficient to pay the interest on all bonds then outstanding and the annual installment of the principal that is due in the next year. A.R.S. §35-474

30. If the board of supervisors receives written notice of a violation of its allowable levy limit or truth in taxation limit under A.R.S. §42-17003, and has not appealed the Property Tax Oversight Commission's decision pursuant to A.R.S. §42-17004, the board of supervisors must correct its primary property tax levy and tax rate to properly reflect the allowable levy for the current year. If the board receives the notice after it is too late to correct the levy in the current year, the difference between the amount actually levied and the allowable primary tax levy must be set aside in a special fund and used to reduce the primary property taxes levied in the following year. A.R.S. §42-17005(A)

BUDGET TYPES

Time Span Budgets—There are two types of budgets in terms of time span—annual and long-term. An annual budget authorizes and provides the basis for control of financial operations during the fiscal year. Long-term budgets provide estimates of revenues and expenditures/expenses for a period of several years—generally 4 to 6—and the proposed means of financing them. They are planning documents that typically emphasize major program or capital outlay plans, the latter being referred to as capital improvement programs or capital budgets. Counties are required by law to adopt annual budgets. As a part of prudent financial management practice, counties should also adopt long-term capital budgets.

Fixed and Flexible Budgets—Budgets may also be categorized as either fixed or flexible. Fixed budgets provide estimates of specific dollar amounts. Flexible budgets provide dollar estimates that vary according to demand for the goods or services provided. Flexible budgets are frequently used for enterprise funds. However, counties are required to adopt fixed budgets.

BUDGETING METHODS

A county may employ one or more budgeting methods in developing a budget that will meet its legal and managerial requirements. Counties may use any of the methods described or use other methods, separately or in combination, in preparing the annual budget. The most important criterion in selecting a method or a combination of methods is that the county's management needs are met. Following are brief descriptions of several common budgeting methods.

Open-Ended Budgeting—This method, also known as "blue-sky" budgeting because requests generally exceed available resources, requires that the various departments submit budget requests to county administrators. Each request is then negotiated and adjusted until there is a proper matching of resources available with department requests.

Incremental Budgeting—This method requires that each line item of the budget be considered for an increase, a decrease, or no change. Incremental changes are usually tied to inflation or changes in county rates. This method assumes that resources are being properly distributed in the current period and that existing programs should be continued. Incremental budgeting is one of the most common budgeting techniques.

Flexible (Alternative-Level) Budgeting—This method requires departments to prepare budgets at various assumed levels of operation. For example, levels may be designated at 5 percent below, 5 percent above, and 10 percent above current levels. This method aids in distributing available budget capacity based on program priorities. Flexible budgeting involves the judgment of persons at operating levels and forces county administrators to be aware of program priorities. This budgeting method is most appropriately used for proprietary funds where the demand for goods or services largely determines the revenues available to finance the funds. Flexible budgeting is not appropriate for governmental fund types because revenues generally do not directly correspond to demand for services.

Quota Budgeting—This method requires each county department to construct a budget based on an established control figure. The control figure may be based on percentage increases and decreases of current levels or specific dollar amounts based on revenue analyses.

Program Budgeting—This method requires combining planning objectives with the budgeting process. Budgets are prepared at the program level and then merged to build a budget at the department level. Department budgets are then combined to establish a county budget at the fund level.

This type of budget revolves around county programs. It attempts to establish and clarify resource requirements of these programs and to determine the cost of achieving given objectives. Program budgeting also provides an analysis of the anticipated costs and benefits associated with alternative program decisions.

Zero-Based Budgeting—This method requires the budgeting process to start from zero each year. Each department must evaluate its goals and objectives to justify its programs on the basis of benefits provided versus the cost of providing them. Each department is required to develop a series of decision packages, each of which describes an activity, function, or goal of the department. Decision packages are ranked by priority within the department and then within the overall framework of the county's budget. Once that step is completed, resources are appropriately allocated to the departments.

BUDGETING PROCESS

The budgeting process includes determining and communicating budget guidelines to departments; estimating revenues and expenditures; preparing and developing the proposed budget; presenting the proposed budget to the board; and holding a public hearing and adopting the budget. When preparing the proposed and adopted budgets, an employee independent of preparation should review the budgets for mathematical accuracy and to ensure that all applicable county revenues and expenditures/expenses are included in the budget.

Both internal and external factors can have a significant influence on developing and implementing the budgets. These factors should be considered throughout the budgeting process. Internal factors include the county's mission, management style, fiscal policies, accountability requirements, debt policies, and compensation goals and policies. External factors include funding sources, inflation, governmental regulations, and financial control.

Determining and Communicating Budgeting Guidelines—After considering the internal and external factors that influence budget development, county management should determine budgeting guidelines that reflect the county's position for the budget year on such issues as salary increases, implementation of new programs, and reduction or elimination of programs that impact directly on decisions in the budgeting process. These guidelines should be communicated to the various department heads and used in budget development.

Estimating Revenues—Counties should evaluate all revenue sources when developing the revenue estimates in the annual budget. Estimates should take into account such factors as economic conditions, availability of federal and state grants, and population mobility. Analysis of each revenue source will help ensure accurate revenue estimates.

As part of determining the amount of primary property tax revenues to levy, counties should use the levy limit worksheet provided by the Department of Revenue to calculate the primary property tax levy limit. In addition to any other limitation that may be imposed, a county must not levy primary property taxes in any year in excess of an aggregate amount computed pursuant to A.R.S. §42-17051(A).

The board of supervisors may conduct an election to authorize a property tax levy that is not within the limitations on primary property taxation otherwise prescribed by A.R.S. §42-17051. In order to levy taxes exceeding the limitations prescribed on primary property taxes, the board of supervisors must adopt a resolution, by an affirmative vote of at least two-thirds of its membership, requesting the voters to approve a secondary property tax levy. The board may use monies it collects only for the purposes stated in the resolution requesting approval of the levy. A.R.S. §42-17201

Estimates of voluntary contributions received in accordance with A.R.S. §§9-432 and 48-242 should be based upon information transmitted to the board of supervisors by the county assessor or the Department of Revenue, as applicable.

Investment income should be estimated by analyzing each item in the portfolio. Income should be projected with consideration to changes in the elements of the portfolio (see UAMACT, §IV-G, Investments).

Estimates of gifts, grants, contracts, entitlements, and shared revenues should be based upon past experience and adjusted for current awards. The county should be aware of reversion provisions that accompany some grants.

Licenses, permits, fines, interest, penalties, and forfeitures should be estimated based upon prior years' trends and adjusted for any changes in laws or conditions that may have an effect on these revenues.

Enterprise fund revenues should be projected based on previous year levels with adjustments for factors affecting the enterprise activities.

The availability of other financing sources, such as proceeds from the sale or refunding of bonds, and any amounts that will be transferred in from another fund should be estimated as well. Total estimated transfers-in must equal total estimated transfers-out.

Estimating Expenditures—Expenditures must be budgeted at the fund and department level. Generally, expenditures will be initially estimated at the object code level within the various departments and combined by county administrators for presentation purposes. Supplementary schedules should be prepared and retained to support amounts recorded in the adopted budget.

Counties should also budget for contingencies. These are resources reserved for expenditures that may be required, dependent on the outcome of a future event, such as pending legislation. The amount budgeted should depend on available resources, past experience, and economic uncertainties at the time the budget is prepared.

For the enterprise funds, the county should include payments for capital acquisitions and principal and interest payments on long-term debt. The amounts expected to be paid as other financing uses, such as payments to a refunded bond escrow agent, and any amounts that will be transferred out to another fund should be estimated as well.

The county should budget expenditures for capital projects funds based upon an analysis of capital expenditure requirements. In addition, debt principal and interest maturing in the budget year should be analyzed to budget expenditures accurately in the debt service funds.

Preparing and Developing the Proposed Budget—Counties must prepare a budget on or before the third Monday in July each year, in accordance with A.R.S. §42-17101. Counties must prepare budgets that present, at a minimum, the information required in the budget forms developed by the Office of the Auditor General. Information required by these forms represents the minimum statutory requirements, although the county may choose to add more information or detail than is required. These forms are reviewed annually and, if necessary, revised for legislative and other changes. Counties may download a copy of the forms in Microsoft Excel format from the Office of the Auditor General Web site at www.azauditor.gov. The budget forms include six schedules.

Schedule A is a summary schedule of estimated revenues and expenditures/expenses. In addition, the schedule provides a comparison of estimated expenditures/expenses subject to the expenditure limitation to the Economic Estimates Commission's calculated expenditure limitation.

Schedule B is a summary of tax levy and tax rate information. The schedule includes a presentation of primary and secondary property taxes levied and collected in the previous year and amounts to be levied in the current year. Property tax rates for the previous and current fiscal years are also presented.

Schedule C is a summary by fund type of revenues other than property taxes. The schedule includes a presentation of estimated revenues other than property taxes, by source, within each fund for the previous year and the current year. The summary also includes actual revenues other than property taxes, by source, within each fund for the previous year.

Schedule D is a summary by fund type of other financing sources/uses and interfund transfers. The schedule includes other financing sources expected to be received, other financing uses expected to be paid, and estimated interfund transfers-in and -out in the current year by fund.

Schedule E is a summary by department of expenditures/expenses within each fund type. The schedule includes adopted budgeted expenditures/expenses for the previous year, expenditure/expense adjustments approved for the previous year, actual expenditures/expenses for the previous year, and budgeted expenditures/expenses for the current year by department within each fund.

Schedule F is a summary by department of expenditures/expenses. The schedule includes adopted budgeted expenditures/expenses for the previous year, expenditure/expense adjustments approved for the previous year, actual expenditures/expenses for the previous year, and budgeted expenditures/expenses for the current year by fund within each department. The schedule helps facilitate budgetary comparison reporting at the department level (the statutorily required legal level of budgetary control) when a single department is budgeted in more than one fund. However; if a county budgets each department in only one fund, Schedule F may be omitted.

Adopting the Budget—Once the budget is tentatively adopted by the board of supervisors, the county must publish its proposed budget, or summary thereof, along with a notice of a public hearing and special meeting of the board to hear taxpayers and make tax levies at designated times and places. The summary must include the sources and uses of funds, consolidated revenues and expenditures by category, department and fund, truth in taxation calculations, and primary and secondary property tax levies. A complete copy of the estimate of expenses must be made available at the county library and administrative office. The proposed budget, or summary thereof, and notice must be published once a week for at least 2 consecutive weeks in the official newspaper of the county, if there is one, and if not, in a newspaper of general circulation in the county. If a truth in taxation notice and hearing is required under A.R.S. §42-17107, the board may combine the publication of the budget, or summary thereof, and notice with the truth in taxation notice. After the hearing on the proposed budget estimates under A.R.S. §42-17104 is concluded, the board must convene in a special meeting to finally determine and adopt the budget estimates. Total expenditures/expenses adopted in the final budget must not exceed total expenditures/expenses that were proposed in the published estimates. A.R.S. §§42-17103 and 42-17105

BUDGETARY CONTROL

The principal goal of budgetary control is to ensure that actual expenditures do not exceed budgeted expenditures. There are two distinct phases of budgetary control. Preliminary control is established when the budget is adopted. The adopted budget establishes the basis for all transactions throughout the year and facilitates the monitoring of financial activity. Subsequent control is exercised throughout the fiscal year by the use of daily budgetary control, budgetary accounting, budget reports, budget revisions, and a year-end analysis of budget performance.

Daily Budgetary Control—Counties should maintain budgetary control on a daily basis to ensure that actual expenditures do not exceed budget limits. Daily control can be accomplished by reviewing purchase orders to monitor the level of encumbrances and to determine the remaining unencumbered balances. See **§VI-F, Purchasing**, for detailed procedures for maintaining daily budgetary control.

Budgetary Accounting—For all counties, the budget's utility as a management and control device is enhanced when budgetary controls appear as an integral part of the accounting reports. Counties may integrate budgetary control accounts with the accounting system to provide accounting control over revenues not yet realized and unexpended balances of budget allocations. When their interim managerial control purposes have been served, the budgetary account balances are reversed in the process of closing the accounting records at year-end. Therefore, budgetary accounting procedures have no effect on the financial position of a fund or on the changes in its fund balance or net assets.

Budgetary integration into the accounting systems is ordinarily accomplished automatically through the use of information technology systems, although it may also be accomplished through traditional journal entries.

Budget Reports—Budget reports are used to continuously monitor budget capacity and performance. Budget reports comparing actual results to budgeted amounts should be prepared at least monthly and department heads should review them on a timely basis. In addition, the county finance department should prepare a report of operations and variance analysis monthly or at least quarterly. The monthly budget report should include the budgeted expenditures from the adopted budget, current month expenditures, year-to-date expenditures, encumbrances, and the unencumbered balances. The level of detail presented in the reports depends on each county's specific management needs. Monthly budget reports may be used to monitor activity at any level from fund to object code.

Budget Revisions—Except as provided in A.R.S. §42-17106(B), a county must not spend money for a purpose that is not included in its budget. In addition, a county must not spend money or incur or create a debt, obligation, or liability in excess of the amount stated for each purpose in the final adopted budget for that year regardless of whether the county has received, or has on hand, monies or revenue in excess of the amount required to meet expenditures, debts, obligations, and liabilities that are budgeted. However, A.R.S. §42-17106(B) allows the board of supervisors to transfer monies between budget items if all of the following apply:

- The monies are available.
- The transfer is in the public interest and based on a demonstrated need.

- The transfer does not result in a violation of the limitation on increases in ad valorem taxes or expenditure limitations prescribed in Article IX, §§19 and 20, of the Arizona Constitution.
- The board approves the transfer by a majority vote at a public meeting.

Counties must maintain documentation to support the amended budget and provide evidence of compliance with the statutory provisions described above.

Budget Performance Analysis—Following the close of the fiscal year, county administrators should critically analyze budget performance. The results of the analysis should be presented to the board of supervisors and should be used to assist in future planning and budgeting. Significant variations between budget and actual revenues and expenditures, whether favorable or unfavorable, should be analyzed and explained. A budget performance analysis should include an examination of budget revisions to assess their impact on current and future budget years. The factors that caused the county to achieve or fail to achieve certain predetermined goals should be analyzed and their impact on future budgets should be evaluated. The county must also report externally the results of its compliance with its adopted and amended budgets, as detailed below.

BUDGETARY REPORTING

For reporting in the county's annual financial statements, under the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, counties must present a budgetary comparison for the general fund and any major special revenue funds for which budgets have been adopted. Consequently, in addition to the general fund, counties must present this comparison for all major special revenue funds, since Arizona law requires that all county special revenue funds be included in the adopted budget. Counties may choose to present this comparison as a basic governmental fund financial statement; however, generally accepted accounting principles only require that it be included as required supplementary information.

The budgetary comparison must include the original (adopted) budget, the final amended budget (which includes legally authorized transfers between line items), and actual amounts. Regardless of where the county chooses to report this information, it allows citizens, legislators, and others to assess the county's budgetary performance.

COMPLIANCE CHECKLIST

This compliance checklist was developed to assist the county in establishing and maintaining adequate controls over budgeting, and may be used to evaluate compliance with UAMAC requirements. Questions are phrased in such a way that “Yes” answers indicate satisfactory conditions, while “No” answers indicate possible weaknesses that should be corrected.

	YES	NO
1. Was the proposed budget prepared on or before the third Monday in July, in accordance with A.R.S. §42-17101?	______	______
2. Were budgeted amounts within constitutional and statutory limitations, such as the expenditure limitation or levy limit?	______	______
3. Were the official county budget forms used to record the budget? If not, did the budget include at least the same information required in the official county budget forms?	______	______
4. Was the proposed budget or budget summary, and notice for the public hearing and special board meeting to hear taxpayers and make tax levies published once a week for 2 consecutive weeks in the official newspaper of the county, if there is one, or in a newspaper of general circulation within the county, in accordance with A.R.S. §42-17103?	______	______
5. Was a truth in taxation hearing meeting held, if required by A.R.S. §42-17107, and was proper notice given? If notice was given by publication, was the first publication at least 14 but not more than 20 days before the date of the hearing? Was the second publication at least 7 but not more than 10 days before the date of the hearing?	______	______
6. Did the board of supervisors hold a public hearing and special meeting on or before the 14th day before the day on which it levied taxes as stated in the notice and required by A.R.S. §42-17104?	______	______
7. Did the board of supervisors, in a special meeting, approve the proposed budget in accordance with A.R.S. §42-17105 and was approval documented in the board minutes?	______	______
8. Was adequate documentation retained to support the amounts recorded in the adopted budget?	______	______
9. Were the proposed and adopted budgets reviewed for mathematical accuracy by someone independent of their preparation and were all county revenues and expenditures/expenses included in the budget?	______	______

	YES	NO
10. Were all transfers of monies between budget items made in accordance with A.R.S. §42-17106(B)?	______	______
11. Were budget amounts recorded in the accounting system reviewed and compared to the adopted budget?	______	______
12. For budgetary reporting in the county's annual financial statements:		
a. Was a budgetary comparison presented for the general fund and all major special revenue funds?	______	______
b. Was the budgetary comparison presented as a basic governmental fund financial statement or included as part of required supplementary information?	______	______
c. Did the budgetary comparison include the original (adopted) budget, the final amended budget (including legally authorized transfers), and actual amounts?	______	______
13. Were overall budgetary controls adequate?	______	______

Truth in Taxation Hearing
Notice of Tax Increase

In compliance with §42-17107, Arizona Revised Statutes, ___________________ (name of county) is notifying its property taxpayers of ___________________'s (name of county) intention to raise its primary property taxes over last year's level. _________________ (name of county) is proposing an increase in primary property taxes of $__________ or ____%.

For example, the proposed tax increase will cause ___________________'s (name of county) primary property taxes on a $100,000 home to increase from $_________ (total taxes that would be owed without the proposed tax increase) to $__________ (total proposed taxes including the tax increase).

This proposed increase is exclusive of increased primary property taxes received from new construction. The increase is also exclusive of any changes that may occur from property tax levies for voter approved bonded indebtedness or budget and tax overrides.

All interested citizens are invited to attend the public hearing on the tax increase that is scheduled to be held ________________ (date and time) at ___________ (location).

CONTENTS

INTRODUCTION

A fundamental characteristic of governmental accounting is the concept of the fund as the basic unit of financial accountability. The Governmental Accounting Standards Board (GASB) has identified accountability as the primary objective of financial reporting. Accountability consists of two components—operational accountability and fiscal accountability.

The government-wide financial statements help counties demonstrate operational accountability. See **§VIII, Financial Reporting**, for additional information. Fiscal accountability is defined by the GASB as the responsibility of governments to justify that their actions in the current period have complied with public decisions concerning the raising and spending of public monies in the short term, usually 1 year. Fund accounting helps counties demonstrate fiscal accountability in the fund financial statements.

The following is a discussion of fund accounting and the types of activities accounted for in the different fund categories and fund types.

PRINCIPLES OF FUND ACCOUNTING

Funds

A fund is a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

To avoid undue complexity, inflexibility, and inefficient financial management, counties should establish only the minimum number of funds necessary for legal and operating requirements.

Funds that have similar characteristics are combined into broad fund categories. The three fund categories are governmental, proprietary, and fiduciary. Within these fund categories, there are 11 fund types.

Governmental Funds—These funds account for most of the county activities that are financed through taxes. Governmental fund reporting often has a budgetary orientation. Governmental funds are classified into five fund types: general, special revenue, capital projects, debt service, and permanent funds. See pages V-3 through V-5, **Governmental Funds**, for more information on these fund types.

Proprietary Funds—These funds account for a county's business-type activities that are financed, at least in part, by fees or charges. Proprietary funds are classified into two fund types: enterprise and internal service funds. See pages V-5 through V-7, **Proprietary Funds**, for more information on these fund types.

Fiduciary Funds—These funds account for resources the county holds as a trustee or agent for individuals, private organizations, or other governmental entities and which therefore may not be used to support the county's own programs. Fiduciary funds are classified into four fund types: pension (and other employee benefit) trust, investment trust, private-purpose trust, and agency funds. See pages V-7 through V-9, **Fiduciary Funds**, for more information on these fund types.

Measurement Focus

Measurement focus is used to describe the types of transactions and events that are reported in a fund's operating statement.

Governmental funds are accounted for using the current financial resources measurement focus. The emphasis of this measurement focus and these funds' operating statements is on transactions or events of the period that have increased or decreased the resources available for spending in the near future.

Proprietary and fiduciary funds (except agency funds) are accounted for using the economic resources measurement focus. The emphasis of this measurement focus is on transactions and events that have increased or decreased total economic resources for the period. Consequently, the operating statements include all transactions that increase or decrease net assets.

Agency funds are custodial in nature since assets equal liabilities, and therefore, do not have a measurement focus.

Basis of Accounting

Basis of accounting determines **when** to recognize transactions and events that cause changes in a fund's current financial resources or total economic resources. Counties should use either the modified accrual or accrual basis of accounting, as appropriate.

Modified accrual basis—Counties should account for governmental funds on the modified accrual basis. Under this basis of accounting, counties recognize increases and decreases in financial resources only to the extent that they reflect near-term inflows or outflows of cash. Consequently, revenues are recognized in the accounting period in which they become measurable and available to finance expenditures of the current period. Revenue is considered available when it is collectible during the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues susceptible to accrual prior to receipt include property taxes; franchise taxes; special assessments; licenses and permits; intergovernmental aid, grants, and reimbursements; interest revenue; charges for services; and sales taxes collected and held by the State at year-end on the county's behalf. Fines and forfeits, rents, contributions, and miscellaneous revenues are not susceptible to accrual because generally they are not measurable until received in cash.

Expenditures are recognized when the related fund liabilities are incurred, except for principal and interest on general long-term debt and on special assessment debt secured by interest-bearing special assessment levies, which are recognized when due. These expenditures are recognized when due because it is only at that time that they are generally liquidated with expendable available financial resources. However, principal and interest payments on long-term debt due early in the following fiscal year may be recorded as expenditures in the current fiscal year if debt service fund resources are available for the payments.

Accrual basis—Counties should account for proprietary and fiduciary funds on the accrual basis. Under this basis of accounting, counties recognize increases and decreases in economic resources as soon as the underlying transaction or event occurs. Consequently, revenues are recognized when they are earned and expenses are recognized as soon as a liability is incurred, regardless of the timing of related cash inflows and outflows.

Financial Statements

For a description of the basic financial statements required by generally accepted accounting principles (GAAP) for the governmental, proprietary, and fiduciary funds, see **§VIII, Financial Reporting**.

GOVERNMENTAL FUNDS

Governmental funds are those funds through which most governmental functions are typically financed. The governmental funds are described below.

General Fund

The general fund serves as the county's primary operating fund and accounts for all county financial resources except those required to be accounted for in other funds.

General fund revenues include property taxes, sales taxes, intergovernmental revenues, charges for services, licensing and permit fees, fines and forfeits, investment earnings, rents, private contributions, and miscellaneous revenues. Other financing sources may include proceeds from the issuance of certain types of long-term debt and transfers from other funds.

General fund expenditures include salaries and wages, supplies, utilities, transportation, advertising, insurance, repairs and maintenance, other services and charges, capital asset acquisitions, and certain types of debt service payments. Other financing uses include transfers to other funds.

General fund assets include cash, investments, receivables, amounts due from other funds and other governments, supplies inventory, prepaid items, and advances from other funds. Receivables may include property taxes, accounts, and interest receivables.

General fund liabilities include accounts payable, accrued payroll and employee benefits, accrued interest, amounts due to other funds and other governments, and claims and judgments payable. Other liabilities may include deferred revenues, advances from other funds, and matured principal and interest on general long-term debt.

The difference between assets and liabilities in the governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved representing amounts considered available for spending. Common examples of reserved fund balances include reserves for inventories, prepaids, and encumbrances. Unreserved fund balances may be separated into designated and undesignated amounts. Designations represent management's intended use of resources and should reflect actual plans approved by the board of supervisors.

Special Revenue Funds

Special revenue funds account for the proceeds of specific revenue sources, other than for major capital projects, that are legally restricted to expenditures for specified purposes. Examples of special revenue funds include the road, auto license, and criminal justice enhancement funds. Generally, special revenue funds are not required unless legally mandated. In addition, GAAP require that a special revenue fund be used to account for the general fund of a component unit that is blended with the county for financial reporting purposes.

Special revenue funds are distinguished from enterprise funds in that the user of the governmental service does not pay for the service based on actual use. Conversely, the costs of services provided through an enterprise fund are generally recovered through charges to the users of the services.

Special revenue funds are accounted for in the same manner as the general fund. Fund revenues, expenditures, assets, and liabilities are essentially the same as those of the general fund. In addition, special revenue funds may be used to account for certain special assessment activities.

Capital Projects Funds

Capital projects funds account for resources used for acquiring or constructing major capital facilities, other than those financed by proprietary or trust funds, such as county libraries or administrative buildings. The acquisition of other capital assets, such as vehicles, furniture, and equipment, is usually accounted for in the fund financing the expenditure. Capital projects funds should be established when legally mandated; however, they are not required by GAAP. They may also be established when the acquisition or construction of the asset is expected to extend beyond a single fiscal year, the asset is financed by more than one fund, or the asset is financed by a specific revenue source such as bonds, intergovernmental revenues, or private contributions. Good financial management requires counties to account for each major capital project separately in the accounting system. However, counties should generally report all capital projects in a single capital projects fund for general-purpose external financial reporting since financial statement users do not generally need detailed project information.

Capital projects fund revenues include special assessments, intergovernmental revenues, private contributions restricted for capital acquisitions, and investment income. Other financing sources include proceeds from the issuance of long-term debt and transfers from other funds.

Capital projects fund expenditures include acquisition or construction costs for land, buildings, vehicles, furniture and equipment, capital improvements, and capital lease payments, including interest. Expenditures are generally classified as capital outlay for financial reporting purposes. Other financing uses include transfers to other funds.

Capital projects fund assets may include cash, temporary investments, intergovernmental receivables, and amounts due from other funds.

Capital projects fund liabilities include accruals for professional fees, freight and transportation charges, and payments due to contractors and vendors.

Debt Service Funds

Debt service funds account for resources accumulated and used for the payment of general long-term debt principal, interest, and related costs. Counties should establish debt service funds if legally mandated or if the county accumulates resources for the payment of long-term debt in future years. Other than for those two cases, GAAP do not require that debt service funds be used. A debt service fund is usually project-oriented and associated with a long-term debt instrument.

Debt service fund revenues include property taxes, special assessments, intergovernmental revenues restricted for the payment of principal and interest on long-term debt, and investment income. Other financing sources include refunding bond proceeds and transfers from other funds.

Debt service fund expenditures include principal and interest payments on long-term debt. Other financing uses include transfers to other funds.

Debt service fund assets include cash, investments, receivables, and amounts due from other funds and other governments. Receivables may include property taxes, special assessments, and interest receivables.

Debt service fund liabilities may include interest payable, matured long-term debt principal, amounts due to other funds and other governments, and deferred revenues.

Permanent Funds

Permanent funds account for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support programs that benefit the county or its citizenry. Permanent funds do not include private-purpose trust funds, which are used to report situations in which the county is required to use the principal or earnings for the benefit of individuals, private organizations, or other governments. An example of a permanent fund is a cemetery perpetual care fund that provides resources for the ongoing maintenance of a public cemetery.

Permanent fund revenues may include investment income, donations, and contributions. Other financing sources include transfers from other funds. Contributions and donations to permanent endowments should not be included with other types of revenues or other financing sources in the statement of revenues, expenditures, and changes in fund balances. Instead, such amounts should be reported as separate line items, much like special or extraordinary items.

Permanent fund expenditures or transfers may be made only in accordance with legal restrictions.

Permanent fund assets include cash, investments, interest receivable, and amounts due from other funds.

Permanent fund liabilities include accounts payable and amounts due to other funds.

PROPRIETARY FUNDS

Proprietary funds account for a county's business-type activities. The focus of proprietary funds is on the determination of operating income, changes in net assets or cost recovery, financial position, and cash flows. Proprietary funds consist of two fund types: enterprise funds and internal service funds.

Proprietary fund revenues include operating and nonoperating revenues. Operating revenues, such as user charges, generally result from transactions associated with the fund's principal activity, in which each party receives and gives up essentially equal values. Other revenues, such as subsidies, result from transactions in which the parties do not exchange equal values and are considered nonoperating revenues, along with investment earnings, revenues generated by ancillary activities, and gains on disposal of capital assets. Other sources include capital contributions, special and extraordinary items, and transfers from other funds.

Proprietary fund expenses include operating and nonoperating expenses. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. (All depreciable property of proprietary funds should be depreciated. See **§VI-E, Capital Assets**.) Nonoperating expenses include interest expense and losses on disposal of capital assets. Other uses include special and extraordinary items, and transfers to other funds.

The difference between the assets and liabilities of proprietary funds is reported as net assets (fund equity). Proprietary fund net assets should be reported in three categories on both the government-wide and proprietary fund statements. These categories are *invested in capital assets, net of related debt; restricted*; and *unrestricted*.

Enterprise Funds

Counties are required to report an activity as an enterprise fund if any one of the following criteria for the activity's principal revenue sources is met:

- The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity. Debt that is secured by a pledge of net revenues from fees and charges *and* the full faith and credit of a county or component unit, even if that entity is not expected to make any payments, is not payable solely from fees and charges of the activity. Some debt may be secured, in part, by a portion of its own proceeds but should be considered as payable "solely" from the revenues of the activity.

- Laws or regulations require that the activity's costs of providing services, including capital costs, such as depreciation or debt service, be recovered with fees and charges, rather than with taxes or similar revenues.

- The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs, such as depreciation or debt service.

Enterprise funds typically include hospitals, landfills, and wastewater management.

Enterprise fund assets include cash, investments, receivables, amounts due from other funds and other governments, inventories, prepaid items, and capital assets. Receivables may include accounts, special assessments, and interest receivables.

Enterprise fund liabilities include accounts payable, contracts payable, accrued payroll and employee benefits, accrued expenses, amounts due to other funds and other governments, customer deposits, and claims and judgments payable. Other liabilities include long-term liabilities, such as installment purchase contracts, capital leases or bonds payable, and deferred revenues.

Internal Service Funds

Counties may use an internal service fund to account for any activity that provides goods or services to other county funds or departments, or to other governments, on a cost-reimbursement basis. Internal service funds should be used only if the county is the predominant participant in the activity. Otherwise, the activity should be reported as an enterprise fund. Internal service funds may be used when the county wishes to obtain a level of operating efficiency that would not be obtained if the goods or services were provided by multiple departments. Internal service funds are intended to be self-supporting and should operate at a break-even level over the fund's life. A significant surplus or deficit at year-end in an internal service fund may indicate that participating funds are being over- or undercharged for goods or services. Consequently, if over a reasonable period of time, the surplus or deficit is not expected to be reduced in the normal course of operations, the county should adjust its charges for the goods or services accordingly. Examples of internal service funds typically include telecommunications, materials management, information technology services, and motor pools.

Counties may also establish an internal service fund to account for risk-financing activities. Claims and judgments of all county funds would be paid from this internal service fund. Such a fund allows the county to accept certain risks rather than insure against those risks. These risks may include possible liabilities for workers' compensation, medical claims, and property damage claims. For additional information, see GASB *Codification of Governmental Accounting and Financial Reporting Standards*, §C50.

Internal service fund assets include cash, investments, receivables, amounts due from other funds, inventories, prepaid items, and capital assets. Receivables may include accounts and interest receivables.

Internal service fund liabilities include accounts payable, accrued payroll and employee benefits, accrued expenses, amounts due to other funds, and claims and judgments payable. Internal service funds liabilities may also include installment purchase contracts payable and obligations under capital leases.

FIDUCIARY FUNDS

Fiduciary funds account for assets that counties hold in a trustee or agency capacity for individuals, private organizations, or other governmental entities. Counties may not use assets accounted for in a fiduciary fund to support county programs. Fiduciary funds are classified as either trust or agency funds.

Trust funds account for monies held in a trustee capacity and are handled in accordance with the terms of the trust agreement and applicable laws. There are three types of trust funds: pension (and other employee benefit) trust funds, investment trust funds, and private-purpose trust funds. These funds are distinguished from agency funds generally by the existence of a trust agreement that affects the degree of management involvement and the length of time that the resources are held.

Trust funds are unique in that all changes in net assets should be classified as additions or deductions rather than revenues or expenses in the fund financial statements.

Pension (and other employee benefit) Trust Funds

These funds are used to account for resources that are required to be held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution plans, other postemployment benefit plans, or other employee benefit plans.

Additions to pension (and other employee benefit) trust funds include investment income and employee and employer contributions. Deductions for these funds are generally specified in the trust agreement and may include administrative expenses, such as salaries, wages and employee benefits, retirement benefits, and refunds of contributions.

Pension (and other employee benefit) trust fund assets include cash, investments, interest receivable, and amounts due from other funds. Liabilities include accounts and refunds payable.

Investment Trust Funds

The investment trust funds account for pooled and nonpooled assets held and invested by the county treasurer on behalf of other governmental entities. These investments are accounted for in external investment pools and individual investment accounts.

The external portion of an investment pool belongs to the participating entities and should be included in the investment trust fund column in the county's basic financial statements. The internal portion belongs to the county and its component units and should be reported as assets in the appropriate county funds.

Individual investment accounts are used to account for investments made for individual departments and other entities that request the treasurer to make specific investments on their behalf. Common examples include the clerk of the superior court bond and restitution accounts and school district bond proceeds held by the treasurer. These amounts should also be included in the investment trust fund column in the county's basic financial statements.

Additions to investment trust funds include contributions from participants (other entities) and investment income. Deductions from investment trust funds include distributions to participants (other entities).

Investment trust fund assets include cash, investments, and interest and dividends receivable. There are no liabilities.

Private-Purpose Trust Funds

These funds are used to account for all other trust arrangements under which principal and income benefit individuals, private organizations, or other governments. The resources accounted for in private-purpose trust funds may not be used to support county programs.

Additions to private-purpose trust funds include gifts, contributions, bequests, endowments, and investment income. Deductions from private-purpose trust funds include payments in accordance with the trust agreement.

Private purpose trust fund assets include cash, interest and dividends receivable, and investments. Liabilities include accounts payable and amounts due to others. Fund net assets for private-purpose trust funds may include amounts held in trust for other purposes.

Agency Funds

These funds account for assets the county holds as an agent, in a purely custodial capacity. Agency funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments. Assets are usually held in the agency fund for a period of time based on legal or contractual requirements and are expended for or returned to the entity or individual for whom they are held. Agency funds should be accounted for using the accrual basis of accounting. However, agency funds are purely custodial since assets equal liabilities and thus do not measure the results of operations or have a measurement focus. Sometimes, the county may use an agency fund as a clearing account to distribute financial resources to other funds or entities. For example, the county collects and distributes property taxes to the county's funds and other governments within the county. When this occurs, the portion of the clearing account balance that pertains to other county funds should not be reported in agency funds; instead, it should be reported as assets in the appropriate funds.

Agency funds may also be used to account for pass-through grants that qualify as pure cash conduits. A grant may qualify as a pure cash conduit only when the county does not have any administrative or direct financial involvement with the grant program.

Additions to agency funds include monies or other assets collected from or on behalf of other entities or individuals, such as taxes, intergovernmental revenues, and investment income. Deductions from agency funds include remittances to the entities or individuals for which monies or other assets are held and expenses are paid on their behalf.

Agency fund assets include cash, investments, and interest receivable. Liabilities include due to other governments and deposits held for others.

Net assets in the fiduciary funds are classified as "assets held in trust" for the appropriate party. There are no net assets in the agency funds, since all assets are offset by a corresponding liability.

ACCOUNTING PROCEDURES

CONTENTS

Accounting is the process of recording, classifying, and summarizing financial transactions and events, and interpreting the results. The purpose of accounting is to measure a county's economic activities, including compliance with statutory requirements, and report this information to users, such as the board of supervisors, county managers, creditors, and the public.

Essential to an effective accounting system is internal control that will provide a plan of organization, adequate internal checks and balances, and sufficient supporting records to ensure the safeguarding of assets and the accuracy and reliability of the financial records. The accounting system must also provide information necessary to determine county compliance with finance-related legal and contractual provisions.

A county's internal control should consist of a positive control environment in which risk is continually assessed, effective control policies and procedures are developed and monitored, and information is communicated understandably to users. Internal control will enable the county to accurately identify, value, classify, and record financial transactions for fair presentation in the financial statements. Accounting information may also be used by the board of supervisors to allocate resources and assess county performance.

The accounting system and control procedures included in the Accounting Procedures section are recommended for counties. However, counties may modify these procedures for their specific requirements, provided the same level of internal control is maintained.

CONTENTS

INTRODUCTION

Accounting records and policies and procedures established to record, process, summarize, and report transactions and maintain accountability for assets, liabilities, and fund balances/net assets comprise the accounting information system. The primary objectives of an accounting information system are to provide reliable financial information to management in a timely manner, safeguard assets, determine liabilities, ensure proper revenue recognition, and control expenditures. Additional objectives of an accounting information system are to measure and report fiscal responsibility and legal compliance.

Counties process the majority of their accounting information electronically. Computerized processing reduces manual intervention and provides timely and detailed information. However, basic accounting records and internal controls are still necessary to ensure complete and accurate financial records. Access to the accounting records must be restricted to authorized employees only and the duties should be separated to ensure that no individual has complete authority over an entire financial transaction. This can be accomplished through the use of passwords that are changed periodically and different levels of access capabilities—read/write privileges. In addition, transactions which are nonroutine may require additional controls, authorizations, or oversight. Counties should review and reconcile information entered online, journal entries, and source documents, as applicable, to ensure that information is processed accurately and timely.

For additional policies and procedures regarding general and application controls over information technology systems, see **§VII**. In addition, a Compliance Checklist has been included at the end of this section that summarizes controls that should be implemented over accounting records (see page **VI-B-7**).

This section provides a basic explanation of the accounting records required to properly account for county resources and to help ensure compliance with finance-related legal provisions and generally accepted accounting principles.

GENERAL LEDGER SYSTEM OF ACCOUNTING

A general ledger system should be used for recording all county financial transactions. In a general ledger system, financial transactions are first classified, recorded, and summarized in journals, then posted to subsidiary ledgers and the general ledger.

DOUBLE ENTRY ACCOUNTING

Counties should use a double entry accounting system to provide for the proper recording and reporting of financial data.

In a double entry accounting system, each transaction affects at least two accounts. Therefore, to maintain balanced accounts, the total amount of debits must equal the total amount of credits in any transaction.

A debit or credit will have a different effect on various accounts. A debit does not always indicate an increase in an account, and a credit does not always indicate a decrease. The following chart shows the effect of a debit or credit in the accounts.

Assets*		Liabilities**		Fund Balance**	
Debit Increase	Credit Decrease	Debit Decrease	Credit Increase	Debit Decrease	Credit Increase

Revenues**		Expenditures*	
Debit Decrease	Credit Increase	Debit Increase	Credit Decrease

* Normally a debit balance account
** Normally a credit balance account

SOURCE DOCUMENTS

Source documents serve as the information source for making entries in the county's accounting records. Examples of cash receipts source documents include treasurer's receipts for property taxes collected and daily cash receipt summaries. Examples of cash disbursements source documents include canceled vendor invoices and purchase orders. The county should retain source documents to support all amounts recorded in the accounting records and to comply with the *Records Retention and Disposition for Arizona Counties* and general records retention schedules applicable for counties (see **§X-C**).

A journal entry form usually serves as the source document for input in the general journal since the form provides for recording certain internal transactions that are not initiated by the type of source documents described in the preceding paragraph. Noncash transactions and error correction are examples.

The journal entry form should contain explanations, attachments, or references to documentary evidence supporting the transaction, and the signature or initials of the preparer and a county official authorized to approve the journal entry. Journal entry forms should be prenumbered and numerically controlled. A sample journal entry form has been included on **VI-B-8**.

JOURNALS

A journal is defined as a book of original entry. Journals are used to provide a detailed record of daily financial transactions and to support balances in the general ledger accounts. Transactions should be recorded by date (day, month, year) and classified in accordance with account titles provided in the Uniform Chart of Accounts (see **§III**).

Special Journals—Special journals are used to record entries of particular types and should be maintained by fund. Examples of special journals include cash receipts and cash disbursements journals. A sample list of a simplified cash receipts and cash disbursements journal page has been included on page **VI-B-9**. Account codes in special journals should be grouped to facilitate posting to the general ledger.

Cash Receipts Journal—All cash receipts should be recorded by fund in a cash receipts journal. The cash receipts journal should be established to provide an efficient means of recording a credit in the appropriate account for each debit to cash. Each transaction should refer to the source document number.

Cash Disbursements Journal—All cash disbursements should be recorded by fund in a cash disbursements journal. The disbursements should be recorded when warrants are issued. Each transaction should refer to the source document number.

The general ledger should be updated by transactions input in the cash receipts and cash disbursements journals. Entries from the cash receipts or cash disbursements journals may be posted in total from each column to the general ledger.

General Journal—The general journal is used to record the establishment of an asset or liability account, to make closing and reversing entries, and to correct posting errors. General journal entries should be properly authorized and include sufficient supporting explanations or documents to justify each entry. A general journal should be maintained for each fund. Entries from the general journal should be posted individually to the general ledger.

LEDGERS

Ledgers summarize the financial transactions of all accounts and are used in preparing trial balances and financial statements. Ledgers should be maintained by account.

Subsidiary Ledger—A subsidiary ledger is a group of individual accounts, the sum of the balances of which is equal to the balance of the related control account in the general ledger. The subsidiary ledger contains the detail used to control and monitor accounts such as receivables and payables.

Entries in subsidiary ledgers are posted from special journals such as the cash receipts and cash disbursements journals. Transactions should be referenced in the subsidiary ledgers to provide an audit trail.

At month-end, subsidiary ledgers should be reconciled to the general ledger to ensure the accuracy of the accounting records. The individual account balances in the subsidiary ledgers should be added, and the sum should agree with the general ledger control account balance. Any differences should be recorded on an exception report. Differences may be the result of omitting journal entries, recording of journal entries incorrectly, misclassifying journal entries, or mathematical errors. Any differences should be investigated, resolved, and documented immediately. The correction of errors should be noted in the accounting records and supported by a properly approved journal entry form.

General Ledger—The general ledger provides a summary of all financial transactions and is the source for preparing annual financial statements. The general ledger should be organized by fund according to the Uniform Chart of Accounts (see **§III**).

The general ledger accounts are:

Assets, Liabilities, and Fund Balance/Net Assets—Asset and liability accounts should be established when assets or liabilities are recognized. The balances in these accounts fluctuate during the year with increases and decreases in individual assets and liabilities and are not closed at the end of each fiscal year. The fund balance/net assets account is used to account for the difference between the assets and liabilities of a given fund.

Revenues, Expenditures/Expenses, and Other Financing Sources (Uses)—These accounts should be opened at the beginning of each fiscal year and used to record the activity for that year. These accounts are closed to fund balance/net assets at the end of each fiscal year.

Samples of general ledger pages have been included on **VI-B-10**.

RECONCILIATION TO THE COUNTY TREASURER

Counties should develop written policies and procedures to reconcile their cash balances by fund to the county treasurer's records at least monthly, and at fiscal year-end.

The county treasurer sends a report to the county board of supervisors by the 15^{th} of each month that summarizes the previous month's activity, as required by A.R.S. §11-501. The county's records of each fund's cash balances should be reconciled to the county treasurer's records promptly upon receipt of the report. In addition to the treasurer's report, the county should obtain the treasurer's paid warrants list, prepare an outstanding warrants list, and complete reconciliation forms.

Treasurer's Report—The treasurer's report states the beginning cash balance for the month, total receipts, total transfers-in and transfers-out, total disbursements, and the ending cash balance for the month for each fund maintained by the treasurer.

Treasurer's Paid Warrants List—This list indicates warrants paid from each fund and enables the county to identify issued warrants that remain outstanding at month-end.

Outstanding Warrants List—The county should prepare a list of warrants outstanding at month-end for each fund. The list should be prepared from the previous month's outstanding warrants list, the current month's warrant register, the treasurer's paid warrants list, and the stop payment register. Each warrant paid by the county treasurer or stopped by the county during the month should be deleted from the previous month's outstanding warrants list. A new outstanding warrants list should be prepared by recording the warrant number, amount, and date of issuance for all warrants issued by the county that have not been paid or stopped.

Warrants outstanding 1 year after the date of issuance are void and should be canceled by the county. A check or warrant that is not presented for payment within 1 year is void, and any monies must be transferred or reverted to the county general fund or other appropriate fund on which the check or warrant was drawn. At any time within 1 year after an unpresented check or warrant has been voided, the payee (or the payee's personal representative, successors, or assignees) may present a claim for the amount of the check or warrant to the board of supervisors. If the board finds that the claim is legitimate and that there is good and sufficient reason for failure to present the original check or warrant, the board may allow the claim and order it to be paid from the county's general fund or other appropriate fund. A.R.S. §11-644

Reconciliation Form—A reconciliation form should be prepared for each fund. The completed reconciliation form should include all differences or reconciling items between the county's records and the county treasurer's records, and a reconciled balance. A sample reconciliation form is illustrated on page **VI-B-11**.

The reconciliation form is divided into two parts. Part A consists of the county's cash balance as recorded in the general ledger and any reconciling items. Part B consists of the county treasurer's cash balance as recorded in the Treasurer's Report and any reconciling items. The total of outstanding warrants by fund from the outstanding warrants list should be subtracted from the county treasurer's ending cash balance. Amounts should be compared to ensure agreement. If the amounts agree, the form should be signed and dated by the preparer.

If the amounts do not agree, the county should request a copy of the treasurer's detailed records of receipts and disbursements for each unreconciled fund. Individual transactions should be compared between the treasurer's records and the county's records to determine the reason for the difference. Reconciling items should be documented on the forms and reconciled balances should be calculated. When the reconciled balances agree, the forms should be signed and dated by the preparer.

Completed reconciliation forms should be reviewed and approved by a county administrator. After the reconciliation to the county treasurer is complete, the general ledger should be updated for any necessary adjustments.

Reconciling Differences—Counties may use various procedures to identify revenue differences, such as examining validated treasurer's receipts and journal entries. In addition, counties may use various procedures to identify expenditure (expense) differences, such as examining warrant registers, outstanding warrant lists, and journal entries. The county or county treasurer's recorded revenue and expenditure (expense) amounts may differ for the following reasons.

- Timing. For example, the county treasurer may record interest on pooled investments before the county has done so, or may pay interest on registered warrants or make debt service payments before the county has recorded these transactions.
- Transfers or journal entries may be omitted or recorded incorrectly.
- Revenues or expenditures (expenses) may be misclassified.
- Clerical or mathematical errors.

The county should notify the county treasurer of errors in the county treasurer's records discovered during the reconciliation process.

Year-End Procedures—During the 60-day encumbrance period following June 30, the county should maintain separate accounting records of each fund for prior and current fiscal years. Revenues and expenditures (expenses) of the prior fiscal year should be recorded in the records of the prior fiscal year, and revenues and expenditures (expenses) of the current fiscal year should be recorded in records created for the new fiscal year. However, the reconciliation of month-end cash balances during this period must include the revenues and expenditures (expenses) of both fiscal years.

TRIAL BALANCE

A trial balance, a list of the account balances in the general ledger, is prepared to ensure that the general ledger is in balance. A trial balance should be prepared for each fund at the end of each reporting period to facilitate preparation of the financial statements. If the totals of the debit and credit columns are equal, the general ledger is in balance. Any unusual items or discrepancies noted should be investigated and resolved immediately.

Counties should also prepare a post-closing trial balance after all adjusting and closing entries have been recorded to ensure that the accounting records are accurate prior to starting the next fiscal year. The post-closing trial balance consists of only asset, liability, and fund balance/net assets accounts.

FINANCIAL STATEMENTS

At the close of each fiscal year, counties must prepare government-wide and fund financial statements. The amounts reported on the financial statements are supported by the trial balance, general ledger, subsidiary ledgers, journals, and source documents. See **§VIII, Financial Reporting**, for a discussion of financial statements.

COMPLIANCE CHECKLIST

This compliance checklist was developed to assist counties in establishing and maintaining adequate controls over accounting records, and may be used to evaluate compliance with UAMAC requirements. Questions are phrased in such a way that "Yes" answers indicate satisfactory conditions, while "No" answers indicate possible weaknesses that should be corrected.

		YES	NO
1.	Are accounting records and accounting employees at all locations under the supervision of the principal accounting officer?	____	____
2.	Are accounting records stored to protect them from physical damage and environmental hazards such as fires or floods?	____	____
3.	Are computerized accounting records adequately backed up to prevent loss of accounting information due to a computer hardware or software failure or other interruption?	____	____
4.	Is access to the accounting records limited by passwords or other means to authorized personnel only?	____	____
5.	Are all accounting records retained in an organized manner that provides quick access to accounting information?	____	____
6.	Are duties separated so that no individual has complete authority over an entire financial transaction?	____	____
7.	Does the county have specific/general authorizations to provide assurance that suitable procedures adequately control nonroutine transactions such as:		
	• Capital asset acquisitions and disposals?	____	____
	• Bond debt, issued or redeemed?	____	____
8.	Are journal entries supported by adequate documentation, approved by authorized persons, and effectively controlled?	____	____
9.	Are computer-generated reports compared periodically to the source documents to check the accuracy of input and processing?	____	____
10.	Are subsidiary ledgers for accounts receivable and accounts payable reconciled with control accounts in the general ledger at least monthly?	____	____
11.	Does the county prepare fund trial balances and promptly investigate any unusual items at least monthly?	____	____
12.	Are the county's records of cash balances reconciled to the county treasurer's records by fund at least monthly and at fiscal year-end?	____	____
13.	Are accounting records retained in accordance with the general retention schedules for counties and the *Records Retention and Disposition for Arizona Counties* prescribed by the Arizona State Library, Archives and Public Records?	____	____

JE Number (Prenumbered)

_______________COUNTY, ARIZONA

JOURNAL ENTRY

Fund SPECIAL REVENUE FUND—ROAD Number 252

Department EMERGENCY SERVICES Number 3500

Date	Account Name	Account Code	Debit	Credit
9/25/XX	State Grants	335	$10,000	
	Federal Grants	331		$10,000
	Total		$10,000	$10,000

Description:

To correct the misclassification of federal revenues as state revenues.

Prepared by ______________________ Date ____________

Approved by ______________________ Date ____________

Data input by ______________________ Date ____________

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______________COUNTY, ARIZONA

CASH RECEIPTS JOURNAL

Fund COUNTY FREE LIBRARY DISTRICT Number 280

Department COUNTY LIBRARY Number 7000

Date	Ref	Payor	Cash in Bank 100.10 (Debit)	Cash held by the Co. Treasurer 101 (Debit)	Library Fines 351.20 (Credit)	Contributions from Private Sources 380.20 (Credit)
7/24/XX	CR-25	Myers, Anne		$ 312	$312	
7/29/XX	CR-26	Jackson, David		750	____	$750
TOTALS				$1,062	$312	$750

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______________COUNTY, ARIZONA

CASH DISBURSEMENTS JOURNAL

Fund SPECIAL REVENUE FUND—ROAD Number 252

Function HIGHWAYS AND STREETS Number 03

Department ROAD Number 4000

Date	Ref	Payee	Cash in Bank 100.10 (Credit)	Cash held by the Co. Treasurer 101 (Credit)	Repair & Maint. Sup. Road Repair 413.70 (Debit)	Infrastructure—Roads 456.30 (Debit)
7/25/XX	W-333	Mitchell Supply Co.		$1,500	$1,500	
7/27/XX	W-334	Smith Paving Co.		2,950	______	$2,950
TOTALS				$4,450	$1,500	$2,950

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_______________COUNTY, ARIZONA

GENERAL LEDGER

Fund	COUNTY FREE LIBRARY DISTRICT	Number	280
Department	COUNTY LIBRARY	Number	7000
Object	CASH HELD BY THE COUNTY TREASURER	Number	101

Date	Ref	Transaction Description	Debit	Credit	Balance
20XX					
6/30		Balance forward			$8,000
7/31	RJ1	Receipts—July	$1,062		9,062
7/31	DJ1	Paid vouchers—July		$3,000	6,062

RJ—Cash Receipts Journal
DJ—Cash Disbursements Journal

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_______________COUNTY, ARIZONA

GENERAL LEDGER

Fund	SPECIAL REVENUE FUND—ROAD	Number	252
Function	HIGHWAYS AND STREETS	Number	03
Department	ROAD	Number	4000
Object	PERSONAL SERVICES	Number	400

Date	Ref	Transaction Description	Expenditure Amount	Expenditure to Date	Remaining Budget
20XX					
7/01	GJ2	Current-year budget			$50,000
7/15	DJ2	Semi-monthly payroll	$1,850	$1,850	48,150

GJ—General Journal
DJ—Cash Disbursements Journal

______________COUNTY, ARIZONA
RECONCILIATION OF COUNTY'S CASH BALANCE
TO
COUNTY TREASURER'S BALANCE
Fund XXX For the Month Ending July 31, 20XX

Part A

Description	Amount	Disposition
1. County's balance	$15,350	
2. Reconciling items:		
TR #10705 recorded incorrectly	500	JE #13, 5/15
Allocation of interest earned	1,760	
Transfer-in not recorded	200	JE #14, 5/15
Stopped warrant #3180—paid by County Treasurer	(95)	JE #17, 5/16
Warrant #3320 recorded incorrectly	(400)	JE #18, 5/16
3. Reconciled balance*	$17,315	

Part B

Description	Amount	Disposition
1. County Treasurer's balance	$19,000	
2. Subtract outstanding warrants	(3,520)	
3. Total	$15,480	
4. Reconciling items:		
Transfers not processed (JE #7 on 4/8/XX)	(250)	JE #15, 5/15
TR #10798 not posted	2,000	JE #16, 5/15
Warrant #3254 recorded incorrectly	85	JE #19, 5/16
5. Reconciled balance*	$17,315	

Prepared by ________________________ Date __________________

Reviewed by ________________________ Date __________________

*These amounts must be the same.

CONTENTS

Topic **Page**

INTRODUCTION

Cash includes currency on hand, such as petty cash funds and cash receipts not yet deposited; negotiable instruments, such as drafts, checks, warrants, and money orders; and balances on deposit with commercial banks and county treasurers.

Cash receipts that counties receive directly include intergovernmental revenues, property tax revenues, charges for services, licenses and permits, fines and forfeits, proceeds from the sale of bonds, and investment earnings. Counties disburse cash for salaries and wages, purchases of goods and services, debt principal and interest payments, and various other reasons.

Because there is a relatively high risk of loss or theft associated with cash transactions, counties should have an effective cash management program to control and safeguard cash and ensure accurate reporting.

Internal controls should be tailored to each county's specific needs. The controls in this section are recommended and are provided as examples of sound financial and administrative practices. Other controls may be used if they provide at least the same level of internal control. Transactions processed electronically should include procedures to ensure that evidence of review, verification, and approval is maintained. Detailed procedures for automated systems are not discussed because of differences in these systems. See **§VII, Information Technology**, for information regarding general and application controls for automated systems.

LEGAL REQUIREMENTS

Following are some of the more pertinent statutory requirements relating to county monies:

1. County monies must be deposited with the county treasurer. A.R.S. §§11-491, 11-492, and 11-493

2. The county board of supervisors, acting as the county board of deposit, must notify in writing all qualified banks by the first Monday in March of each award year to let them know the time and place at which servicing bids will be received. A.R.S. §35-325(B)

3. The board must meet and receive the written bids by the fourth Monday in April of the award year. Bids must be evaluated based on response, price, services, qualifications, and other scope of work detailed in the bid documents. The qualified bank representing the highest rated bid must be designated as the servicing bank. A.R.S. §35-325(C)

4. County monies should be maintained only with eligible depositories. These are defined as commercial banks, savings banks, or savings and loan associations that (1) have their principal place of business in this state or have a branch here; and (2) are insured by the Federal Deposit Insurance Corporation (FDIC), its successor, or any other insuring instrumentality of the United States. Eligible depositories also include credit unions insured by the National Credit Union Administration (NCUA) or its successor. A.R.S. §35-321(5)

5. County monies on deposit with financial institutions must be properly collateralized if not covered by insurance. All bank deposits in excess of amounts covered by the FDIC or the NCUA must be collateralized by an amount equal to at least 101 percent of the deposit. Eligible types of collateral are described in A.R.S. §35-323(G).

6. The board of supervisors may, by annually adopting a resolution of continuing effect, authorize the county treasurer to invest monies collected for the county. A.R.S. §35-327(G)

7. County monies may be invested in the State Treasurer's investment pool. A.R.S. §35-316(B)

8. County monies available for investment may be invested in securities and deposits with a maximum maturity of 5 years. All monies must be invested in eligible investments. A.R.S. §35-323(A)

9. The board of supervisors may invest county sinking fund monies. In the absence of specific direction in the bond indenture, the monies may be invested in any of the investment securities allowed for trust funds. A.R.S. §35-328

10. The board of supervisors may order the county treasurer to sell any securities. The order must specifically describe the securities and indicate the date they are to be sold. The treasurer must sell the securities for cash on that date at the current market price. The treasurer and the board of supervisors are not accountable for a loss on the sale. Any loss or expense must be charged against investment earnings. A.R.S. §35-323(N)(2)

11. If the total amount of county monies available for deposit at any time is less than $100,000, the board of supervisors must award the deposit of the monies to an eligible depository in accordance with an ordinance or resolution of the board of supervisors. A.R.S. §35-323(O)

12. Counties may invest trust fund monies in any of the securities allowed by A.R.S. §35-323. These monies also may be invested in fixed income securities of corporations organized and doing business in any state, or the District of Columbia, that carry one of the two highest ratings of Moody's investors service and Standard and Poor's rating service. If only one of the above-mentioned services rates the security, it must carry the highest rating of that service. If a rating change occurs after purchase, it is not mandatory to sell the security. A.R.S. §35-324(A)

13. To disburse cash, counties must use prenumbered warrants that include the date, amount, payee, and purpose for which the warrant was drawn. The county must keep a record of each warrant in the warrant book. Warrants must be signed by the chairman of the board of supervisors and either the clerk of the board or the finance director. A.R.S. §11-631

14. When the board of supervisors, county school superintendent, or a special district presents a warrant or substitute check for payment, the county treasurer must pay it and make a charge against the appropriate account. A.R.S. §11-634

15. If a revolving line of credit has not been obtained for a political subdivision, or if the revolving line of credit has been expended, the county treasurer must write or stamp on the face of the warrant or substitute check "not paid for lack of funds" and the date of presentation. The warrant or substitute check accrues interest due to the payee from that time until it is paid. Interest must not be more than 10 percent per year. A.R.S. §11-635

16. A warrant that is drawn on the county General Fund or a check that is drawn by the county treasurer in the treasurer's official capacity and that is not presented for payment within 1 year of the issue date is void and deemed to have been paid, and is not subject to A.R.S. §44-302, relating to presumptions of abandonment. A check or warrant that is not presented for payment within 1 year has no further force or effect, and any monies must be transferred or revert to the county General Fund or other

appropriate fund on which the check or warrant was drawn. At any time within 1 year after an unpresented check or warrant has been voided as provided in A.R.S. §11-644, the person in whose favor the check or warrant was drawn, or the person's personal representative, successors, or assignees, may present a claim for the amount of the check or warrant to the board of supervisors. If the board finds that the claim is legitimate and that there is good and sufficient reason for failure to present the original check or warrant, the board may allow the claim and order it to be paid from the county General Fund or other appropriate fund. A.R.S. §11-644

17. Notwithstanding A.R.S. §§11-635, 11-636, and 11-638 for county treasurers of counties that have a population of 2 million or more, if a revolving line of credit has not been obtained for a political subdivision, or if the line of credit has been expended, and there are insufficient monies in the subdivision's account, the treasurer must not pay a warrant or substitute check presented. If the treasurer receives an electronic notice that a warrant was issued, the treasurer must notify the servicing bank that the warrant will not be paid for lack of monies. Until the time a warrant or substitute check is paid, interest accrues to the payee at a rate not to exceed 10 percent interest per year. The treasurer must keep a register of warrants and substitute checks presented for payment. When there is sufficient money to pay the warrants drawing interest and registered, the treasurer must notify the issuing entity and place the monies in a clearing fund or other appropriate fund. The issuing entity must issue new warrants that include the original principal amount and accrued interest, and notify the treasurer of the warrant numbers, amounts, and payees. A.R.S. §11-645

18. Counties must report and remit abandoned property to the Arizona Department of Revenue. According to the definition of property in A.R.S. §44-301, property includes money. Property is presumed abandoned if it is unclaimed by the apparent owner within the time frames prescribed by the schedule in A.R.S. §44-302.

19. The State Treasurer may establish long-term local government investment pools (LGIPs) for counties, cities, towns, tribal governments, and political subdivisions of the State. A.R.S. §41-177

PROCEDURES

Cash Receipts

Cash may be received through the mail or over the counter. Common mail receipts include payments of fines, penalties, and fees. Over-the-counter cash receipts include the payments specified above as well as cash received from services rendered, licenses, and permits.

All monies collected for the county are public monies and must be deposited with the county treasurer. A.R.S. §§11-492 and 11-493 County departments should deposit monies with the county treasurer daily, when significant, or at least weekly. County officials or departments that maintain a clearing bank account should obtain approval for the account from the county board of supervisors. A.R.S. §§11-491 and 11-251 If clearing bank accounts are maintained, cash receipts collected by county departments should be deposited intact daily, if significant, or at least weekly. These monies should then be remitted to the county treasurer on a weekly basis, or at least monthly. Separate bank accounts may also be required by provisions of regulations, contracts, or grant agreements. These bank accounts should also be approved by the board of supervisors.

If a county department uses manual receipt forms, the forms should be issued to cashiers in books or blocks. An employee should be assigned to maintain custody of unissued receipt forms in a secure location. A log should be used to record the sequence of receipts issued, date issued, and to whom issued. An employee not involved in processing cash receipts should periodically review the log to ensure that all cash receipts are accounted for.

For computer-generated receipt forms, the data that the cashier inputs into the computer should be verified and agreed to supporting documentation. Only authorized employees should have access to the system for receipt input. See **§VII, Information Technology**.

Mail Receipts—Employees who are not responsible for maintaining accounting records should receive mail. Two county employees should be present when mail is opened. Immediately upon receipt, all checks, warrants, drafts, and money orders should be restrictively endorsed "for deposit only" to the credit of the county.

A list of all cash receipts should be prepared with the following information for each receipt: the name of the remitting person or organization, the purpose, the amount, and the form (cash or check) of the remittance. Both employees should sign and date the list to document responsibility for verifying the receipts and preparing the list.

At the end of the day, the mail receipts list may be used as an aid in preparing the daily cash receipts summary and reconciling cash collections to total receipts. All receipts should be placed in a safe or locked drawer until deposited.

Over-the-Counter Receipts—At each location where cash and checks are received over the counter, counties should designate at least one employee as cashier. Access to cash registers and cash boxes should be restricted to cashiers. Each cashier should be assigned a separate cash drawer that only that cashier is to use while on duty. This drawer should be locked during the cashier's absence. If cash registers are used, controls should include locked-in totals, visible amounts of sales, receipts for customers, and over- and under-ring vouchers.

Receipts and tapes generated by cash registers should include the date, codes to identify the transaction, the cashier recording the transaction, the amount received, and a code for the department, if applicable. Computer-generated and handwritten receipt forms should include the date, the name of the person making the payment, the purpose, and the amount received. If receipt forms are prepared manually, the cashier should initial the form to document responsibility for the receipt.

A receipt should be provided to the person who made the payment and a copy retained by the county. The payment should be placed in a cash register, locked cash box, safe, or locked drawer.

If a cashier makes an error, the cash receipt form should be voided and retained for documentation and an over- or under-ring voucher should be prepared. The voucher should be approved by a supervisor and retained.

Daily Cash Receipts Reconciliation—At the end of each day, the cashier should prepare a daily cash receipts summary of all mail and over-the-counter receipts. The summary should identify the amount and type of cash receipt and refund, and the totals of each. The summary should also provide for a reconciliation of cash collections to total receipts less refunds. This portion of the reconciliation may be generated by a computer system.

The cashier should count the cash in the cash box or cash register, including cash received in the mail, and record this amount on the summary. The amount of the change fund should be deducted to arrive at total cash collections for the day. This amount should be compared with net cash receipts on the summary. Differences should be identified as cash over or short. All differences should be investigated and explained on the summary. See Exhibit **VI-C-22**.

The daily cash receipts summary should be signed by the cashier as preparer, and the cashier should prepare a bank deposit slip. The cashier should submit the cash receipt forms, mail receipts list, daily cash receipts summary, cash and checks, and bank deposit slip to a supervisor for review. The supervisor should review the summary and bank deposit slip for accuracy and completeness, and sign the summary to document the review. The supervisor should retain a copy of the bank deposit slip and forward the daily cash receipts summary along with the bank deposit slip and cash and checks and supporting documentation to the cashier. Cash receipts should be posted to the appropriate accounting records on a daily basis. See **§VI-B, Accounting Records**.

The cashier, or another designated employee other than the bank account custodian, should deposit the cash receipts with the bank. A validated bank deposit slip should be obtained and attached to the daily cash receipts summary. The supervisor should compare the validated deposit slip to a copy of the original deposit slip and the daily cash receipts summary to determine that the proper amount was deposited.

The daily cash receipts summary, mail receipts list, validated bank deposit slip, and any remittance advices received should be filed by date. The cash receipt forms should be batched in numeric order and filed by date.

Treasurer's Receipts—Monies received by county departments or elected officials must be deposited with the county treasurer. The treasurer must issue a receipt for all monies received. A.R.S. §11-494

For many types of receipts, the depositing department may prepare a 5-copy treasurer's receipt to accompany monies to be deposited. The following recommended procedures are designed for depositing departments that prepare a 5-copy treasurer's receipt.

Treasurer's receipts must be in a standard format, prenumbered, issued sequentially to depositing departments, and validated or signed by the treasurer. County departments are accountable for all treasurer's receipts issued to them, and unused treasurer's receipts should be maintained in a secure location.

> **Depositing Department**—A designated clerk or other responsible employee should prepare the treasurer's receipts. Treasurer's receipts should be prepared at least weekly to provide for a timely deposit of monies with the treasurer. These receipts should be prepared using information from daily cash receipts summaries or other pertinent supporting documentation. If a clearing bank account is used by the department, a check drawn on the account should be prepared for the amount of the deposit and the clerk should record the check in the check register.

The department supervisor should review the treasurer's receipt and check for accuracy and completeness. Amounts on the treasurer's receipt should be agreed to the check and supporting documentation. The supervisor should sign and date the treasurer's receipt to document the review and sign the check. Supporting documentation should be filed by date.

The check, along with copies 1, 2, 3, and 4 of the treasurer's receipt, should be submitted to the treasurer's office. Copy 5 should be filed numerically for control purposes.

After copy 2 of the treasurer's receipt has been validated and returned by the treasurer, an employee other than the one who prepared the treasurer's receipt should match amounts on copy 2 to copy 5. Copy 2 should be filed numerically, and copy 5 should be destroyed.

The pending file of copy 5 treasurer's receipts should be reviewed at the end of each month. Unmatched treasurer's receipts should be investigated. See Exhibit **VI-C-20**.

Treasurer's Office—A clerk in the treasurer's office should receive the check and copies 1, 2, 3, and 4 of the treasurer's receipt directly from the depositing department. The check should be deposited in the county treasurer's servicing bank account. The treasurer should validate all copies of the treasurer's receipt and return copy 2 to the depositing department. Copy 3 should be submitted to the finance department, and copy 4 should be submitted to the clerk of the board of supervisors. The original should be filed numerically after posting the amount received to the treasurer's journal.

A detailed description of treasurer's office cash procedures is provided in §IV-C of the *Uniform Accounting Manual for Arizona County Treasurers* (UAMACT) published by the Auditor General.

County Finance Department—Copy 3 of the validated treasurer's receipt should be received directly from the county treasurer. The amount on the treasurer's receipt should be promptly recorded in the cash receipts journal. Copy 3 should then be filed by the treasurer's validation number.

The chart on page **VI-C-19** summarizes a separation of responsibilities for mail receipts and over-the-counter receipts. The chart on page **VI-C-20** summarizes a separation of responsibilities for preparation and control of treasurer's receipts.

Accounts Receivable Collection Procedures—The county should establish collection procedures when services are rendered on a credit basis. Credit for services rendered should be granted only after the county has established adequate collection procedures. County departments may provide services on credit to the public or other departments for landfill usage, medical claims, or fleet maintenance. The accounts receivable collection function should be maintained independently of cash receipts and cash disbursements functions. Work orders and customer invoices should be prepared on prenumbered and numerically controlled work order and customer invoice forms to help ensure all work performed is properly billed and recorded. Detailed accounts receivable records should be maintained that include name, address, and phone number; date, amount, and purpose of the credit transaction; and amounts past due. When credit is used or payment on credit is received, the county should update accounts receivable records.

All billing and write-off transactions should be monitored on a regular basis. To ensure that accounts receivable are recorded properly and are fairly presented on the financial statements, the county should:

- Reconcile charge receipts to amounts billed.
- Reconcile amounts billed to amounts received.
- Deposit all amounts collected with the county treasurer.
- Reconcile amounts received to amounts deposited with the county treasurer.
- Revise invoices to include current charges as well as past-due balances.
- Account for work orders and customer invoices on prenumbered and numerically-controlled forms.
- Reduce accounts receivable and corresponding revenue for unallowed amounts, such as unallowed portion of Medicare claims.
- Perform proper cut-off procedures at fiscal year-end.
- Retain supporting documentation of billed amounts for the length of time specified in the *Records Retention and Disposition for Arizona Counties* manual, or for a minimum of 3 years after the fiscal year if the item is not listed in the manual.

The county should prepare and maintain an accounts receivable aging report to monitor outstanding accounts receivable balances. To help ensure collection, monthly statements listing the amount due, current charges, past due balances, and the credit terms, should be sent to anyone with an outstanding balance. A designated employee, who is not responsible for the billing and cash receipts functions, should periodically review the accounts receivable aging report. Any unusual items should be investigated and resolved. Accounts determined to be uncollectible should be written off the county's records by an employee who is not responsible for the accounts receivable processing, recording, and collecting functions. A supervisor should approve accounts written off. The aging report should be signed and retained as evidence that the review was performed.

To account for refunds of overpayments, the revenue account originally credited for the payment should be debited if the monies were received in the same fiscal year. If the monies were received in a prior fiscal year, a miscellaneous expenditure account should be debited. To account for refunds of deposits held, the liability account should be debited.

Cash Disbursements

County taxpayers should be assured that all monies are appropriately disbursed. Therefore, counties should establish accounting policies and procedures that provide proper authorization of cash disbursements so that they are classified accurately, recorded in the accounting records on a timely basis, and properly reported.

The county may make cash disbursements through the county voucher system, revolving funds, or petty cash funds. Authorizing, preparing, and distributing payroll warrants is discussed in **§VI-G, Payroll**. Most of the procedures described below are for cash disbursements made by warrants through the county finance department. However, similar procedures and internal controls also apply to cash disbursements made by check from revolving funds.

Voucher System—Counties may establish a voucher system to pay invoices and make other cash disbursements. A voucher summarizes disbursements and provides for authorization. Upon approval of a voucher, counties should generate and distribute warrants corresponding to payments authorized on the voucher. If a voucher system is not used, counties may use alternative procedures that provide the same level of internal control.

A voucher system should include preparing a purchase requisition, purchase order, and receiving report. See **§VI-F, Purchasing**, for a detailed discussion of a purchasing system.

Copies of purchase requisitions, purchase orders, and receiving reports should be forwarded to the accounts payable department as they are completed. The accounts payable department should maintain these documents by vendor in an open purchase order file.

Counties should require vendors to mail invoices directly to the accounts payable department. The accounts payable department should record the date of receipt on the invoice. If the invoice has more than one copy, each copy other than the original should be marked "duplicate copy" to prevent duplicate payment. Invoices should be matched to the applicable purchase requisition, purchase order, and receiving report.

Accounts payable personnel should compare terms, prices, and quantities on the invoice to the purchase order and the receiving report. They should also check the mathematical accuracy of extensions and totals, verify the propriety of account distribution, and indicate their review by signing and dating the invoice. Discrepancies or errors should be resolved with the vendor. In addition, the invoice should be examined to ensure that the county is not being charged for inapplicable federal excise taxes, then signed and dated to indicate that these steps have been completed. For specific rules, counties may refer to IRS Publication 510.

Accounts payable personnel should indicate on the purchase order whether the order is complete or partial. If partial, the purchase order should be re-filed in the open purchase order file.

Once the invoice is matched to supporting documentation and the order is complete, this documentation should be submitted to a second accounts payable employee for voucher preparation. The voucher should include a summary of the disbursements by fund, function, and object code, or to the extent required by county policies.

Accounts payable supervisory personnel should review the voucher. This review should include random verification that the supporting documentation is complete and accurate. The supervisor should sign and date the voucher as evidence of review and to authorize payment. The accounts payable supervisor should submit the voucher(s) to the board of supervisors for approval.

Upon approval, warrants should be obtained from the employee who has custody of unused warrants. This person should not have any responsibility for preparing warrants. The unused warrants should be adequately safeguarded in a safe, locked cash box, or locked filing cabinet or drawer to prevent unauthorized use. When needed, warrants should be issued sequentially, and only the number required should be released. The custodian may use a log to record the sequence of warrants issued, the date issued, and to whom issued. This log should be reviewed periodically by another employee to ensure that all warrants are accounted for. Warrants should be printed in a manner that prohibits alteration.

Warrants and a warrant register, which includes the warrant number, warrant amount, and payee for each warrant, should be prepared from the voucher by an employee who has no responsibility for maintaining unused warrants, preparing the voucher, operating the warrant-signing machine, or distributing warrants. Warrants voided during the preparation process should be accounted for, defaced, and retained.

Warrants must be signed by the chairman of the board of supervisors and either the clerk of the board or the finance director. Access to the warrant-signing machine and signature plate should be restricted to authorized personnel. Further, the persons controlling the use of the signature plate should not be the same person who approves expenditures or operates the warrant-signing machine. Signing blank warrants and making warrants payable to cash or bearer should be prohibited.

The accounts payable supervisor should compare detailed information from the warrant register to the voucher and to the signed warrants on a test basis. In addition, the supervisor should reconcile the total of the signed warrants with the voucher and warrant register. These procedures help ensure that a warrant is prepared for each approved disbursement and that warrant amounts and payees are correct. Accounts payable personnel should record, by fund, information from the voucher in a cash disbursements journal and subsequently post it to county general and subsidiary ledgers.

The county should distribute warrants with remittance advices to vendors so that payments are properly credited to the county’s account. The employee who distributes the warrants should not be responsible for authorizing or preparing them, or for maintaining accounting records.

After warrants are issued, the accounts payable department should cancel invoices to prevent duplicate payments. Counties may do this by stamping the invoice with the payment date and recording the warrant number on the invoice. Each canceled invoice should be attached to the requisition, purchase order, and receiving report, and filed by vendor in a paid invoice file maintained by the accounts payable department. The voucher should also be canceled and filed in the accounts payable department.

If payments are processed electronically, the accounts payable department must ensure that similar control procedures are in place. Transactions processed electronically should include procedures to ensure that evidence of review, verification, and approval is maintained.

A check that is drawn by the county treasurer in the treasurer’s official capacity or a warrant that is drawn on the county General Fund and that is not presented for payment within 1 year after the date of issuance is void and deemed to have been paid, and is not subject to A.R.S. §44-302 relating to presumptions of abandonment. A check or warrant that is not presented for payment within 1 year has no further force or effect, and any monies must be transferred or revert to the county General Fund or other appropriate fund on which the check or warrant was drawn. At any time within 1 year after an unpresented check or warrant has been voided, as provided in A.R.S. §11-644, the person in whose favor the check or warrant was drawn, or the person’s personal representative, successors, or assignees, may present a claim for the amount of the check or warrant to the board of supervisors. If the board finds that the claim is legitimate and that there is good reason for failure to present the original check or warrant, the board may allow the claim and order it to be paid from the county General Fund or other appropriate fund. A.R.S. §11-644

Counties should maintain and continually update accounts payable records. Monthly statements from vendors should be periodically reconciled to the accounts payable records. Accounts payable personnel should agree encumbrances to open purchase orders and commitments periodically. Unmatched invoices and receiving reports should also be periodically reviewed and investigated.

Supervisory personnel in the accounts payable department should periodically review accounts payable in the accounting records for debit balances, and investigate and resolve such balances. The supervisor should also approve all adjustments to accounts payable records.

The chart on page **VI-C-21** summarizes a way cash disbursement responsibilities may be adequately separated within the accounts payable department.

Revolving Line of Credit—The board of supervisors may obtain a revolving line of credit for the county from a financial institution authorized to do business in Arizona. The credit line may be used to pay county expenditures when sufficient monies are not otherwise available. When sufficient unrestricted operating revenues are received, the credit line must be repaid. The board of supervisors must obtain bids for a credit line as part of the bid process to contract with a servicing bank. A.R.S. §11-604.01

A revolving line of credit is established for the county as a whole and may be used to cover warrants on any county fund. Counties may use a credit line to pay for expenditures incurred under a federal reimbursement grant when sufficient monies are not available. However, in accordance with the Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments,* costs incurred for interest on borrowed capital or the use of a county's own funds, however represented, are unallowable except as otherwise provided in OMB Circular A-87 or other applicable federal regulations.

Counties should establish procedures for obtaining and accounting for revolving lines of credit. By law, the county treasurer is the agent for the county or a political subdivision for which a credit line is obtained by the board of supervisors. Consequently, procedures have been incorporated in the UAMACT relating to revolving lines of credit. Counties should refer to A.R.S. §11-604.01 for the specific legal requirements.

Warrant Registration—If a revolving line of credit has not been obtained, or if the credit line has been expended, warrants or substitute checks drawn on county funds that do not have sufficient cash available must be registered and paid in order of registration.

Revolving Funds—Departments may establish revolving funds with the board of supervisors' approval. Revolving funds are used to provide travel advances, establish petty cash or change funds, or for other minor claims requiring immediate payment. For each revolving fund, the county should assign a bonded or insured employee as custodian, and establish an authorized balance and a maximum limit for each disbursement. Additionally, the county should define the purposes for each fund and establish a dollar limit at which the funds will be reimbursed.

Revolving funds should be operated on an imprest basis; at any time, total cash on hand plus disbursement documentation should equal the fund's authorized balance.

To establish a revolving fund, a warrant should be drawn through the county's voucher system. The warrant should be made payable to the requesting department and deposited in a checking account created solely for the revolving fund. The revolving fund custodian should record the deposit in the revolving fund check register when the validated bank deposit slip is received, and file the validated bank deposit slip in a revolving fund file.

Disbursements from the revolving fund should be initiated using a revolving fund check request as shown on Exhibit **VI-C-24**, and substantiated by properly approved supporting documentation, such as authorization for a travel advance, sales receipts, or vendor invoices.

The employee requesting a check should obtain approval for the check request from their supervisor. The supervisor should sign and date the revolving fund check request to indicate approval. The requesting employee should then submit the approved revolving fund check request and supporting documentation to the revolving fund custodian.

The revolving fund custodian should verify the mathematical accuracy of the invoice and ensure that the revolving fund check request is properly completed and approved. Any discrepancies noted should be resolved before issuing the check. The revolving fund custodian should sign and date the revolving fund check request; prepare and sign a revolving fund check; and record the check number, account code, and date on the revolving fund check request. Additionally, the custodian should record the check number, date, payee, and amount in the revolving fund check register. The vendor invoice and other supporting documentation should be canceled with the check number, amount, and date indicated to prevent duplicate payment. The revolving fund custodian should forward the signed check to the requestor and file the revolving fund check request and supporting documentation in an unreimbursed expenditures file.

The county must use prenumbered checks. Signature cards must be completed for individuals authorized to sign checks, and the cards should be reviewed periodically by the department supervisor to ensure that they are current. Checks should have a dollar limit and a time limit for cashing printed on the face of the check. Signing blank checks and making checks payable to cash or bearer should be prohibited. Void checks must be accounted for, defaced, and retained.

The County should follow the procedures detailed on page **VI-C-9** for checks that have been outstanding for 1 year or more.

When the revolving account cash balance reaches a predetermined minimum level and at fiscal year end, the custodian should replenish the account. Before initiating replenishment procedures, the custodian should reconcile the cash on hand and the unreimbursed check requests and supporting documents to the imprest amount.

The custodian should submit all revolving fund check requests and related supporting documentation, including copies of bank statements verifying service charges, that were filed in the unreimbursed expenditures file to the employee responsible for voucher preparation. The voucher should be prepared in accordance with voucher system procedures described beginning on page **VI-C-8**. The expenditures should be charged to the account codes listed on the revolving fund check requests. The voucher should equal the total of the paid invoices, or other support documents, and any applicable bank service charges. When the warrant is received by the custodian, it should be deposited into the revolving account. The revolving fund custodian should record the deposit in the revolving fund check register when the validated bank deposit slip is received, and file the validated bank deposit slip in a revolving account file.

Petty Cash Funds—Departments may establish petty cash funds with the approval of the board of supervisors or designated personnel. Petty cash funds should be operated on an imprest basis. Departments should establish an authorized balance for each petty cash fund and a dollar limit at which the fund will be reimbursed. Petty cash may be used to pay postage or freight charges, to make small purchases of supplies and materials, or to pay for other minor disbursements. Petty cash fund expenditures may not include salaries or travel expenditures.

To establish a petty cash fund, a warrant made payable to the fund custodian should be drawn through the county's voucher system or by a check through the department's revolving fund. These same procedures should be used to increase or decrease the amount of any existing petty cash fund. The custodian should cash the warrant or check and deposit the cash into a safe or a locked cash box. Keys should be held only by the designated custodian and supervisor. The petty cash fund should be reconciled monthly by an employee other than the petty cash fund custodian. Additionally, a supervisor or designee should perform periodic unannounced audits of the various petty cash funds.

Any employee requesting a disbursement from petty cash should begin the process by obtaining prior approval from their supervisor, then filling out a petty cash withdrawal request form as shown on Exhibit **VI-C-24**. The form should include the requestor's name, date, amount requested, account code, and purpose. The supervisor should sign and date the form to indicate approval, then the requestor should submit the approved form to the petty cash custodian.

The petty cash custodian should ensure that the petty cash withdrawal request form is properly completed and approved. Any discrepancies noted should be resolved before disbursing cash. The custodian should disburse the cash to the requesting employee and have the employee sign the form to indicate the amount has been received. The petty cash withdrawal request form should be signed, dated, and maintained in a safe or locked petty cash box to support the disbursement.

Upon receiving the sales receipt and change, if any, from the employee, the custodian should verify the mathematical accuracy of the sales receipt, and verify that the sales receipt amount plus any change equals the withdrawal request amount. Differences should be investigated and resolved. The petty cash custodian should record the sales receipt amount, number, and date; change returned; and date returned on the applicable petty cash withdrawal request form. The custodian should then attach the sales receipt to the withdrawal request form and place both in the petty cash box until the petty cash fund is replenished.

When the cash balance in the petty cash fund reaches the established minimum balance, supporting documentation should be totaled and reconciled to the remaining balance. The custodian should identify differences as cash overages or shortages, and investigate and explain them on the reconciliation.

The supporting documentation and reconciliation should be submitted to the county finance department or the revolving fund custodian, depending on how the fund was established. These documents should be reviewed for completeness and authenticity, and should serve as source documents for entries in the accounting records. The petty cash withdrawal form and supporting documents should then be canceled to prevent reuse. The finance department or revolving fund custodian should issue a warrant or check payable to the petty cash fund custodian to reimburse the petty cash fund.

The petty cash fund custodian should cash the warrant or revolving fund check and replenish the petty cash fund. The custodian should count the cash in the petty cash fund to ensure cash on hand equals the imprest amount before further disbursements are made.

Procedures should be established to prohibit the petty cash fund custodian from mingling cash receipts with the petty cash fund, making unauthorized advances, or cashing personal checks.

Change Fund—Departments receiving over-the-counter cash collections may establish a change fund from the petty cash fund or revolving fund for making change for cash transactions. The amount of the change fund should not be excessive and the initial balance should remain unchanged. Increases or decreases to an existing change fund should be processed in the same manner as the initial request, and no expenditures should be made from the change fund.

At the end of the business day, the cashier should count the cash in the change fund and verify the established amount. Change fund monies should be locked in a cash drawer or safe until the next business day.

To establish a change fund when a petty cash fund or revolving fund has not been established, the department head should submit a written request to the finance director specifying the amount required. The finance director should issue a warrant for the amount of the change fund, charge the amount to the appropriate account, and record the department name and amount of the change fund in the log of outstanding change funds.

Travel Advances—Travel advances may be processed through the revolving fund or a separate travel advance fund established by the county. The amount of the fund should be determined by the board of supervisors. See **§VI-H, Travel**, for detailed policies and procedures.

Bank Reconciliations

Counties should receive monthly bank statements that summarize the monthly activity and report the ending cash balance for each account. Bank statement cash balances generally do not agree with the county's records because checks may be outstanding, deposits may be in transit, and the county may not have recorded bank charges. Therefore, counties should reconcile each bank account monthly to ensure that any discrepancies are promptly identified and resolved.

An employee not involved in authorizing or accounting for cash transactions or handling cash should prepare bank reconciliations. The designated employee should receive the bank statement and canceled checks (or the statement should include images of the checks) unopened. The employee should compare canceled checks to the accounting records and to the check register to ensure that the number, date, payee, and amount are in agreement. Canceled checks, or images of the canceled checks, should be examined for alterations, verification that they were signed by authorized county officials, and have proper endorsements. Any discrepancies or irregularities should be investigated and resolved, and the check register balance adjusted, if necessary.

Dates and amounts of deposits recorded on the bank statement should be compared to the validated bank deposit slips that were maintained on file with daily cash receipts summaries and to the check register. Differences should be investigated and resolved, and the check register balance adjusted, if necessary.

Dates and amounts of bank transfers should be compared to the accounting records, and the county should record bank charges indicated on the statement.

The county should prepare a list of deposits in transit, which are deposits made after the bank statement date. Therefore, they are not included in the bank balance or shown on the bank statement.

The county should prepare a list of outstanding checks, which are checks that have been issued and deducted from the check register balance but have not been returned canceled by the bank. That list should be carried forward and updated during each month's reconciliation. If the reconciliation discloses checks that have been outstanding for a significant length of time, the county should contact the payee to determine whether the check was lost, destroyed, or sent to the wrong payee. If the payee intends to cash the check, no adjustments should be made to the check register. If a new check is issued and the original check will not be cashed, payment on the original check should be stopped. The check amount should be reinstated in the county records and check register. For procedures to account for checks that have been outstanding for 1 year or more, see page **VI-C-9**.

The month-end reconciled balance is computed by adding deposits in transit and subtracting outstanding checks from the ending balance on the bank statement. The month-end reconciled balance should be compared to the adjusted balance in the check register. Differences should be investigated and resolved. The bank should be notified of errors, if necessary, and further corrections should be made to the check register when appropriate.

The preparer should sign and date the reconciliation and file it with the bank statement and canceled checks by bank account and by month. A department supervisor should periodically review the monthly bank reconciliations, a sample of which is shown on Exhibit **VI-C-25**.

Deposits and Investments

As previously discussed, some county departments and political subdivisions may have checking accounts that are typically used as revolving or clearing accounts. In addition, the clerk of the superior court, the justice courts, and the public fiduciary's office may maintain various types of savings accounts. All deposits should be made with eligible depositories as defined by A.R.S. §35-321.

All earnings from superior court trust monies must be accounted for in the county General Fund or as otherwise specified by law. A.R.S. §12-286

The county treasurer maintains custody of most county monies and acts as a bank for some of the county's political subdivisions, such as community college districts, school districts, and some special taxing districts. The treasurer safeguards these monies by making appropriate deposits and investments. In fact, using monies that are not needed immediately to generate additional revenue is part of an effective cash management system. Refer to the UAMACT for a detailed discussion about accounting for and reporting on the county treasurer's investment pool. The discussion includes such topics as apportioning income earned from pooled investments, determining fair value, and including information about the pool in the county's financial statements.

The finance department is generally responsible for recording investment income in the accounting records and disclosing the required details about deposits and investments.

Earnings on deposits and investments consist of interest, dividends, and the net change in the fair value of applicable investments. This investment income should generally be recorded in the fund in which it was earned; however, it may then be transferred to other funds for disbursement. However, if legal and contractual provisions require that investment income be designated for a particular fund, that income should be recognized as revenue directly in that fund. Consequently, no transfer of resources should be reported.

Fair value is the current exchange amount agreed to by willing parties not involved in a forced sale or liquidation situation. It may be determined by looking at securities exchange listings in a newspaper or asking individual broker-dealers, Pink OTC Markets Inc. or its successor, or securities custodians. If fair value information is not readily available from these sources, refer to the UAMACT for more detailed discussion.

Refer to **§VIII, Financial Reporting**, for a discussion of reporting requirements for deposits and investments.

COMPLIANCE CHECKLIST

This compliance checklist was developed to assist the county in establishing and maintaining adequate controls over cash and investments, and may be used to evaluate compliance with UAMAC requirements. Questions are phrased in such a way that "Yes" answers indicate satisfactory conditions, while "No" answers indicate possible weaknesses that should be corrected.

	YES	NO
Cash Receipts		
1. Has the county adequately separated the following duties:		
a. Cash handling?	______	______
b. Recordkeeping?	______	______
c. Reconciling bank accounts?	______	______
2. Do physical facilities safeguard cash prior to deposit?	______	______
3. Are cash receipts summaries and mail receipts lists prepared and reconciled to deposits daily at all locations where cash is received?	______	______
4. Does the county deposit cash receipts intact daily, if significant, or at least weekly?	______	______
5. Is a validated deposit slip received for each bank deposit?	______	______
6. If a prenumbered, computerized, or cash register receipt form is not generated, are manually prepared cash receipt forms prenumbered and issued sequentially? Are "voided" originals retained?	______	______
7. Has the county established policies for granting credit and collecting accounts receivable?	______	______
8. Has the county established refund policies?	______	______
9. Are two employees with no responsibility for maintaining accounting records present when mail is opened?	______	______
10. Are all checks, warrants, drafts, and money orders received and immediately stamped "for deposit only"?	______	______
11. Is access to cash registers and cash boxes restricted to cashiers?	______	______
12. Do cash register controls include locked-in totals, visible amounts of sales, receipts for customers, and over- and under-ring vouchers?	______	______
13. Is the information from the daily cash receipts summaries and mail receipts lists recorded in the county's accounting records?	______	______
Cash Disbursements		
1. Has the county adequately separated the following duties:		
a. Approving cash disbursements?	______	______

	YES	NO
b. Preparing warrants?		
c. Distributing warrants?		
d. Maintaining accounting records?		
2. Is a properly authorized purchase order and properly completed receiving report required before an invoice is approved for payment?		
3. Are warrants prenumbered and sequentially issued?		
4. Are all check signers designated by the board of supervisors, the finance director, or appropriate supervisor?		
5. Are all vouchers submitted for approval to the board of supervisors?		
6. Is the supply of unused warrants adequately safeguarded?		
7. Are warrants prepared from properly approved vouchers by persons who do not prepare vouchers, maintain unused warrants, operate the warrant-signing machine, or distribute warrants?		
8. Are all cash disbursements, except petty cash items, made by check from authorized bank accounts or by warrant from monies on deposit with the county treasurer?		
9. Do checks drawn on authorized bank accounts have a dollar limit and a time limit for cashing printed on the face of the checks?		
10. If a warrant-signing machine is used, are the signature plates controlled by an employee who does not approve expenditures or operate the warrant-signing machine?		
11. Does the county prohibit signing blank warrants/checks and warrants/checks drawn payable to cash or bearer?		
12. Are spoiled and voided warrants/checks mutilated to prevent reuse and kept on file for subsequent inspection?		
13. Is the total of the signed warrants reconciled with the voucher and warrant register total?		
14. Is notation of payment made on supporting data to prevent duplicate payment?		
15. Are warrants/checks entirely completed before issuance to employees or vendors?		
16. Are warrants distributed by an employee who is not responsible for authorizing or preparing warrants, or for maintaining accounting records?		
17. Are monthly statements from vendors promptly reconciled to the accounts payable records?		
18. Are revolving and petty cash funds authorized by the board of supervisors or other designated personnel?		

	YES	NO
19. Are revolving and petty cash funds maintained on an imprest basis?	_______	_______
20. Are replenishments to revolving and petty cash funds approved by persons other than custodians upon adequate inspection of supporting data?	_______	_______
21. Has the county established limits on the amount of cash that may be drawn on revolving and petty cash funds?	_______	_______

Bank Reconciliations

1. Are bank reconciliations prepared on a timely basis by an employee who cannot authorize or account for cash transactions or handle cash?	_______	_______
2. Are bank statements received unopened by the authorized employee?	_______	_______
3. Are canceled checks, or images of the canceled checks, compared to the cash disbursements journal and to the check register to ensure that the number, date, payee, and amount agree?	_______	_______
4. Are canceled checks, or images of the canceled checks, examined for alterations and to verify that they were signed by properly authorized county officials?	_______	_______
5. Are canceled checks, or images of the canceled checks, examined for irregular endorsements?	_______	_______
6. Are dates and amounts of deposits shown on the bank statement compared to the validated bank deposit slips?	_______	_______
7. Are dates and amounts of bank transfers compared to the accounting records?	_______	_______
8. Are checks outstanding for a significant time periodically investigated and resolved?	_______	_______

Deposits and Investments

Is investment income recorded in the fund in which it was earned? Or, is investment income recorded in accordance with legal and contractual provisions?	_______	_______

Cash Receipts Procedures

	Clerk I	Clerk II
Mail Receipts	1. Opens mail received with clerk II. 2. Stamps all checks, warrants, drafts, and money orders received "for deposit only." 3. Prepares a mail receipts list of all cash received. 4. Signs and dates mail receipts list.	1. Opens mail received with clerk I. 2. Signs and dates mail receipts list. 3. Stores cash in secure location until end of day. 4. At end of day, submits cash and mail receipts list to cashier.
	Cashier	**Supervisor (Bank Account Custodian)**
Over-the-Counter Receipts	1. Receives cash. 2. Stamps all checks, warrants, money orders, and bank drafts received "for deposit only." 3. Prepares a cash receipt form or generates cash register receipt. 4. Initials and dates manually-prepared cash receipt forms to document responsibility for receipt of cash. 5. Retains cash received in a cash register or cash box.	
Daily Cash Receipts Reconciliation	6. Receives cash and mail receipts list from clerk II at end of day. 7. Prepares a daily cash receipts summary for all mail and over-the-counter receipts. Reconciles cash receipts to cash collections. 8. Investigates and documents cash over or short. 9. Signs daily cash receipts summary as preparer. 10. Prepares bank deposit slip. 11. Submits cash receipt forms, mail receipts list, bank deposit slip, and daily cash receipts summary to supervisor. 12. Receives cash receipt forms, mail receipts list, original bank deposit slip, and daily cash receipts summary from supervisor. 13. Batches cash receipt forms in numeric order and files batch by date. 14. Files mail receipts list and daily cash receipts summary by day. 15. Deposits cash with bank and receives a validated deposit slip. 16. Sends daily cash receipts summary and validated deposit slip to supervisor. 17. Receives validated deposit slip and daily cash receipts summary from supervisor and files together by date.	1. Receives cash receipts forms, mail receipts list, bank deposit slip, and daily cash receipts summary from cashier. 2. Reviews daily cash receipts summary for accuracy and completeness. 3. Signs daily cash receipts summary to document review. 4. Agrees amount on bank deposit slip to cash received as recorded on the daily cash receipts summary. Retains copy of bank deposit slip. 5. Returns cash receipt forms, mail receipts list, daily cash receipts summary, and original bank deposit slip to cashier. 6. Receives daily cash receipts summary and validated deposit slip from cashier. 7. Verifies that amount on validated deposit slip agrees with copy of original deposit slip and the daily cash receipts summary. 8. Sends validated deposit slip and daily cash receipts summary to cashier.

Treasurer's Receipt Procedures

DEPOSITING DEPARTMENT		TREASURER'S OFFICE	COUNTY FINANCE DEPARTMENT
Clerk I 1. Prepares check drawn on clearing account and 5-copy treasurer's receipt based on appropriate supporting documentation. 2. Records check in register. 3. Submits treasurer's receipt, check, and supporting documentation to supervisor. 4. Receives signed treasurer's receipt, signed check, and supporting documentation from supervisor. 5. Submits check and copies 1, 2, 3, and 4 to the county treasurer's office. 6. Files copy 5 numerically. 7. Files supporting documentation by date. **Clerk II** 8. Receives copy 2 of treasurer's receipt after validation by treasurer. 9. Matches copy 2 to copy 5. 10. Files copy 2 numerically and destroys copy 5.	**Supervisor (Clearing Bank Account Custodian)** 1. Receives treasurer's receipt, check, and supporting documentation. 2. Reviews treasurer's receipt for accuracy and completeness. 3. Agrees amounts on treasurer's receipt to supporting documentation and check. 4. Signs check. 5. Signs and dates treasurer's receipt to document approval. 6. Returns treasurer's receipt, check, and supporting documentation to clerk I.	1. Receives treasurer's receipt, check, and supporting documentation. 2. Deposits check in county treasurer's servicing bank account. 3. Validates copies 1, 2, 3, and 4 of the receipt. 4. Returns copy 2 to the depositing department. 5. Submits copy 3 to the County Finance Department. 6. Records amount received in treasurer's journal and files original numerically. 7. Submits copy 4 to the clerk of the board of supervisors.	1. Receives copy 3 of validated treasurer's receipt directly from the treasurer. 2. Records amount in cash receipts journal. 3. Files copy 3 by treasurer's validation number. 4.

Cash Disbursement Procedures

Review of Documents Clerk I	Voucher Preparation Clerk II	Authorization for Payment and for Warrant Preparation Supervisor	Warrant Preparation Clerk III
1. Receives copies of purchase requisitions (PR), purchase orders (PO), and receiving reports (RR) from departments. 2. Compares RR to PO to verify that order was complete. If incomplete, files PO in open PO file. 3. Receives vendor invoices directly from vendors. 4. Matches invoices to PR, PO, and RR. 5. Compares terms, prices, and quantities on the invoice to the PO and RR. 6. Verifies the mathematical accuracy of the invoice. Resolves discrepancies with vendor. 7. Verifies the propriety of account distribution. 8. Signs and dates invoice to document review. 9. Submits invoice, PR, PO, and RR to clerk II.	1. Receives invoice, PR, PO, and RR from clerk I. 2. Prepares voucher. 3. Submits voucher and documentation to supervisor for approval. 4. Receives warrants, warrant register, and voucher from clerk III. 5. Obtains warrant-signing machine and signature plate from authorized official. 6. Operates warrant-signing machine. 7. Submits signed warrants, warrant register, and voucher to supervisor for approval. 8. Receives documentation, voucher, and signed warrants from supervisor. 9. Issues warrants directly to vendors. 10. Cancels invoices to prevent duplicate payments and files with PR, PO, and RR in a paid invoice file by vendor. 11. Cancels and files voucher.	1. Receives voucher and documentation from clerk II. On a test basis, reviews the completeness and accuracy of supporting documentation. 2. Signs voucher and submits it to board of supervisors for approval. 3. After board approval, submits voucher and the required number of unused warrants to clerk III for warrant preparation. Records warrant numbers issued in log. 4. Receives signed warrants, warrant register, and voucher from clerk II. 5. On a test basis, compares information from the warrant register to the voucher and signed warrants. 6. Reconciles the total of signed warrants to the totals of the voucher and warrant register. 7. Records information from the voucher in a cash disbursements journal. 8. Posts entries in the cash disbursements journal to the county's general and subsidiary ledgers. 9. Submits documentation, voucher, and signed warrants to clerk II. 10. Reconciles monthly vendor statements to the accounts payable records.	1. Receives voucher and unused warrants from supervisor. 2. Prepares warrants and warrant register from voucher. 3. Submits warrants, warrant register, and voucher to clerk II.

_________________________ COUNTY, ARIZONA
DAILY CASH RECEIPTS SUMMARY
LOCATION: _______________________
__________________, 20___

PART I—CASH RECEIPTS

Reference	Cash	Checks	Total Receipts	
Total				$

PART II—REFUNDS

Description	Total Refund	
Total		( )

Net cash receipts $

PART III—DAILY CASH RECONCILIATION

Denomination	Cash Per Drawer
Checks	
$20.00	
10.00	
5.00	
1.00	
.25	
.10	
.05	
.01	
Total cash to be accounted for:	

Total cash to be accounted for:	
Less: Change fund	( )
Net cash receipts	
Cash over (short)	

Reason for difference:

Summary prepared by: ______________________________

Reviewed by: ______________________________________

______________________ COUNTY, ARIZONA
TREASURER'S RECEIPT

No. (Prenumbered)

Date ____________________

Depositing department or entity: ____

For the period from ____________________________ to ______________________________

Fund No.	**Source of Revenue**	**Account Code**	**Amount**
____________	____________	____________	____________
____________	____________	____________	____________
____________	____________	____________	____________
____________	____________	____________	____________
____________	____________	____________	____________
____________	____________	____________	____________
____________	____________	____________	____________
		Total deposited	____________

Authorized signature: _____________________ Title: _____________ Date: _____________

Summary of Deposit

Cash:		
Currency	____________	
Coins	____________	____________
Checks		____________
Direct deposits		____________
Total deposits		____________

Treasurer's Validation No. ________

County Treasurer By ______________________________ Date ____________________

Clerk of the Board By ______________________________ Date ____________________

_____________ COUNTY, ARIZONA

REVOLVING FUND CHECK REQUEST

Date ____________________ Amount $ __________________

Payable to ____

Invoice no. ____________________

Purpose ____

____

Requested by ____

Approved by ____

To be completed by custodian:

Check no. ____________________ Date ______________

Account code ____________________

Signature ____

_____________ COUNTY, ARIZONA

PETTY CASH WITHDRAWAL REQUEST

***Date** ____

***Requested by** ____________________________________

*Purpose ____

____

Account code __________________________ *Amount $ ______________

Approved by __________________________ Date ______________

Received by __________________________ Date ______________

Custodian __________________________ Date ______________

Sales receipt amount $_______________ Receipt no. _____________ Date _____________

Change returned $_______________

***Must be completed by requester**

________________ COUNTY, ARIZONA
BANK RECONCILIATION
For the Month Ended __________________, 20____

Bank: ABC Bank

Account Number: 93082 **Date prepared**: 12/07/XX

Balance per bank	(November Month	30, day,	20XX) year		$166,103.00
Add: Deposits in transit					
		Date	**Amount**		
		11/26/XX	$3,075.00		
		11/28/XX	4,500.00		
		11/30/XX	3,630.00		11,205.00
Deduct: Outstanding checks					
	Number	**Date**	**Amount**		
	6717	11/16/XX	$3,418.00		
	6723	11/23/XX	6.20		
	6728	11/25/XX	103.80		
	6731	11/27/XX	34.10		
	6740	11/28/XX	201.90		(3,764.00)
Other adjustments					
Add:					
Advice of credit		11/28/XX	$40,235.00		
NSF check			118.00		
Bank charge			16.00		40,369.00
Deduct:					
Error in recording check #6709			$ 29.00		(29.00)
Balance per books	(November Month	30, day,	20XX) year		$213,884.00

CONTENTS

INTRODUCTION

Supplies inventory consists of goods and materials counties use during operations. Principal inventories include office supplies, custodial and cleaning supplies, repair and maintenance supplies, etc. Supplies inventory may also include small tools, minor equipment, and other assets that are not capitalized because their unit costs are less than the minimum required for capitalization.

To provide the maximum benefit, internal controls and procedures should be tailored to each county's specific needs. The procedures in this section are recommended and are provided as examples. Other controls, procedures, and processes may be used if they provide the same level of internal control.

Although counties may use different inventory systems, the general controls in this section may be applied, regardless of the type of system the county uses. However, because of these different systems, detailed procedures for specific systems are not discussed.

PROCEDURES

Counties should establish procedures that provide for proper accounting, reporting, and safeguarding of supplies inventory. In addition, counties should establish procedures to charge departments for the cost of supplies issued to them to ensure that operating costs are charged to the proper functions. If supplies inventory is significant, an Internal Service Fund may be used to account for inventory charges.

Effective internal control procedures for supplies inventory help ensure that transactions are properly classified and recorded on a timely basis at the proper value. Internal controls also provide assurance that supplies inventory transactions are properly authorized, and provide proper safeguarding of supplies inventory from theft, damage, and unauthorized use. In addition, internal controls help prevent overstocking, understocking, spoilage, and obsolescence. To strengthen controls, counties should separate inventory recordkeeping and custodial functions.

Inventory System Structure

Inventory systems may be centralized, decentralized, or a combination of both. In a decentralized system, each department maintains an inventory of the supply items required for its operations. Under this type of system, the elements of internal control are weakened because the responsibilities of maintaining records for and custody of the supplies inventories are handled by several departments. Such a system requires more elaborate information gathering to control and coordinate purchases of supplies inventory items. As a result, the county may be required to process numerous requisitions and purchase orders for small quantities of inventory items.

In a centralized inventory system, a central warehouse is established to maintain supplies inventories for all county departments. Advantages of this system include the economies of scale provided by centralized recordkeeping and the maximum use of warehouse space and facilities. Such a system allows the board of supervisors to assign responsibility for inventory control to designated employees. Centralized control helps ensure that adequate quantities of inventory items are maintained and that inventory items are purchased in economical quantities.

Inventory Records

Counties may maintain inventory records for supplies inventory with a perpetual or a periodic system. Regardless of which system is used, certain basic information must be maintained. Inventory records should include the location, stock number, description, unit of measure, and the minimum and maximum stock levels of each item. Perpetual inventory records should also include the appropriate purchase and issuance information, while both systems require the ending balance information for each inventory item.

Under either system, inventory purchases should be recorded in the inventory records upon receipt, using the completed receiving report as the source document. The employee responsible for posting inventory receipts to the inventory records should initial and date the receiving report to document responsibility for the posting.

Perpetual and Periodic Inventory Systems

Counties may maintain accounting records on a perpetual or periodic system, or a combination of both. A perpetual inventory system is generally appropriate when the inventory is comprised of high-dollar value items and small quantities. Conversely, a periodic inventory system is generally used when the inventory is comprised of low-dollar value items and large quantities.

Under a perpetual inventory system, counties record receipt and issuance of supplies directly in the inventory records as transactions occur. To support the information recorded, inventory records should include purchase order numbers for receipt and requisition numbers for issuance of supplies. The quantity and cost balances in the inventory records at fiscal year-end should represent the actual quantity and value of supplies inventory on hand. An advantage of this system is that counties may determine the quantity and value of inventory on hand at any time within the accounting period and reduce the need to take a complete physical inventory at the end of each fiscal year. If the county management properly monitors the accuracy of the perpetual system by periodically performing inventory test counts, comparing test counts to recorded quantities, and properly resolving discrepancies, then a complete physical inventory may be taken only once every 3 years.

Under a periodic inventory system, inventory transactions are not recorded directly in the accounting records. The cost and quantity for each item of beginning inventory remains unchanged in the inventory records during the accounting period. However, a purchase record of each inventory item is also maintained during the accounting period. At the end of the accounting period, ending inventory quantities for each item are determined by taking a physical inventory. The records are adjusted to reflect the ending physical inventory. The value of such inventory is determined by the cost flow assumption used.

Inventory Valuation

Supplies inventory should be valued on a unit cost basis. The unit cost used in determining the valuation of a supply item should include invoice price per unit, sales tax, freight, and other handling costs. Costs related to more than one item, such as freight and handling costs, should be allocated on a reasonable and consistent basis. For example, freight costs may be allocated based on weight while sales tax and insurance charges may be allocated based on dollar value.

Cost Flow Assumptions

During a fiscal year, it is likely that similar inventory items will be purchased at different prices; as a result, it may not be possible to identify and match the specific cost of an item sold or used. Frequently, the identity of goods and their specific costs are lost between the time of acquisition and the time of sale or use. Therefore, counties may determine the value of supplies inventory by associating a flow of costs with the flow of supplies inventory transactions. The cost flow assumption that the county adopts does not need to be consistent with the actual physical movement of the goods. Common cost flow assumptions that may be used include first-in, first-out (FIFO); last-in, first-out (LIFO); and average cost.

The FIFO method assumes that inventory items are issued in the same order as they are purchased, generally consistent with the physical flow of inventory items. Because the ending inventory balance reflects the most recent purchases, an advantage of the FIFO method is that inventory is stated in terms of approximate current cost. Conversely, the LIFO method assumes that the most recently purchased inventory items are issued first. Because prices generally rise over time, the price of inventory items issued most closely reflects their current cost.

The average cost method assigns costs to inventory items based on the average cost of all similar items in the inventory. One advantage of an average cost method is that it provides an objective inventory valuation, especially when the inventory items are relatively homogeneous. Depending on the type of inventory system, either a weighted average or moving average method is used. In a periodic system, the weighted average method determines costs based on an average number of units acquired at each price level and applies the resulting cost to the total ending inventory quantity in order to find the total ending inventory valuation. In a perpetual inventory system, the moving average method computes a new average unit cost each time a purchase is made. The average unit cost is the total cost of all units in the inventory balance divided by the total quantity of items in the inventory. The unit cost computed is used to assign costs to all subsequent issues of that item until another purchase is made and a new average unit cost is computed.

The following example illustrates the differences between FIFO, LIFO, and moving average cost flow assumptions under a perpetual inventory system.

		FIFO		LIFO		Average	
Date	**Purchase/ Issue**	**Quantity Remaining/ Unit Cost**	**Value**	**Quantity Remaining/ Unit Cost**	**Value**	**Quantity Remaining/ Unit Cost**	**Value**
3/02	Purchase: 100 @ $1.50	100 @ $1.50	$150.00	100 @ $1.50	$150.00	100 @ $1.50	$150.00
3/10	Purchase: 50 @ 1.60	100 @ 1.50 50 @ 1.60	230.00	100 @ 1.50 50 @ 1.60	230.00	150 @ 1.53	230.00
3/15	Issue: 125	25 @ 1.60	40.00	25 @ 1.50	37.50	25 @ 1.53	38.25

Recording Inventory

During the year, counties may record supplies inventory in both the governmental and proprietary funds using either the consumption method or the purchases method of accounting. However, for financial reporting purposes, counties must report supplies inventory in proprietary funds using the consumption method, while either method may be used in the governmental funds.

Consumption Method—Under the consumption method, all purchases are debited to the inventory asset account, and counties record supplies expenses when the items are issued from the central warehouse. The inventory asset account is adjusted as supplies are issued, or at year-end to reflect valuation according to the year-end physical inventory.

To illustrate the consumption method, assume that the beginning inventory of electrical repair and maintenance supplies is $10,000, and electrical repair and maintenance supplies inventory purchases of $50,000 were made throughout the fiscal year. If the year-end physical inventory value is $15,000, the amount to be recorded as an expense for repair and maintenance supplies is $45,000 ($10,000 + $50,000 - $15,000). The following journal entry is recorded to recognize the expense and to adjust the inventory account for inventory on hand at year-end. If the county recognizes expenditures as the items are issued from the central warehouse, a similar journal entry would also be made for each inventory issuance.

Date	Account Name	Account Code	Debit	Credit
6/30/XX	Repair and Maintenance Supplies—Electrical	413.50	$45,000	
	Inventory of Materials and Supplies—Repair and maintenance	140.30		$45,000
To record expenses for electrical repair and maintenance supplies, and to adjust the repair and maintenance inventory account to reflect inventory on hand at year-end.				

When the consumption method is used for supplies inventory accounted for within the governmental funds, a journal entry is made to reserve that portion of the fund balance represented by supplies inventory. If a fund balance reserve account for supplies inventory has not been established for the fiscal year, the county should make the following journal entry.

Date	Account Name	Account Code	Debit	Credit
6/30/XX	Fund Balance—Unreserved	291.00	$15,000	
	Fund Balance—Reserved for inventories	290.10		$15,000
To reserve fund balance by an amount equal to the carrying value of ending inventory.				

However, if the county maintains a fund balance reserve account in its general ledger, a journal entry should be made to adjust the account balance to equal the carrying value of ending inventory.

Purchases Method—Under the purchases method, counties record the costs of supplies inventory items as governmental fund expenditures when the inventory is purchased from the vendor. All purchases are debited to supplies and materials expenditure accounts. At year-end, the inventory asset account is adjusted according to the inventory on hand, as determined by the year-end physical inventory. As in the previous example, assume a beginning inventory of $10,000, purchases of $50,000, and a year-end inventory balance of $15,000. Counties should make the following journal entry to adjust the supplies inventory account in the governmental funds.

Date	Account Name	Account Code	Debit	Credit
6/30/XX	Inventory of Materials and Supplies—Repair and maintenance	140.30	$5,000	
	Fund Balance —Reserved for inventories	290.10		$5,000
To adjust repair and maintenance supplies inventory to reflect valuation according to the year-end physical inventory.				

However, for supplies inventory accounted for in the proprietary funds, the following journal entry should be made to adjust the accounting records to the consumption method for financial reporting purposes.

Date	Account Name	Account Code	Debit	Credit
6/30/XX	Inventory of Materials and Supplies—Repair and maintenance	140.30	$5,000	
	Repair and Maintenance Supplies—Electrical	413.50		$5,000
To adjust repair and maintenance supplies inventory to reflect valuation according to the year-end physical inventory, and to adjust the electrical repair and maintenance supplies expense account to reflect actual supplies inventory used during the year.				

Recording Charges to Departments

If an Internal Service Fund is not used for supplies inventory, a journal entry should be recorded to charge departments for supplies issued. The entry varies based on the method used to record inventory and whether the transaction occurred within a fund or between two funds.

If a county uses the consumption method and the transaction occurred within the General Fund, the appropriate supplies expenditure account should be debited in the department to which the inventory items were issued, and the inventory asset account should be credited in the central warehouse department. If the transaction occurred between two funds, an entry is required in each fund. In the central warehouse department in the General Fund, the General Fund cash account should be debited and the inventory asset account should be credited. In the accounts of the user department in the other fund, the appropriate materials and supplies expenditure account is debited, and the cash account is credited.

If a county uses the purchases method and the transaction occurred within the General Fund, the appropriate supplies expenditure account should be debited in the department issued the inventory items, and credited in the central warehouse department. If the transaction occurred between two funds, the appropriate supplies expenditure account should be debited in the fund and department issued the inventory items and the cash account credited. In the central warehouse department in the General Fund, the supplies expenditure account should be credited and the cash account debited. These entries are essentially a reclassification to match expenditures with the responsible fund and department, and to ensure proper reporting.

If counties use an Internal Service Fund to account for supplies inventory, transactions are not recorded in the central warehouse department. Instead, a central warehouse fund is established.

Inventory Controls

Counties should establish efficient procedures to purchase and maintain inventory items. This can be accomplished by determining minimum and maximum stock levels, economic order quantities, and establishing procedures for disposal of obsolete items. The objective of inventory decisions is to minimize the total relevant costs, such as ordering costs and carrying costs.

Minimum and Maximum Stock—Establishing minimum and maximum stock levels helps counties to minimize the risks of holding excessive inventories or having inadequate inventories to meet county requirements. Inventory carrying costs and the risk of obsolescence increase when excessive inventories are maintained. The range between the minimum and maximum stock levels represents the optimum range of stock to be carried for an inventory item. The county's inventory control department should determine a minimum and maximum stock level for each supplies inventory item.

To determine the minimum stock levels, counties should consider the volume of item usage and the time required to order and receive the inventory item. When inventory is depleted to the minimum stock level, additional inventory items should be purchased. To determine the maximum stock inventory level, counties should consider the inventory carrying costs and the risk of obsolescence.

Economic Order Quantity (EOQ)—The total cost of maintaining inventory is comprised of ordering cost, carrying cost, and acquisition cost. The EOQ is the order size that minimizes the total of ordering and carrying costs. Ordering costs consist of clerical costs of preparing a purchase order, and processing and receiving costs related to the number of orders processed. Carrying costs consist of storage space cost, breakage, obsolescence, insurance, and deterioration. Acquisition costs are usually unaffected by inventory policy unless quantity discounts are available.

Obsolete Inventory—Counties should establish procedures to identify and dispose of obsolete inventory. Perpetual inventory records should be reviewed to identify slow-moving and obsolete inventory items. If inventory is maintained on the periodic basis, personnel involved in the physical inventory count should be instructed to note any items that appear to be obsolete or damaged. Obsolete inventory should be segregated and distinctly identified. Counties should consider returning the items to the vendor for credit, selling the items to another party, or discarding them. Obsolete inventory should be removed from the inventory records and disposition of the items should be adequately documented.

Safeguarding Supplies Inventory

To safeguard supplies inventory, counties should separate the responsibility for custody of inventory from that of maintaining inventory records. Counties should limit access to inventory, set up physical safeguards, and require authorization for inventory transactions.

Counties should store inventory in a secured location. Procedures should be established to control the issuance and return of keys to authorized employees. Access can be restricted by sign-in logs, employee badges, and physical barriers. Burglar alarms and similar intruder detection devices may also be installed.

Physical safeguards against environmental hazards should also be part of the county's custodial controls. Examples of such safeguards include smoke detectors, fire alarms, fire extinguishers, and sprinkler systems. Counties should also have adequate insurance to cover fire and other casualty losses.

Safeguarding assets also involves controlling the forms and documents used to authorize issuance of inventory items. Counties should maintain controls over requisitions, issue forms, and other documents used to issue inventory items. Forms should be sequentially prenumbered and numerically controlled.

Clearly assigned custodial responsibilities improve the internal controls for safeguarding assets. Some of the techniques used to communicate responsibilities for safeguarding inventory include organizational charts, job descriptions, written policy and procedures manuals, and signature files of authorized personnel.

Issuing Supplies Inventory

Counties should establish procedures such as the following to control the issuance of supplies. These procedures help ensure that supplies are used for valid county purposes and are issued and accounted for properly.

Requisitioning Department—Since departments are charged for supplies obtained from the central warehouse, each department should budget expenditures for supplies. The requisitioning department should prepare an inventory requisition form to order supplies from the central warehouse. The inventory requisition form should include the department, name of the person ordering the item, phone number, location, sequentially prenumbered requisition number, order date, date required, and the account code (fund, function, department, and object code) to be charged. The quantity needed, item description, unit of measure, unit cost, and total cost should be indicated. An authorized department employee should approve the inventory requisition form and should submit it to the employee responsible for the budget control function to verify budget capacity. After the budgetary check, the inventory requisition form should be submitted to the inventory control department. A sample inventory requisition form is on page **VI-D-14**.

Inventory Control Department—After receiving an approved inventory requisition form, the inventory control department should prepare a supplies issue form, such as the one on page **VI-D-15**. The supplies issue form should be sequentially prenumbered, multi-part, and include the quantity, description or stock number, unit of measure, unit cost, total cost, department issued to, and requisition number. The unit cost should be obtained from the inventory records as of the date of issue. Cost should be assigned in accordance with the cost flow assumption adopted by the county. The completed supplies issue form should be signed and dated by the preparer.

Two copies of the supplies issue form should be sent with the supplies issued to the requisitioning department. The recipient of the goods in the requisitioning department should verify that all items are received. The recipient should sign and date the supplies issue form as evidence of receipt, return a copy to the inventory control department, and retain the other copy.

In a perpetual inventory system, the supplies issue form serves as a source document to update inventory records. The inventory control department should periodically compile a list to summarize all issuance transactions during the month. The list should identify the amount of supplies issues to be charged to each fund, function, department, and object code. The monthly summary list should be submitted to the finance department to make the appropriate journal entry to charge departments for supplies issued. When issued, supplies inventory items are considered used and should not be counted in inventory at fiscal year-end.

Physical Inventory

Counties should take a physical inventory of supplies to substantiate the value and quantity of supplies inventory and the accuracy of accounting records. Counties should take a complete physical inventory annually if a periodic inventory system is used. For a perpetual inventory, if the county management properly monitors the accuracy of the perpetual system by periodically performing inventory test counts, comparing test counts to recorded quantities and properly resolving discrepancies, then a complete physical inventory may be taken only once every 3 years.

The physical inventory should be completed as close to fiscal year-end as possible to minimize any cutoff issues. Adjustments should be made for issues, receipts, or other changes between the date of the physical inventory and fiscal year-end.

Preparing for the Physical Inventory—An efficient and accurate physical inventory requires careful planning. Each county should develop written instructions that clearly indicate the procedures for the physical inventory. The instructions should be distributed to and reviewed with all employees participating in the physical inventory. Counties should take a physical inventory at each location where inventory is stored. Inventory items in individual departments that have been issued from the warehouse should not be counted in the physical inventory unless material in amount.

The date of the physical inventory should be chosen to allow adequate planning and preparation. Ideally, operations, receipts, and issues at the inventory storage area should be stopped to provide cutoff and accurate counts of inventory items. If this is not practicable, activity should be minimized as much as possible. To help minimize activity, the county may request vendors to stop all shipments and may decide to process only emergency orders during the inventory period.

Advance preparation for the physical inventory includes neatly arranging similar inventory items in stacks, bins, and shelves. Personnel should identify and segregate obsolete and damaged items, and should clear aisles, receiving areas, and distribution areas to minimize errors and recounts. Obsolete and damaged items should not be counted during the physical inventory and should be disposed of properly.

Inventory items held on consignment by the county should be segregated and identified accordingly. Consigned inventory should not be included in the physical inventory counts.

Counting the Inventory—Counties should assign personnel familiar with supplies inventory items to perform the inventory counts, if practicable. However, counts should not be performed by the employee responsible for the custodianship of such items. Counts should be performed by two-member count teams and supervised by an employee independent of the purchasing, custodianship, and recordkeeping duties. Inventory items should be counted in a systematic manner to ensure that items are neither omitted nor counted more than once.

Various procedures may be used to provide an accurate and efficient inventory count. Two common inventory methods involve the use of inventory tags and inventory count sheets.

If tags are used, they should be prenumbered and in two parts. An employee not involved in counting the inventory should be responsible for custody of the tags and maintaining a log to account for tags issued.

Tags should be issued to inventory count teams in numerical sequence. One member of the inventory count team should count the inventory on hand for each item and call the location, item stock number, description, quantity, and unit of measure for that item. The second team member should record this information on an inventory tag. The tag stub should be attached to the stack or batch of items counted to indicate the inventory item was counted. The second part of the tag should be used as a source document for preparing an inventory list. Unused tags should be returned to the employee maintaining the log to account for all tags. One advantage of a tag system is the reduced risk of an inventory item being counted twice or not counted at all, since the stub clearly indicates that an item has been counted.

If inventory count sheets are used, they should also be prenumbered. As with a tag system, a log should be maintained by an employee not involved in the inventory count and the numerical sequence of count sheets should be accounted for. Two-member count teams should complete inventory count sheets in the same manner described for inventory tags. The employees performing the inventory should initial and date the count sheet to document their responsibilities. Since count sheets do not provide a means of identifying which items have been counted, other means are necessary to verify that all items have been counted. For example, a colored sticker may be attached to each stack or batch of items counted. Unused count sheets should be returned to the employee maintaining the log to account for all inventory sheets. A sample inventory count sheet is presented on page **VI-D-16**.

An employee not involved in the first count should make second counts on a test basis to help ensure the accuracy and completeness of the physical inventory counts. All differences should be investigated and resolved. An employee responsible for supervising the physical inventory process should initial any adjustments to inventory tags and count sheets.

If a perpetual inventory system is used, the quantities from the physical inventory should be compared with balances on the perpetual inventory records and differences resolved. If differences are significant, a second count and review of the description should be performed. All adjustments to the accounting records resulting from the physical inventory should be fully documented and approved by a responsible employee. Additionally, the inventory control department should make test counts throughout the year to verify the quantity on hand.

Preparing the Inventory List—The inventory count sheets or tags should be used to compile a year-end inventory list to support the amount presented in the financial statements. The list should include item description, quantity, unit of measure, unit cost, extended cost, purchase document number, page totals, and a grand total.

The inventory count sheets may also serve as the inventory list. After the inventory has been counted, an employee independent of the custodial function should record the unit costs, compute extended costs for each item, determine the total value of the inventory on each page and in total, and sign and date the count sheets to document responsibility for the valuation of the items.

Counties should retain all inventory tags, count sheets, control logs, written instructions, and other documentation relating to the physical inventory to support the inventory list.

Year-End Cutoff

Counties should establish procedures to ensure that inventory transactions are recorded in the correct fiscal year. Proper cutoff is essential to accurately value supplies inventory at year-end.

Counties should sufficiently plan year-end cutoff of supplies inventory issues, receipts, returns, and transfers. Additionally, procedures should be established for the clearance of all unprocessed receiving reports, supply issue requisitions, and other documents relating to the movement of inventory. Adjusting journal entries may be necessary to ensure the accounting records accurately reflect the outcome of the year-end physical inventory.

Hazardous Chemical Policies

The Occupational Safety and Health Administration (OSHA) requires employers to develop written training programs for all employees that are exposed to hazardous chemicals. In addition to informing employees of the physical and health risks they face in their workplaces, the program must provide training in the detection of hazardous chemicals and protective measures to be taken in an accident. Counties should refer to the Code of Federal Regulations, Title 29, §1910.120 for further information on hazardous chemical requirements.

COMPLIANCE CHECKLIST

This compliance checklist was developed to assist the county in establishing and maintaining adequate controls over accounting records, and may be used to evaluate compliance with UAMAC requirements. Questions are phrased in such a way that "Yes" answers indicate satisfactory conditions, while "No" answers may indicate weaknesses that should be corrected.

	YES	NO
General		
1. Has the county established an inventory system to control and account for supplies inventory? Has the county adopted an appropriate system of accounting (either periodic or perpetual) for the types of inventory maintained?	______	______
2. Are receiving, issuing, accounting, and storing responsibilities properly separated?	______	______
3. Are detailed perpetual or periodic records kept by employees other than custodians of the supplies?	______	______
4. Has the county adopted an appropriate cost flow assumption?	______	______
Inventory Records		
1. Is a detailed inventory record maintained for each inventory item?	______	______
2. Are transactions posted promptly to the perpetual inventory records, if used, as receiving reports and issue requisitions are received?	______	______
Inventory Control		
1. Is there a system for maintaining optimum quantities of items in inventory through set minimum and maximum stock quantities and calculation of economic order quantities to help prevent over- or understocking?	______	______
2. Has the county established procedures to periodically review inventory to identify obsolete items?	______	______
3. Are obsolete items removed from inventory records and disposed of properly?	______	______
Safeguarding Supplies Inventory		
1. Are the storerooms or storage areas safeguarded or controlled to prevent unauthorized access to goods?	______	______
2. Are goods adequately protected against physical deterioration and environmental hazards?	______	______
Issuing Supplies Inventory		
1. Are requisitions approved by an authorized requisitioning department employee?	______	______
2. Is material released from storerooms only with approved requisitions?	______	______

	YES	NO
3. Are county departments properly charged for the supplies and materials issued to them?	______	______

Physical Inventory

	YES	NO
1. Is a complete physical inventory of supplies and materials inventory performed at least annually for periodic inventories and at least once every 3 years for perpetual inventories?	______	______
2. Have written instructions been developed, distributed to, and reviewed with all personnel participating in the physical inventory?	______	______
3. Do procedures for physical counts include:		
• Adequate supervision?	______	______
• Limiting or restricting activity at the inventory storage area?	______	______
• Clearly marking damaged and obsolete inventory?	______	______
• Use of two-member count teams?	______	______
• Use of prenumbered tags or prenumbered count sheets?	______	______
• Use of a log to account for the numerical sequence of tags or count sheets used?	______	______
• Limiting responsibility for counting the inventory and access to the tags or count sheets to employees who are not responsible for custody of the particular items?	______	______
• Conducting test counts and reviewing descriptions?	______	______
• Comparison of inventory counts to perpetual inventory records?	______	______
• Investigation and resolution of overages and shortages?	______	______
• Proper approval for adjustments to inventory records due to discrepancies?	______	______
• Requiring inventory count sheets to be signed and dated by the staff performing the inventory count and the individual reviewing the count?	______	______
4. Is an inventory list that includes item descriptions, quantities, units of measure, unit costs, extended costs, purchase document numbers, page totals, and a grand total prepared based on the physical inventory?	______	______
5. When perpetual records are maintained, are periodic test counts of selected items made and compared to recorded quantities between physical inventory dates?	______	______

Year-End Cutoff

	YES	NO
Are adequate provisions made for cutoff of issues, receipts, returns, and transfers?	______	______

	YES	NO
Hazardous Chemical Policies		
1. Have written training programs been developed for all employees that are exposed to hazardous chemicals?	______	______
2. Does the program provide training in the detection of hazardous chemicals and protective measures to be taken in an accident?	______	______

INVENTORY REQUISITION

Department ______________________ Requisition Number (Prenumbered)

Ordered by ______________________ Order Date ______________________

Phone ______________________ Date Required ______________________

Location ______________________ Account Code ______________________

Quantity	Description	Unit of Measure	Unit Cost	Total Cost
			$	$

Total $ __________

Comments ____

____

Approved by ______________________ Received by ______________________

Title ______________________ Title ______________________

Date ______________________ Date ______________________

SUPPLIES ISSUE FORM

Department Issued to ____________________________ Issue Number (Prenumbered)

Requisition Number ___________________________

Quantity	Item Description/Stock Number	Unit of Measure	Unit Cost	Total Cost
			$	$

Total Charge to Department $ ______________

___________________________________ Warehouse Department Signature ______________ Date

___________________________________ Recipient Signature ______________ Date

INVENTORY COUNT SHEET

Sheet No. (Prenumbered)

Date__________________

Department ___________________________ Priced by _______________________________________

Location ___________________________ Extended by ____________________________________

Counted by ___________________________

Recorded by __________________________ Reviewed by ____________________________________

Item Stock No.	Purchase Order No.	Description	Quantity	Unit of Measure	Unit Cost	Total Cost
					$	$

Page Total $ __________

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INTRODUCTION

Capital assets consist of assets of a relatively permanent nature, including land, land improvements, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure assets, and construction in progress. These assets are a major investment of county monies and must be adequately accounted for and controlled.

Counties should establish property control systems for capital assets to meet a variety of objectives. Internal controls for capital assets should be adequate to:

- properly value and classify assets;
- safeguard assets against theft and misuse;
- promote maximum use of capital assets, particularly movable equipment;
- accumulate data for effective planning of acquisitions, replacements, and maintenance;
- provide documentation for insurance purposes in the event of fire or other casualty loss; and
- present capital assets fairly in the financial statements and to permit completion of the required financial statements note disclosures and management's discussion and analysis.

If counties use the modified approach for infrastructure assets, they must also provide documentation that infrastructure assets are managed using an asset management system and are preserved at an established condition level.

Counties may use either a centralized or decentralized property control system. In a centralized system, a single property control officer may be assigned responsibility for recordkeeping and physically safeguarding capital assets. Alternatively, the board of supervisors may choose to assign department heads and elected officials responsibility for capital assets in their areas. Procedures recommended in this section generally address counties with centralized property control systems.

Controls and procedures recommended in this section are provided as examples of sound financial and administrative practices. Other procedures may be used if they provide the same level of internal control.

LEGAL REQUIREMENTS

The legal requirements pertaining to capital assets are derived from Arizona Revised Statutes (A.R.S.) and federal regulations. Counties should refer to these sources for additional information.

1. A.R.S. authorizes county boards of supervisors to acquire property and construct and furnish any buildings necessary for county and public purposes. A.R.S. §11-251
2. Counties may purchase, receive by donation, or lease real or personal property for the use of the county prison and maintain, manage, and control the property. However, real property may not be purchased unless an estimate of the value has first been made by three disinterested county citizens, appointed by the board of supervisors. No more than the appraised value may be paid for the property. A.R.S. §11-251(7)

3. Counties may enter into lease-purchase and other long-term agreements to purchase equipment and personal property, provided that the board may cancel the agreement at the end of each fiscal year. Upon cancellation, the seller may repossess the property and the agreement is terminated. A.R.S. §§11-251(42) and 11-651
4. Counties may purchase real property for public purposes, provided final payment is made no more than 5 years after the date of purchase. A.R.S. §11-251(45)
5. Counties may lease-purchase real property and related improvements for public purposes, provided final payment is made no more than 25 years after the date of purchase. Any increase in the final payment date from 15 up to 25 years must be made only on unanimous approval by the board of supervisors. A.R.S. §11-251(46)
6. Counties may lease for public purposes any real property, related improvements, and personal property under the same terms and conditions, as applicable, specified in A.R.S. §§11-651 and 653 for lease-purchases. A.R.S. §11-251(54)
7. Counties may construct and furnish a courthouse, jail, hospital, and other buildings necessary for county purposes. A.R.S. §11-251(8)
8. Counties may acquire property for public aviation fields through purchase, donation, lease, or exchange. Aviation field property may be leased, rented, or sold to the United States and any of its departments. Also, aviation fields may be leased or sold to a city. When aviation field property is no longer needed, it may be sold and proceeds deposited in the county general fund. A.R.S. §11-251(23)
9. Counties may acquire and hold property for county fairs. A.R.S. §11-251(24)
10. Counties may enter into agreements for acquiring rights-of-way, construction, reconstruction, or maintenance of highways within the county, including highways that pass through Indian reservations, subject to consent of the affected tribal government. A.R.S. §11-251(29)
11. Counties may acquire land for roads, drainage ways, and other public purposes by exchange without public auction. However, a notice of property ownership and descriptions must be published 30 days before the exchange. A.R.S. §11-251(44)
12. If a part of a parcel of land is to be acquired for roads, drainage, flood control, or other public purpose and the remainder of the parcel will be left in a damaged condition that would give rise to a claim or litigation, counties may acquire the entire parcel by purchase, donation, dedication, exchange, condemnation, or other lawful means. The remainder of the parcel may be sold or exchanged for other properties needed for any public purpose. A.R.S. §11-251(48)
13. Counties may purchase or lease the development rights of private land with monies from any public or private source, except for county development fees collected pursuant to A.R.S. §11-1102. Development rights may not be acquired by eminent domain. A lease of development rights must be for a term of at least 25 years. A.R.S. §11-254.05
14. Counties may sell or dispose of personal property that is no longer useful or necessary at no less than fair market value through a retail outlet or to another government, if the personal property has a fair market value of no more than $1,000. If the personal property has a fair market value of more than

$1,000 but less than $15,000, the property may be sold by retail sale or private bid. Notice of sales greater than $1,000 must be published in a newspaper of general circulation in the county and must include a description and sale price of each item. For 30 days after notice, other bids may be submitted that exceed the sale price by at least 5 percent. The county must select the highest bid received at the end of the 30-day period. A.R.S. §11-251(56)

15. Counties may sell any county property at public auction under specified conditions and restrictions. Counties may also trade-in personal property on the purchase of other personal property. In addition, counties may dispose of equipment and materials that have little or no value, or are not auctionable, in any manner authorized by the board. A.R.S. §11-251(9)
16. Counties may, by unanimous consent of the board of supervisors, license, lease, or sell any county property at less than fair market value to any other governmental entity or for a specific purpose to any charitable, social, or benevolent nonprofit organization incorporated or operating in the State. A.R.S. §11-251(58)
17. Counties may lease or sublease personal property to other political subdivisions provided the property is used for public purposes. A.R.S. §11-251(41)
18. Counties may sell or grant to the United States the title or interest in any toll road or toll train within, or partly within, a national park, subject to terms and consideration agreed upon by the board of supervisors and the U.S. Secretary of the Interior. A.R.S. §11-251(28)
19. The board may lease or sublease, for a term not to exceed 25 years plus an option to renew for an additional period not exceeding 25 years, any land or building owned by or under the control of the county. The land or building must be appraised to determine the rental valuation, unless the land or building is valued at $5,000 or less as estimated and justified by a market analysis based on comparable sales. The land or building must be leased or subleased at a public auction to the highest responsible bidder, provided that the amount of the bid is at least 90 percent of the rental valuation. A.R.S. §11-256(A) through (C)
20. Notice of a proposed lease or sublease must be given by publication, once each week for 4 consecutive weeks, in a newspaper of general circulation in the county. The notice must state the period and all material conditions of the proposed lease, and the day on which the auction will be held, which must not be less than 30 days after the last publication. A.R.S. §11-256(D)
21. Requirements of A.R.S. §11-256(C) and (D), relating to public auction and notice, do not apply to leases granting a leasehold interest to a person or entity that had previously owned, leased, or otherwise possessed the property to be leased immediately before purchase or acquisition by the county or to other persons or entities leasing property for a term that would expire within 4 years after the purchase or acquisition by the county. A lease entered into pursuant to this subsection must be for at least 90 percent of, but not more than, the appraised rental value determined pursuant to A.R.S. §11-256(B). A.R.S. §11-256(E)
22. Counties may lease or sublease, without a public auction, any land or buildings owned or under county control to the State, a county fair association, a nonprofit corporation, other than a municipal or public finance corporation, or other political subdivision without holding a public auction and for less than the fair rental value. The board of supervisors may specify the terms and conditions for use of the property. Notice of the proposed lease must be published in a newspaper of general circulation in the county once each week for 4 consecutive weeks. The notice must state all conditions of the

lease, including required use of the property. If a bid is received from another party that meets or exceeds the fair rental value of the property, the lease must be offered at a public auction as outlined in A.R.S. §11-256. A.R.S. §11-256.01(A) through (C)

23. Cities and towns may acquire county property through annexation, as prescribed in A.R.S. §9-471.

24. Counties should insure county buildings. A.R.S. §11-251(15)

25. Title to capital assets acquired under a federal grant generally vests with the county; however, federal awarding agencies require the following:

    - Counties may use the federal assets in the programs or projects for which they were acquired as long as needed, regardless of whether the programs or projects continue to be supported by federal monies. Counties may also use the assets on other projects or programs currently, or previously, supported by the federal government, provided such use will not interfere with the activity of the programs or projects for which the assets were originally acquired.

    - When no longer needed in the original program or project, equipment may be used in other programs or projects currently or previously supported by federal monies.

    - Counties must not use equipment acquired with federal monies to provide services for a fee to compete unfairly with private companies that provide equivalent services, unless specifically permitted or contemplated by federal statute.

    - Counties must take a physical inventory of equipment purchased with federal monies at least every 2 years and reconcile it to the capital assets list.

    - When equipment acquired under a grant is no longer needed, disposition of the equipment must be made as follows:

        - Items with a current per-unit fair market value of less than $5,000 may be retained, sold, or otherwise disposed of with no further obligation.

        - Items with a current per unit fair market value in excess of $5,000 may be retained or sold, and the awarding agency is entitled to an amount calculated by multiplying the current market value or proceeds from the sale by the awarding agency’s share of the equipment.

    - In some instances, title to federally owned equipment costing $5,000 or more with useful lives over 1 year remains vested in the federal government. In those instances, counties must manage the equipment in accordance with the federal agency’s rules and procedures, and submit an annual inventory list to the federal agency.

PROCEDURES

Capital assets are generally classified into distinct categories for financial statement presentation defined as follows.

Land—This account includes all land, including easements, purchased or otherwise acquired by the county. The land account should include the cost of preparing the land for its intended use.

Buildings—This account includes acquisition cost of permanent structures and related improvements. Permanently attached fixtures that cannot be removed without damaging the building or the fixture, such as heating and air conditioning equipment or security systems, are classified with the related building.

Improvements Other Than Buildings—This account includes the cost of permanent land improvements, leasehold improvements, and other improvements except buildings. Improvements in this account may include fences, retaining walls, sidewalks, and parking lots.

Machinery and Equipment—This account includes all tangible personal property. Examples include machinery, tools, vehicles, equipment, and furniture.

Construction in Progress—This account includes the cost of construction projects undertaken but not yet completed.

Infrastructure—This account includes long-lived capital assets that are normally stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets. Examples include roads, bridges, tunnels, drainage systems, water and sewer systems, dams, and lighting systems. Buildings, except those that are an ancillary part of a network of infrastructure assets, should not be classified as infrastructure assets.

Capital Asset Valuation

Properly valuing capital assets ensures that they are recorded accurately in the accounting records and fairly presented in the financial statements. The basis of valuation depends on the method of acquisition. Capital assets may be acquired by purchase, trade-in, donation, lease-purchase, or construction.

Purchase—Counties should record purchases of capital assets at actual cost. Actual cost includes all charges necessary to place the item in its intended location and condition for use, such as taxes, freight, title search fees, and installation charges. When actual cost is unknown (for example, when the items were acquired years ago and the county has no supporting documentation), the item should be recorded at estimated historical cost. The estimate should be based on vendor catalogs, price quotes or price lists, appraisals, or some other reasonable basis. Documentation must be retained to support estimated costs. If the county finds it necessary to value a depreciable capital asset at estimated historical cost, it must reduce that cost by the appropriate amount of accumulated depreciation.

For acquisitions of land, incidental costs that are capitalized as part of the total land cost include legal fees, title fees, architects' fees, survey fees, appraisals, recording fees, assumption of liens and delinquent taxes, and other closing costs. Site preparation costs that are not directly connected with the construction of buildings or other improvements, such as clearing, filling, grading, or demolition work, are also included in the total land cost.

Land improvements include the acquisition cost of permanent improvements to land such as fences, retaining walls, sidewalks, and parking lots.

Building costs include the contract purchase price; expenditures to place the building into serviceable condition; the cost of alterations, improvements, and remodeling; and professional fees of architects, attorneys, and appraisers directly related to the acquisition of the building. Additional costs necessary to put a building or structure into operation, such as building permits, licenses, and interest are also included in the cost.

Improvements to buildings may include permanent fixtures such as heating and air conditioning equipment; security systems; plumbing and lighting fixtures; tearing out or building walls and partitions; and adding windows, doors, stairways, corridors, and rooms.

If buildings and land are purchased together, the total purchase price must be allocated proportionately among the buildings and land. The allocation is based on the fair market value of each asset at the date of acquisition.

Counties should distinguish between expenditures for improvements and expenditures for repairs and maintenance. Expenditures for repairs and maintenance are not included on the capital assets list. If an expenditure increases the utility or significantly extends the useful life of an asset, it should be added to the asset's recorded cost on the capital assets list. If an expenditure only returns the asset to its normal operating condition, it should be classified as repair and maintenance and not capitalized.

Trade-In—Capital assets may also be acquired through transactions involving trade-ins. The basis of valuation for the new asset should be the fair market value of the new asset as of the date purchased.

When acquiring replacement equipment in a federal program, the county may use the equipment to be replaced as a trade-in or sell the property and use the proceeds to offset the cost of the replacement property, subject to the approval of the awarding agency.

Donation—All capital assets acquired by donation, bequest, or gift should be recorded at the fair market value at the date of acquisition.

The fair market value of machinery and equipment items can usually be obtained from vendor price lists or catalogs, or by contacting a vendor. The fair market value of donated land, buildings, and improvements other than buildings often cannot be readily determined and may require an independent appraisal.

Lease—Leases are classified as either operating or capital leases. An operating lease allows the use of property for a specified period and does not assign ownership to the lessee; therefore, such property should not be recorded in the county's accounting records.

Counties should record assets acquired through a capital lease agreement in the accounting records. To be classified as a capital lease, at least one of the following criteria must be met:

1. The lease transfers ownership of the property to the county by the end of the lease term.

2. The lease contains a bargain purchase option. A bargain purchase option allows the county to purchase the leased property for a price that is lower than the expected fair market value of the property at the date the option becomes exercisable. (The difference between the option price and the expected fair market value must be large enough to make use of the option reasonably assured at the inception of the lease.)

3. The lease term is equal to 75 percent or more of the estimated economic life of the leased asset.

4. The present value of the minimum lease payments equals or exceeds 90 percent of the fair value of the leased property at the inception of the lease.

Criteria 3 and 4 should not be used if the beginning of the lease term falls within the last 25 percent of the total estimated economic life of the leased property.

Counties should record a capital lease at its inception at the lesser of the fair market value of the leased asset or the present value of the net minimum lease payments, excluding executory costs and interest included in the lease payment. Executory costs are normal costs of ownership such as insurance, maintenance, and taxes. Fair market value is determined at the inception of the lease and the present value of the net minimum lease payments is computed at the beginning of the lease term. The inception of the lease and the beginning of the lease term may not necessarily be the same date.

If material to the financial statements, the county should use its incremental borrowing rate to compute the present value of the net minimum lease payments, unless the interest rate implicit in the lease used by the lessor is known and it is lower.

Counties should consider the economic substance of lease agreements over their legal form. For example, cancellation clauses due to fiscal funding requirements should not prohibit lease agreements from being capitalized if the possibility of cancellation is remote.

Construction—Constructed assets may be either constructed under a contract with outside vendors or with labor provided by county employees.

Counties generally contract with outside vendors for the construction of buildings and improvements other than buildings. Costs incurred during the construction period are accumulated in the construction in progress account. Such costs may include architects' and engineers' fees; costs of material and labor; temporary buildings used for construction offices and sheds for storage of materials and tools; permits, licenses, and fees; premiums for workers' compensation and casualty insurance; easements; and allocable overhead. These costs are recorded in the buildings or improvements other than buildings account in the appropriate fund or schedule at completion of the project, or at fiscal year-end for those construction projects not yet completed. For construction, repairs, and alterations to any county building, counties must adhere to A.R.S., Title 34, Chapter 2. For further information, see **§VI-F, Purchasing**.

County employees may also construct assets. The proper valuation of such assets includes the cost of materials, supplies, and labor used in construction. An allocation of the salaries, wages, and employee benefits of county employees providing the labor should be included in the valuation of the asset. Overhead costs may also be allocated to the construction project on a reasonable basis. All costs related to the project are recorded in a construction in progress subsidiary record until completion. Such records should be retained to support the cost of assets recorded on the capital assets list.

Construction in progress should be included with capital assets in the county's statement of net assets. Regardless of whether a vendor or county employees construct assets, the related construction in progress should not be depreciated; it should be reported with other assets not being depreciated, such as land, land improvements, and infrastructure accounted for using the modified approach.

Capital Asset Records

Capital Assets List—The county should prepare and maintain a current capital assets list for land, buildings, improvements other than buildings, and infrastructure costing $10,000 or more, and for machinery and equipment with unit costs of $5,000 or more and useful lives greater than 1 year. The county may maintain one comprehensive list for general capital assets and proprietary fund capital assets. However, it must identify the general capital assets and individual fund capital assets for financial reporting purposes. In addition, for stewardship purposes, the county should maintain a separate list for assets costing between $1,000 and $5,000. These assets should be identified as county property but need not be numerically tagged. Additional precautions should be taken for high risk items, such as laptop computers or weapons. Such assets may fall below the capitalization thresholds, but may be susceptible to theft or create other risk for the county. Counties may adopt lower capitalization thresholds; however, such a policy should be documented and followed consistently.

Counties may group assets together for purposes of capitalization and depreciation. For example, infrastructure assets such as roads, bridges, tunnels, drainage systems, water and sewer systems, dams, and lighting systems may be grouped into networks or subsystems rather than reported as individual items. This approach can greatly simplify accounting and financial reporting for capital assets, thereby increasing effectiveness and efficiency. In addition, to further this goal, low-dollar assets purchased in bulk should not be identified as one item and capitalized if the cost of individual units is below the levels established for capitalization.

For assets purchased with federal monies, the county must maintain a list that contains all information required by the *Code of Federal Regulations*. In addition, the county must follow required purchasing procedures when obtaining assets with federal monies.

The capital assets list should include the following information for each asset, and should provide category totals for land, buildings, improvements other than buildings, machinery and equipment, construction in progress, and infrastructure, as well as a grand total.

- Location—department, building, room, etc.
- Identification number (for furniture, equipment, and vehicles)—tag number, serial number, or other number that specifically identifies the asset.
- Description—name, model number, size, etc.
- Method of acquisition—purchase, construction, donation, etc.
- Source of funding—the fund (and program, if applicable) from which the item was purchased.
- Acquisition date—date that the asset was received or constructed.
- Purchase document number—purchase order or voucher number that can be traced to source documents that support the information on the list.
- Cost—actual cost for purchased items and estimated fair market value at date of acquisition for donated assets. If actual cost for purchased items cannot be determined, estimated historical cost (properly supported) may be used. Works of art, historical treasures, and similar assets should be capitalized at their historical cost or fair value at date of donation whether they are held as individual items or in a collection. If the fair value of the asset at the date of donation is unknown, it may be estimated. Documentation supporting the cost or estimated cost should be retained for the life of the asset. Information concerning the condition of the asset and percentage of federal participation is required only for assets with unit costs of $5,000 or more purchased with federal monies.

For management purposes, the county may include additional information on the list, such as useful life, replacement cost, condition, and vendor name.

The property control officer should update the capital assets list for acquisitions and disposals at least annually. Purchase documentation or a disposal form should be sent to the property control officer when a capital asset is acquired or disposed of. The capital assets list should be reconciled to the county's financial statements annually.

Infrastructure—Under GASB Statement No. 34, counties are required to capitalize general infrastructure assets. Additionally, retroactive reporting of all major general infrastructure assets is required, or encouraged, for assets that were acquired, or that received major renovations, restorations, or improvements, in FY 1981 and thereafter, as follows:

- Phase 1 governments were required to retroactively report major general infrastructure assets beginning in FY 2006. Phase 1 governments are governments with total annual revenues of $100 million or more in FY 1999.
- Phase 2 governments were required to retroactively report all major general infrastructure assets beginning in FY 2007. Phase 2 governments are governments with total annual revenues of $10 million or more but less than $100 million in FY 1999.
- Phase 3 governments were encouraged, but are not required, to report major general infrastructure assets retroactively. Phase 3 governments are governments with total annual revenues of less than $10 million in FY 1999.

Capitalization of infrastructure should be based on historical cost; however, if determining historical cost is not practical because of inadequate records, estimated historical cost may be used. GASB Statement No. 34 allows the estimation of historical cost for general infrastructure assets by calculating the current replacement cost of a similar asset and deflating this cost through the use of price-level indexes to the acquisition year.

Depreciation—All capital assets, except land, land improvements, and infrastructure assets managed under the modified approach, should be depreciated and reported in the government-wide statements at net value. Inexhaustible capital assets such as land and land improvements should not be depreciated.

The statement of revenues, expenditures, and changes in fund balances for governmental funds reports the sources and uses of current financial resources. The actual purchase of a capital asset reduces a fund's financial resources and should be reported as an expenditure when current financial resources are used to finance the acquisition. Depreciation is the allocation of the cost of property over its economic life. Therefore, depreciation does not affect a governmental fund's current financial resources. For this reason, depreciation is not recorded in a governmental fund's statement of revenues, expenditures, and changes in fund balances.

GASB Statement No. 34 requires that counties also prepare government-wide financial statements as part of the basic financial statements. These statements are prepared using an economic resources measurement focus and an accrual basis of accounting. This measurement focus requires the reporting of all changes in net assets and the inflow and outflow of all financial and capital resources, as long as a monetary value can be placed on them. Therefore, counties must depreciate general capital assets purchased in governmental funds and report the depreciation expense and accumulated depreciation in the government-wide statements.

Capitalized assets used for proprietary and fiduciary funds must be depreciated and presented in the applicable proprietary or fiduciary fund statements, as these statements also are prepared using an economic resources measurement focus. In addition, proprietary fund assets and depreciation must be reported on the government-wide statements. Fiduciary funds are not reported in the government-wide statements. (See **§VIII, Financial Reporting**.)

Counties should compute depreciation at least annually at fiscal year-end and should be consistent in the methods and bases used in computing depreciation. Most governmental entities compute depreciation on a straight-line basis; however, any established method may be used. In addition, counties may calculate depreciation for a class of assets, a network of assets, a subsystem of a network, or individual assets. Using the straight-line method of depreciation, the cost of an asset, less the estimated salvage value, is divided by the estimated useful life to arrive at an annual depreciation charge.

Counties should establish policies for both depreciation methods and useful lives for classes of assets. In determining these policies, counties should consider the nature and specific requirements for certain assets, such as those purchased with federal monies, computers, hospital equipment, heavy machinery, etc.

Modified Approach for Infrastructure Assets—Counties may choose to report infrastructure assets under the modified approach. Under the modified approach, eligible infrastructure assets are not depreciated. Rather, all expenditures to maintain and preserve those assets (except additions and improvements) should be expensed in the period incurred. Additions and improvements increase the capacity or efficiency of infrastructure assets, rather than preserve the useful lives of the assets, and therefore should be capitalized.

This alternative to depreciation may be applied for infrastructure capital assets that are part of a network or subsystem of a network and that meet two requirements.

First, the assets should be managed using an asset management system. The asset management system should:

- have an up-to-date inventory of eligible infrastructure assets;
- perform condition assessments of eligible infrastructure assets and summarize the results using a measurement scale; and
- estimate each year the annual cost to maintain and preserve the eligible infrastructure assets at the condition level established and disclosed by the county.

Second, the county should document that the assets are being preserved at or above a condition level established and disclosed by the county. There may be variations among asset management systems and condition assessment methods. Further, there may be variations within each county for different eligible infrastructure assets. However, the county must document that complete condition assessments of eligible infrastructure assets are performed in a consistent manner every 3 years. In addition, the county must document that the results of the three most recent complete condition assessments provide reasonable assurance that eligible infrastructure assets are being preserved approximately at or above the condition level disclosed by the county.

Acquisitions/Disposals

Counties may record capital assets on the capital assets list as items are received or at fiscal year-end. A separate acquisitions list should be maintained during the year to help support the reconciliation of the previous year's capital assets list to the current year's capital assets list and the reconciliation of capital assets acquisitions to total capital expenditures.

Counties may receive federal, state, or local grants, contracts, or other programs to acquire capital assets. Title to such assets may transfer to the county under the terms of the program agreement. The assets should be capitalized and reported in the county's financial statements until the agreement requires their return. Counties should dispose of assets under such programs in accordance with program requirements.

Counties should establish procedures to transfer capital assets between departments. The property control officer should be notified whenever an asset is transferred from one location to another. The "Request for Authorization to Dispose of Equipment" form (see page **VI-E-22**) may also be used to document transfers. Proper approval should be obtained from the department head and property control officer or other designated individual before the transfer. When a properly approved transfer form is received, the property control officer should update the capital assets list for the change in location and sign the transfer form to indicate approval.

When counties dispose of capital assets, the assets should be deleted from the list either at the time of disposal or at year-end. A list of disposals should be maintained to help support the reconciliation of the previous year's capital assets list to the current year's capital assets list.

The board of supervisors or a designated county official should approve capital asset disposals before the asset is removed from its assigned location. The county should assign the property control officer responsibility for controlling the disposal process.

Disposals, or reductions in carrying value, may result from one of the following circumstances.

- Loss or Theft—Lost or stolen assets should be reported immediately to the property control officer and the police. Insurance claims, if applicable, should be initiated.

- Damage or Obsolescence—Capital assets that are worn-out, obsolete, or damaged beyond repair, including computer software that has become obsolete, should be reported to the property control officer and the asset physically transferred to the custody of the property control officer as surplus property.

  In addition, counties are required to evaluate prominent events or changes in circumstances affecting capital assets to determine whether an impairment has occurred. Such events or changes in circumstances that may indicate impairment include evidence of physical damage, enactment or approval of laws or regulations or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of a capital asset, and construction stoppage. A capital asset generally should be considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset.

Impaired capital assets that will no longer be used by the government should be reported at the lower of carrying value or fair value. Impairment losses on capital assets that will continue to be used by the government should be measured using the method that best reflects the diminished service utility of the capital asset, as described in GASB Statement No. 42.

- Destruction—If a capital asset is vandalized or accidentally destroyed, the property control officer should be notified. Vandalism should be reported promptly to the police.

- Sale of County Property—The board of supervisors should authorize the sale of any county property before it is sold. All county departments must comply with sale requirements prescribed in A.R.S. Counties may sell at public auction any property that the board deems advantageous to sell or unnecessary for use by the county. Notification of the time and place of the auction must be published in a county newspaper 30 days before the auction. A.R.S. §11-251(9)

  If the property for sale is real property, the county should have the property appraised by a qualified independent fee appraiser who has an office located in the State. The appraiser must establish a minimum price that may not be less than 90 percent of the appraised value. Notification of the auction should include the appraised value, minimum acceptable sale price, and the common and legal description of the property.

  All property sold at the auction should be conveyed to the highest bidder for cash or by a contract extending for not more than 10 years from the date of sale, under the terms and conditions the county establishes.

  Counties may dispose of surplus materials and equipment that have little or no value, or that cannot be auctioned, in any manner authorized by the board. The county may use personal property as a trade-in on the purchase of other personal property if it is in the county's best interests.

Counties should prepare a "Request for Authorization to Dispose of Equipment" form (see page **VI-E-22**) for each disposal. The department disposing of the asset should indicate its location, tag number, description, and serial number on the disposal form. The department should submit the form to the property control officer, who will complete the date acquired and cost columns. The disposal form should be signed and dated by the applicable department head and the property control officer or other designated individual before disposal of the asset. Disposal forms should be retained to support deletions from the capital assets list.

Counties should use and dispose of capital assets purchased with federal monies only in accordance with program requirements. Generally, equipment with a fair market value less than $5,000 may be retained, sold, or otherwise disposed of with no further obligation to the federal agency. Real property and equipment costing $5,000 or more may be retained or sold, and the awarding agency is entitled to an amount calculated by multiplying the current market value or proceeds from the sale by the awarding agency's share of the asset.

Counties may lease or sublease personal property owned by the county to other political subdivisions provided the property is used for public purposes. In addition, the county may sell or lease county property for a specific purpose to any solely charitable, social, or benevolent nonprofit organization in the State. A.R.S. §11-251(41) and (58)

Cities and towns may also acquire county property through the annexation process, as prescribed in A.R.S. §9-471.

Physical Controls

Tagging—All machinery and equipment items with unit costs of $5,000 or more should be tagged, marked with an identifying number, or specifically identified by some other means such as a serial number. The property control officer should be responsible for assigning the inventory number and attaching the identification tags to the machinery and equipment items. In some cases, using a permanent marker or engraving the tag number may be more effective than using prenumbered tags. The tags should be placed in a conspicuous place and in a uniform position on like items when they are received. Tags should be prenumbered, numerically controlled, and issued sequentially. The tag number should be recorded on the capital assets list. Machinery and equipment items with unit costs less than $5,000 should be identified as county property for stewardship purposes; however, these items need not be numerically tagged.

Physical Inventory—A physical inventory of capital assets helps to provide control and accountability. A physical inventory of all equipment, including those on the stewardship list, if prepared, should be taken at least every 3 years and appropriate changes should be recorded on the capital assets list. A complete physical inventory of capital assets purchased with federal monies should also be taken at least once every 2 years for equipment costing $5,000 or more.

Counties should prepare written instructions that clearly indicate the procedures for taking the physical inventory. These instructions should be distributed to and reviewed with employees involved in the inventory process.

The physical inventory should be carefully planned and supervised by an employee independent of capital asset purchasing, custodial, and recordkeeping duties. Responsibility for the inventory should be assigned to a specific employee (a physical inventory officer). Personnel in each department may assist in taking counts.

The departments should count items in a systematic manner so items are neither omitted nor counted more than once. To provide an accurate count, movement of capital assets should be restricted during the inventory period. New acquisitions should be held and counted in the receiving department until cleared by the physical inventory officer for delivery to the appropriate user department.

One method of performing the inventory is to issue a current list of capital assets, by location, to each department. The list should include each item's identification number, description, and location. Each department should assign an employee not responsible for stewardship to compare the physical assets to the assets recorded on the list. Items on the list should be initialed to indicate verification. Assets that are not included on the list should be added. Such items may include new acquisitions or transfers of equipment from another department. If an asset on the list cannot be located, the employee should make note of this on the list. Each department head should review the completed inventory list before submitting it to the physical inventory officer. The review should include an investigation and the resolution of problem assets. The department head should document the review by initialing and dating the list.

An alternative method for performing a physical inventory is to use uniform prenumbered inventory count sheets (see page **VI-E-23**). The physical inventory officer should maintain a control log of the prenumbered inventory sheets and account for their numerical sequence. The inventory sheet control log should indicate all the county locations being inventoried and the corresponding count sheets distributed to those locations. The physical inventory officer should ensure that inventory count sheets corresponding to each location are distributed to the employees taking the inventory.

Employees familiar with asset items should count them. The employee should indicate the description, identification number (tag or serial number), and location for each asset. The employee who counts and records the inventory should sign and date the count sheet to document responsibility for the count. The department head should review physical inventory counts before submitting them to the physical inventory officer, and should document the review by initialing and dating the count sheets.

The physical inventory officer should check all asset lists or inventory sheets against the control log to ensure that all have been returned and to provide a complete inventory of capital assets. A responsible employee should review all asset lists or count sheets for accuracy and completeness. Asset lists or count sheets should be verified on a test basis to determine the overall accuracy of the physical inventory. The physical inventory officer performing this review should sign and date the asset lists or count sheets to document the review.

After the inventory is completed, an employee not responsible for preparing or reviewing asset lists or count sheets should reconcile the physical inventory lists or count sheets to the capital assets list. Additions, deletions, or changes to the list resulting from the physical inventory should be fully documented. The physical inventory officer should retain all documents relating to the physical inventory to support the accuracy and propriety of the physical inventory.

Physical Security—Counties should safeguard capital assets from unauthorized use, theft, and damage. This can be accomplished by assigning control and accountability of assets to responsible employees in each department. Physical security of assets may be achieved using locks and alarm systems. The county should only issue keys to authorized personnel and establish procedures to control them. If keys are not returned when due, follow-up procedures should be implemented. Additionally, access to certain assets, such as county vehicles, should be restricted to authorized employees to prevent unauthorized use and theft.

Counties should assign responsibility to the property control officer for safeguarding assets against environmental hazards. Equipment sensitive to humidity and temperature changes should be protected from climate changes to the extent practicable. The property control officer should also make use of devices to protect capital assets against damage and destruction by fire.

Surplus Property—The property control officer should have responsibility for the control of surplus property and idle equipment. Surplus property that will be used should be segregated from property that is to be sold or otherwise disposed of.

Identification tags on surplus property should be left intact and the capital assets list should indicate that such items are surplus property. Counties should attempt to use surplus property and check surplus property records for available property to avoid making unnecessary purchases of similar items.

Reconciling Capitalized Acquisitions to Total Capital Expenditures

Counties should reconcile current year capitalized acquisitions to total capital expenditures at the end of each fiscal year. The purpose of this reconciliation is to help ensure that all current year acquisitions are included in the accounting records and on the capital assets list. An employee independent of the recordkeeping and custodial functions for capital assets should prepare the reconciliation. If this is not possible, county management should review and approve the reconciliation. Counties with a large volume of capital assets acquisitions may want to prepare this reconciliation more frequently. If prepared periodically, the year-end procedure entails combining all previously prepared reconciliations into summaries for the fiscal year. The preparer should sign and date the reconciliations, and the property control officer should review them.

Each fund from which capital expenditures were made should be reconciled individually. The reconciliation may be prepared by examining vouchers of the period for capital expenditures and completing a reconciliation form in the following manner. However, other reasonable methods are acceptable.

Letters A through H correspond to the letters on the form below. A sample form is also included on page **VI-E-24**.

A. Enter the voucher number and date.

B. Enter the amount of capital expenditures recorded on the voucher in the appropriate column based on unit cost.

   NOTE: If the unit cost is not apparent from the voucher, supporting documents such as purchase orders and vendor invoices should be examined. The cost of construction in progress should be obtained from the subsidiary ledgers for construction projects.

C. Enter the total amount of capital expenditures for each voucher.

D. Enter total capital expenditures by column.

E. Enter the total amount of adjustments related to capitalized acquisitions, such as adjustments to the accounting records, to charge a capital expenditure object code for the cost of supplies and materials used in a construction project.

F. Enter the sum of the total capital expenditures from the vouchers (D) and total adjustments for capitalized acquisitions (E) to record total capital expenditures for the fiscal year.

G. At fiscal year-end, enter the total amount for capital assets acquired during the fiscal year from the capital assets list or acquisitions list.

H. Enter the difference, if any, between total capital expenditures (F) and total capital assets acquisitions (G).

	CAPITAL EXPENDITURES								
Voucher Number/Date	Land $10,000 or more (451)	Buildings $10,000 or more (452)	Improvements Other Than Buildings $10,000 or more (453)	Land, Buildings, and Improvements Other Than Buildings less than $10,000 (451, 452, 453)	Machinery and Equipment $5,000 or more (454)	Machinery and Equipment less than $5,000 (454)	Construction in Progress (455)	Infrastructure Assets (456)	Capital Expenditures Total per Voucher
A	B	B	B	B	B	B	B	B	C
Total Capital Expenditures from Vouchers	D	D	D	D	D	D	D	D	D
Adjustments for Capitalized Acquisitions	E	E	E	E	E	E	E	E	E
Total Capital Expenditures	F	F	F	F	F	F	F	F	F
Total Capital Assets Acquisitions	G	G	G		G		G	G	
Difference	H	H	H		H		H	H	

Differences between total capital expenditures and total capital assets acquisitions recorded for the fiscal year should be itemized, resolved, and corrections or adjustments to the accounting records and the capital assets list made, if appropriate

Differences may result from posting or coding errors or due to the nature of certain transactions. For example, donated items are recorded on the capital assets list, although no expenditures or outlays were made to acquire the assets. Also, if a trade-in was allowed on the purchase of an asset, the amount recorded as a capital expenditure or outlay will not equal the amount recorded on the capital assets list

Reconciling the Previous Year's June 30 Capital Assets List to the Current Year's June 30 Capital Assets List

Counties should reconcile the previous year's June 30 capital assets list to the current year's June 30 list to help provide accuracy and continuity. The form on page **VI-E-25** may be used to document this reconciliation. Differences noted on the form should be resolved. Acquisitions and disposals recorded on the reconciliation should equal total capital assets acquisitions on the reconciliation of capitalized acquisitions to total capital expenditures (see pages **VI-E-15** and **16**) and the total of asset disposal forms processed during the year, respectively. Although construction in progress is not included in the capital assets list, a construction in progress list should be maintained to account for all county construction projects. The list should be reconciled to the prior list to ensure the addition of new project costs and that completed projects have been removed (and added to the county's capital asset list).

Capital Asset Reporting

Management's Discussion and Analysis (MD&A)—Counties are required by GASB Statement No. 34 to present an MD&A section, a component of required supplementary information (RSI). This section, appearing before the financial statements, should provide an objective and easily readable analysis of a county's financial activities based on facts, decisions, or conditions known as of the date of the auditor's report. See **§VIII, Financial Reporting** for further information. The MD&A section should present the following with regard to capital assets.

- Condensed financial information derived from government-wide financial statements comparing the current year to the prior year for (a) total assets, distinguishing between capital and other assets, and (b) total net assets, distinguishing among amounts invested in capital assets, net of related debt; restricted amounts; and unrestricted amounts.
- A description of significant capital asset activity during the year.
- A discussion by counties that use the modified approach to report some or all of their infrastructure assets. This discussion should include the significant changes in the assessed condition of eligible infrastructure assets from previous condition assessments, how the current assessed condition compares with the condition level the county has established, and any significant differences from the estimated annual amount to maintain/preserve eligible infrastructure assets compared with the actual amounts spent during the current period.

Financial Statements—Capital assets must be reported in both the government-wide and certain fund financial statements as required by GASB Statement No. 34. These statements are discussed in detail in **§VIII, Financial Reporting**.

Government-wide Statements—For the government-wide statement of net assets, depreciable capital assets should be reported net of accumulated depreciation for both governmental and business-type activities. Accumulated depreciation may be reported on the face of the statement or disclosed in the notes. Capital assets that are not being depreciated should be reported separately from the depreciable assets. Counties may also report capital assets in greater detail, such as by major class of asset.

For the government-wide statement of activities, counties should report all expenses by function, except for special or extraordinary items. Depreciation expense for capital assets that can be specifically identified with a function should be included in its direct expenses. If assets are shared by several county functions, then the depreciation expense for those assets should be apportioned to the direct expenses of the functions sharing the assets.

Depreciation expense for capital assets, such as a county building, that serve all functions is not required to be included in the direct expenses of the various functions; this depreciation expense may be included as a separate line in the statement of activities or as part of the "general government" function. Depreciation expense for general infrastructure assets should not be allocated to the various functions. It should either be reported as a direct expense of the function normally associated with infrastructure capital outlays or as a separate line in the statement of activities. If the county decides to report unallocated depreciation expense as a separate line item, it should clearly indicate on the face of the statement that this line item excludes direct depreciation expenses of the various programs.

Fund Statements—Governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Therefore, general capital assets (assets not specifically related to proprietary or fiduciary activities) should not be reported on the governmental fund statements as they are not current financial resources. However, because of the focus on current financial resources, the entire cost of capital assets should be reported on the statement of revenues, expenditures, and changes in fund balances during the period the assets are purchased.

Counties must convert the data in governmental funds so that the cost of capital assets reported on the fund financial statements can be presented as capital assets and depreciation on the government-wide statements. In addition, to help financial statement users assess the relationship between the fund and government-wide statements, counties should include this information in the summary reconciliation to the government-wide financial statements at the bottom of the fund financial statements or in an accompanying schedule.

Proprietary fund statements are reported using the economic resources measurement focus and the accrual basis of accounting. For proprietary funds, counties may present either a statement of net assets or balance sheet. However, regardless of format, capital assets of proprietary funds should be reported net of depreciation. In addition, GAAP require that the proprietary fund statement of position be presented in a classified format to distinguish between current and long-term assets.

Current year depreciation for capital assets should be reported as an operating expense on the proprietary fund statement of revenues, expenses, and changes in fund net assets. Capital outlay is not reported in the proprietary fund statement of activity because of the statement focus on economic resources; capital outlay is the exchange of one asset (cash) for another (capital asset), with no effect on net assets.

Because proprietary funds use the same measurement focus and basis of accounting as the government-wide financial statements, there will be no differences between capital assets amounts reported for enterprise funds and the amounts reported for business-type activities in the government-wide statements.

Fiduciary fund accounting is similar to that of proprietary funds, as both fund categories apply the economic resources measurement focus and the accrual basis of accounting.

Required Note Disclosures—Counties should provide, in the notes to the financial statements, their policy for capitalizing assets and estimating the useful lives of those assets, and describe the modified approach for reporting eligible infrastructure assets, if the county uses that approach. In addition, counties must provide detail about capital assets reported in the statement of net assets. The information disclosed should be divided into major classes of capital assets as well as between those associated with governmental and business-type activities. Capital assets that are not being depreciated should be disclosed separately from those being depreciated. Information presented about major classes of capital assets should include the following.

- Beginning and year-end balances with accumulated depreciation presented separately from historical cost.
- Capital acquisitions.
- Sales or other dispositions.

- Current-period depreciation expense, with disclosure of the amounts charged to each of the functions in the statement of activities.

It is a matter of professional judgment to determine whether to provide similar disclosures about capital assets of discretely presented component units. The decision to disclose should be based on the individual component unit's significance to the total of all discretely presented component units and that component unit's relationship with the county.

Modified Approach for Reporting Infrastructure—Counties should present the following schedules, derived from asset management systems, as RSI for all eligible infrastructure assets that are reported using the modified approach:

- The assessed condition, performed at least every 3 years, for at least the three most recent complete condition assessments, indicating the dates of the assessments.
- The estimated annual amount calculated at the beginning of the fiscal year to maintain and preserve at (or above) the condition level established and disclosed by the county compared with the amounts actually expensed for each of the past five reporting periods.

The following disclosures should accompany the above required schedules.

- The basis for the condition measurement and the measurement scale used to assess and report condition. For example, a basis for condition measurement could be distresses found in pavement surfaces. A scale used to assess and report condition could range from 0 for a failed pavement to 100 for a pavement in perfect condition.
- The condition level at which the county intends to preserve its eligible infrastructure assets reported using the modified approach.
- Factors that significantly affect trends in the information reported in the required schedules, including any changes in the measurement scale, the basis for the condition measurement, or the condition assessment methods used during the periods covered by the schedules. If there is a change in the condition level at which the county intends to preserve eligible infrastructure assets, an estimate of the effect of the change on the estimated annual amount to maintain and preserve those assets for the current period also should be disclosed.

COMPLIANCE CHECKLIST

This compliance checklist was developed to assist the county in establishing and maintaining adequate controls over capital assets, and may be used to evaluate compliance with UAMAC requirements. Questions are phrased in such a way that "Yes" answers indicate satisfactory conditions, while "No" answers indicate possible weaknesses that should be corrected.

	YES	NO
1. Has the county established a capitalization policy?	______	______
2. Does the capitalization policy include criteria to differentiate between expenditures for improvements, and for repairs and maintenance?	______	______
3. Is title to applicable capital assets held in the name of the county?	______	______
4. Are adequate records maintained for property in the county's possession that is not owned by the county?	______	______
5. Has the board of supervisors established procedures for implementing and maintaining a property control system?	______	______
6. Has an individual been assigned direct responsibility for property control, including administering the board's policies and ensuring compliance with established internal control procedures?	______	______
7. Is a detailed capital assets list maintained?	______	______
8. Are capital assets recorded at actual cost (including ancillary costs) for purchased items and fair market value at date of acquisition for gifts and donations? If actual cost cannot be determined, are capital assets recorded at estimated historical cost supported by appropriate documentation?	______	______
9. Is documentation retained to support recorded costs for capital assets?	______	______
10. Are expenditures accumulated in subsidiary ledgers for each authorized construction project?	______	______
11. If county employees construct capital assets, are labor costs properly recorded and controlled through payroll and disbursement records?	______	______
12. Are depreciation expenses being properly calculated and allocated?	______	______
13. If the county is using the modified approach for infrastructure assets:		
a. Is an asset management system used that meets all the required characteristics?	______	______
b. Is documentation retained to support that the results of the three most recent complete condition assessments provide reasonable assurance that eligible infrastructure assets are being preserved approximately at (or above) the condition level established and disclosed by the county?	______	______
14. Is the capital assets list updated at least annually for acquisitions and disposals?	______	______
15. Are acquisition and disposal lists of capital assets prepared and retained by the county?	______	______
16. Does the sale, transfer, or scrapping of equipment require written approval?	______	______

	YES	NO
17. Is a formal authorization policy for preparing disposal forms and deleting assets from the capital assets list in effect and carried out by designated persons?	______	______
18. Are department heads required to report to the property control officer any changes in the status of capital assets in their custody?	______	______
19. Are machinery and equipment items tagged or otherwise identified as county property?	______	______
20. Is a physical inventory taken at least once every 3 years and reconciled to the capital assets list?	______	______
21. Is a complete physical inventory of capital assets purchased with federal monies taken at least once every 2 years for equipment costing $5,000 or more?	______	______
22. Are written instructions for taking a physical inventory distributed to all employees participating in the counts?	______	______
23. Are capital assets adequately safeguarded from unauthorized use, theft, damage, and environmental hazards?	______	______
24. Are capital assets adequately insured?	______	______
25. Is surplus or idle equipment controlled physically and recorded in the accounting records?	______	______
26. Are capitalized acquisitions reconciled to capital expenditures or outlays annually?	______	______
27. Is the previous year's June 30 capital assets list reconciled to the current year's June 30 capital assets list?	______	______
28. Are capital asset records adjusted promptly for status changes?	______	______

______________________ COUNTY

REQUEST FOR AUTHORIZATION TO DISPOSE OF EQUIPMENT

Form No. (Prenumbered)

Check one: **Trade-In** ☐ **Sale** ☐ **Loss** ☐ **Transfer** ☐ **Other** ☐

From: **To:**

Department ______________________ ______________________

Location ______________________ ______________________

Tag No.	Description (Include Model Number)	Serial No.	FOR PROPERTY CONTROL DEPT. USE ONLY Date Acquired	Recorded Cost/Value	Sale/Trade-In Amount
				$	$

Reason for Disposition: ____

____

____

Signature ______________________________ Date ______________

Department Head—Office Holder

Signature ______________________________ Date ______________

Official Designated by the Board of Supervisors

Deleted from general capital assets list or stewardship list, if applicable, by**:** ______________________ Date______________

________________________________ COUNTY

INVENTORY COUNT SHEET

Sheet No. (Prenumbered)

INVENTORY ____________________________ 20 ____

DEPARTMENT: ____________________

LOCATION: ____________________

COUNTED BY/DATE: ____________________ REVIEWED BY/DATE: ____________________

Tag Number	Serial Number	Description

_____________________ COUNTY

RECONCILIATION OF CAPITAL ASSET ACQUISITIONS TO TOTAL CAPITAL EXPENDITURES

FISCAL YEAR _________________ FOR FUND _____________________

CAPITAL EXPENDITURES

Voucher Number/Date	Land $10,000 or more (451)	Buildings $10,000 or more (452)	Improvements Other than Buildings $10,000 or more (453)	Land, Buildings, and Improvements Other than Buildings less than $10,000 (451, 452, 453)	Machinery and Equipment $5,000 or more (454)	Machinery and Equipment less than $5,000 (454)	Construction in Progress (455)	Infrastructure Assets (456)	Capital Expenditures Total per Voucher
Total Capital Expenditures from Vouchers									
Adjustments for Capitalized Acquisitions									
Total Capital Expenditures									
Total Capital Assets Acquisitions									
Difference									

Explanation of Differences: (See attachments)

PREPARED BY: ___________________________________ DATE: ______________________

REVIEWED BY: ___________________________________ DATE: ______________________

________________________________ COUNTY

RECONCILIATION OF PREVIOUS YEAR'S JUNE 30 CAPITAL ASSETS

LIST TO CURRENT YEAR'S JUNE 30 CAPITAL ASSETS LIST

	Land	Buildings	Improvements Other Than Buildings	Machinery and Equipment	Infrastructure Assets	Total
A. Totals from previous year's capital assets list						
B. Add: Current year's acquisitions						
C. Less: Current year's disposals						
D. Total						
E. Totals from current year's capital assets list						
F. Difference (Compare D and E)						

Explanation of Differences (see attachments)

PREPARED BY: ________________________________ DATE: ______________

REVIEWED BY: ________________________________ DATE: ______________

CONTENTS

INTRODUCTION

Counties should design purchasing systems that promote efficient use of financial resources and minimize administrative time, cost, and effort. An effective purchasing system allows a county to identify the goods and services required for county operations and acquire them as economically as possible within acceptable standards of quality.

Counties should develop internal controls over purchasing that provide adequate authorization of and accountability for county expenditures and ensure that procurement policies are consistent with legal requirements and sound business practices.

Internal controls should be tailored to each county's specific needs. Purchasing policies and procedures should be developed in sufficient detail to identify the responsibilities, duties, and tasks of employees within the purchasing system. These policies and procedures should be in writing and distributed to employees involved in the purchasing process. Controls and procedures recommended in this section are provided as examples of sound financial and administrative practices. Other procedures may be used if they provide the same level of internal control.

LEGAL REQUIREMENTS

The legal requirements governing county purchasing policies and procedures are primarily derived from the Arizona Revised Statutes (A.R.S.). Counties should refer to these statutes for additional information.

1. The board of supervisors has the exclusive power to contract for the county. Counties may cancel any contract within 3 years of execution without penalty or further obligation if any person involved in initiating, negotiating, securing, drafting, or creating the contract on the county's behalf is, or becomes, an employee, agent, or consultant of the other parties to the contract. The cancellation is effective when all other parties to the contract receive written notice, unless the notice specifies a later time. Notice of this legal provision must be included in every contract to which the county is a party. A.R.S. §§11-201 and 38-511

2. Counties must use sealed, competitive bidding procedures for purchases of supplies, materials, equipment and contractual services, except professional services, with an estimated cost exceeding $10,000, unless the alternative bid threshold (currently $100,000) provided in the State Procurement Code under A.R.S. §41-2535 is adopted. A.R.S. §11-254.01

3. Counties must adopt purchasing procedures that comply with the UAMAC for purchases costing less than the applicable bid threshold. A.R.S. §11-254.01

4. Counties must procure professional services in accordance with written policies developed by the county purchasing agent and adopted by the board of supervisors. A.R.S. §11-254.01

5. Counties must comply with Title 34, Chapter 2, of the Arizona Revised Statutes, for the erection of, and repairs and alterations to, any county building. A.R.S. §11-254.01

6. Counties may enter into an annual cooperative purchasing agreement with the State Procurement Office that allows them to purchase goods or services from any vendor on the state contract. Counties

may also enter into a written cooperative purchasing agreement with a federal agency. A.R.S. §§41-2632 and 41-2634

7. Counties may enter into agreements with another public agency or public procurement unit to make joint purchases. Counties may also form separate legal entities, including nonprofit corporations, to contract or perform some or all of the services specified in the contract or agreement. If a separate legal entity is formed, the contract or agreement must specify its precise organization, composition, title, and nature. Any agreement with another public entity must specify the following: duration; purpose; method of financing, establishing, and maintaining a budget; method of accomplishing the agreement's partial or complete termination; method for disposing of property on termination; and any other necessary matters. The county attorney must review the agreement. A.R.S. §11-952

8. Counties may enter into contracts or agreements with other public agencies for the joint purchase of insurance, or to pool retention of their risks, for property, fidelity, liability, workers' compensation, life, health, accident, and disability coverage, pursuant to statutory requirements. A.R.S. §11-952.01

9. A nonprofit corporation operating as a public procurement unit must, on request of the auditor general, provide to the auditor general all documentation concerning any cooperative purchasing transactions the public procurement unit administers. Such a nonprofit corporation must comply with all procurement laws applicable to the public procurement units participating in its cooperative purchasing transactions. This provision does not relieve each public procurement unit of the responsibility to ensure compliance with procurement laws that apply to the particular public procurement, notwithstanding the fact that the cooperative purchase is administered by a nonprofit corporation. A.R.S. §41-2632

10. Counties may enter into long-term agreements for the purchase of personal property, provided that the county includes a provision allowing it to cancel the agreement at the end of each fiscal year of the agreement. A.R.S. §11-251

11. For construction, the board of supervisors must award the contract to the lowest responsible bidder with a satisfactory proposal. However, preference must be given to contractors and bidders who have paid real or personal property taxes in accordance with A.R.S. §§34-241 and 34-243, over any competing contractor or bidder who has not paid such taxes, whenever the bid of the competing contractor or bidder is less than 5 percent lower. In accordance with A.R.S. §34-243.01, the amount of any applicable sales or use tax must not be a factor in determining the lowest bidder if a competing bidder is not subject to a sales or use tax. In addition, preference must be shown to bidders who furnish materials produced or manufactured in Arizona in accordance with A.R.S. §34-242, over any competing bidder who furnishes materials not produced or manufactured in Arizona whenever the bid of the competing bidder, quality and suitability considered, is less than 5 percent lower.

    In determining the lowest responsible bidder for construction projects for highways, roads, streets, bridges, canals, floodways, earthen dams, and landfills, using the design-bid-build project delivery method, the county may consider the time of completion proposed by the bidder if the county determines that this procedure will serve the public interest by providing a substantial fiscal benefit or that the use of the traditional awarding of contracts is not practicable for meeting desired construction standards or delivery schedules and if the formula for considering the time of completion is specifically stated in the bidding information. A.R.S. §34-221

12. For construction pursuant to Title 34, Chapter 2, of the Arizona Revised Statutes, counties must, upon acceptance and approval of the working drawings and specifications, publish a notice to contractors of intention to receive bids and contract for the proposed work. The notice must be published by advertising in a newspaper of general circulation in the county for two consecutive publications if it is a weekly newspaper, or for two publications that are at least 6 but no more than 10 days apart if it is a daily newspaper. The notice must state:

    - The nature of the work required; the type, purpose, and location of the proposed building; and where the plans, specifications, and full information as to the proposed work may be obtained.
    - That those contractors desiring to submit proposals may obtain copies of full or partial sets of plans and specifications for estimate on request or by appointment. The return of the plans and specifications must be guaranteed by a deposit, which must be refunded on return of the plans and specifications in good condition.
    - That a certified check, cashier's check, or surety bond must accompany every proposal for 10 percent of the amount of the proposed bid as a guarantee that the contractor will enter into a contract to perform the proposal in accordance with the plans and specifications. The certified check, cashier's check, or surety bond must be returned to the contractors whose proposals are not accepted and to the successful contractor on the execution of a satisfactory bond and contract.
    - That the county reserves the right to reject any or all proposals or to withhold the award for any reason. A.R.S. §34-201(A)

13. A.R.S. §34-201 also provides the following exceptions to advertising the notice to contractors of the county's intention to receive bids and contract for proposed work. Exceptions include:

    - Construction of public buildings, or additions or alterations to public buildings, by inmates of a public institution and county employees. A.R.S. §34-201(B)
    - Construction of any building, structure, addition, or alteration, with or without the use of the county's regularly employed personnel, provided that the total cost of the work, excluding materials and equipment previously acquired by bid, does not exceed $14,000 beginning in fiscal year 1995, adjusted each year thereafter for the annual percentage change in the GDP price deflator as defined in A.R.S. §41-563. A.R.S. §34-201(C)
    - Construction of any street, road, bridge, water, or sewer work, other than a water or sewer treatment plant or building, with or without the use of county employees, provided that the total cost of the work does not exceed $150,000 beginning in fiscal year 1995, adjusted each year thereafter for the annual percentage change in the GDP price deflator as defined in A.R.S. §41-563. When calculating the total cost of water or sewer work, the cost does not include services provided by volunteers or donations made for the project. A.R.S. §34-201(D) and (E)
    - Construction, reconstruction, installation, or repair of a natural gas or electric utility and distribution system, owned or operated by the county, using county employees. A.R.S. §34-201(F)
    - Construction of recreational projects including trails, playgrounds, ballparks, and other similar facilities, excluding buildings, structures, and building additions using volunteer workers or workers provided by a nonprofit organization, provided that the total cost of the work does not exceed $150,000 beginning in fiscal year 2002, adjusted each year thereafter for the annual percentage change in the GDP price deflator as defined in A.R.S. §41-563. A.R.S. §34-201(F)

- Construction of public infrastructure made pursuant to a development agreement, if the county's contribution for any single development does not exceed $100,000 beginning in fiscal year 1995, adjusted each year thereafter for the annual percentage change in the GDP price deflator as defined in A.R.S. §41-563. A.R.S. §34-201(G)
- Construction of any building, structure, addition, or alteration is exempt from Title 34, Chapter 2, Article 1, of the Arizona Revised Statutes, provided the construction is required as a condition of development of private property and authorized by A.R.S. §§9-463.01 or 11-822. A.R.S. §34-201(L)

14. A county, or its agent, that knowingly violates the provisions of A.R.S. §34-201 is liable for a civil penalty as provided in A.R.S. §34-203.

15. The board of supervisors may reject any or all construction proposals. It may also withhold the award for any reason it determines. A.R.S. §34-201 However, before any contract is executed for construction, alteration, or repair of a public building, the contractor must furnish the board of supervisors with a performance bond made payable to the county equal to the full contract amount to ensure performance in accordance with the contract's plans, specifications, and conditions. In addition, a performance bond made payable to the county must be provided in an amount equal to the full contract amount for the protection of claimants supplying labor or materials to the contractor, or the contractor's subcontractors, in the performance of the work provided for in the contract. Counties should review A.R.S. §34-222 for specifics.

16. When the board of supervisors enters into a construction contract with the selected bidder, the terms of payment must include the following:

    - The board must retain 10 percent of all estimates as a guarantee for complete performance of the contract. The monies retained must be paid to the contractor within 60 days after completion or filing notice of completion of the contract. A.R.S. §34-221(C)(2) and (C)(5)
    - Instead of the retention explained above, the board may accept certain securities described in A.R.S. §34-221 in an amount equal to 10 percent of all estimates that will be retained by the board as a guarantee for complete performance of the contract. A.R.S. §34-221(C)(5)
    - The county may make progress payments on contracts of less than 90 days and must make monthly progress payments on all other contracts. The progress payments, less any applicable monies retained, must be made within 14 days after the work estimate is certified and approved. A.R.S. §34-221(C)(2)
    - When the contract is 50 percent completed, the county must pay one-half of the amount retained, including any securities substituted, on the contractor's request, if the contractor is making satisfactory progress on the contract and there is no specific cause or claim requiring a greater amount to be retained. After the contract is 50 percent completed and if the contractor is making satisfactory progress, no more than 5 percent of any subsequent progress payments may be retained. However, if at any time the county determines that satisfactory progress is not being made, 10 percent retention must be reinstated for all progress payments made under the contract after that determination. A.R.S. §34-221(C)(3)
    - On completion and acceptance, payment may be made in full, including retained percentages, less authorized deductions. A.R.S. §34-221(C)(4)

17. For county roadwork in a county with a population of 250,000 or more, the county must solicit bids for all items of construction or reconstruction involving an expenditure of $35,000 in fiscal year 1986, adjusted each year thereafter for the annual percentage change in the GDP price deflator as defined in A.R.S. §41-563. In addition, bids must be solicited for all purchases or other acquisitions of construction equipment involving an expenditure of more than $5,000 and all purchases of construction supplies and materials involving an expenditure of $2,500 or more. Bids must be advertised in a newspaper of general circulation in the county for two consecutive publications if it is a weekly newspaper, or for two publications of at least 6 but not more than 10 days apart, if it is a daily newspaper. Highway construction or reconstruction projects, items of equipment, and materials and supplies, should not be split among contractors unless there is a reasonable basis to do so. These requirements do not apply to procurement of construction-manager-at-risk, design-build, and job-order-contracting construction services pursuant to Title 34, Chapter 6, of the Arizona Revised Statutes. A.R.S. §28-6713

18. Counties should refer to Title 34, Chapter 6, of the Arizona Revised Statutes, for specific requirements relating to services from architects, assayers, engineers, geologists, and landscape architects, and for construction and land surveying. Chapter 6 allows counties to procure design services, construction, and construction services using project delivery methods that include design-bid-build, construction-manager-at-risk, design-build, and job-order-contracting. When using the procurement methods described in Chapter 6, the county may be exempt from certain provisions in Title 34, Chapters 1 and 2, of the Arizona Revised Statutes. A.R.S. §34-610

19. A county or county agent that knowingly and intentionally violates Title 34, Chapter 6, of the Arizona Revised Statutes, which describes requirements relating to procurement of services from architects, assayers, engineers, geologists, and landscape architects, and for construction and land surveying, is liable for a civil penalty as provided in A.R.S. §34-611.

20. The county treasurer must disburse county monies either by a warrant issued by the board of supervisors or an electronic transfer authorized by the board of supervisors. A.R.S. §11-493

21. Counties may pay claims exceeding $500 only upon presentation of a demand, or if all other supporting documentation required by the UAMAC is maintained, except for payment to jurors, witnesses, and official salaries. No demand is required for payments not exceeding $500. A.R.S. §11-621

22. The board of supervisors must establish procedures for issuing duplicate warrants that protect the county and provide the owner with a duplicate warrant within a reasonable time. When a warrant has been lost or destroyed before payment, the board may direct the county treasurer to issue a duplicate warrant. Before issuing a duplicate warrant, a written stop-payment notice must be sent to the county treasurer, giving the number, amount, and date of the warrant, as well as the payee and the fund on which the warrant was drawn. A.R.S. §11-632

23. Annually, on or before June 30, each county department or agency having outstanding liabilities at fiscal year-end must file an Advice of Encumbrance with the board of supervisors. Encumbrances outstanding at the end of 60 days lapse. Warrants may be issued to pay for these liabilities up to 60 days after fiscal year-end. After that, no further payments may be made for prior-year claims. A.R.S. §11-624.01 Counties must pay in full for goods and services purchased on account from a

nongovernmental entity within 30 days after the goods and services are received and properly billed. A.R.S. §35-342

24. Counties must obtain taxpayer ID numbers from vendors for 1099-MISC reporting purposes. Form W-9 should be used to obtain the taxpayer ID number and certification. Counties should refer to *Instructions for the Requester of Form W-9*, published annually by the IRS. In addition, counties should refer to *Instructions for Form 1099-MISC*, published annually by the IRS, for guidance and deadlines for preparing and filing Form 1099-MISC. Generally, the county must prepare and file Form 1099-MISC for vendors providing services to whom $600 or more is paid in fees, commissions, and other forms of compensation. Vendors requiring 1099-MISC typically include independent contractors, attorneys, accountants, and other professionals. These vendors may be individuals, partnerships, and estates. Counties do not need to prepare 1099-MISC forms for most corporations and all tax-exempt organizations; however, professional service fees for attorneys, including corporations, require 1099-MISC reporting.

PROCEDURES

The purchasing cycle consists of five functions: requisitioning, budgetary control, purchasing, receiving, and accounts payable. Duties must be adequately separated among employees so that no individual performs all steps of a transaction.

County purchasing procedures should include an internal review of purchasing activity. This should include a review of purchase orders generated, oral and written price quotations, and bid awards. A periodic review of purchasing activity will help ensure that the county consistently follows its purchasing procedures and related laws.

Purchasing systems may be centralized or decentralized and costs vary between systems. In a centralized purchasing system, one department is responsible for procuring all goods and services. Centralization helps ensure efficient use of financial resources by eliminating multiple purchasing records and procedures and reducing administrative costs, time, and effort. In a decentralized purchasing system, each department is responsible for procuring its goods and services; consequently, the costs of gathering and processing information increase because tasks are duplicated and the benefits derived from large quantity purchases are not shared among departments.

The county should establish the procedures and controls discussed in this section for a centralized purchasing system. Similar controls and procedures should be implemented for a decentralized purchasing system when management deems that such a system is appropriate. In that case, most of the procedures would be performed within the requisitioning department.

Requisitioning

Generally, county departments are responsible for planning purchase requirements and communicating them to the purchasing department far enough in advance so that goods may be ordered in economical quantities. Requisition forms should be used to communicate purchase requirements to the purchasing department (see exhibit on **VI-F-22**). A designated employee within each department should prepare the requisition forms to help ensure that they are accurately completed.

Departments should prepare at least two copies of a numerically controlled requisition form and include the following information: requesting department, date, description of items, quantity, unit cost, estimated total cost, fund, function, object code, delivery site, date required, and suggested vendor. Requisitions are not required for items specifically exempted or purchased through departmental petty cash or revolving funds.

The required services or materials should be described on the requisition in enough detail to allow competitive purchasing. Brand or trade names and catalog numbers may be considered, but they should not be the sole determining factor in the final selection.

The employee responsible for budgetary control should sign and date the requisition, or return it to the requisitioning department if sufficient budget capacity is not available. The department head or a designated employee should review all requisitions for propriety and approve them. One copy of the completed and approved requisition should be sent to the purchasing department. The second copy should be maintained on file in the requisitioning department. Additional copies may be distributed as necessary. Once the goods are ordered, the department should match its requisition against the purchase order to ensure the proper goods or services were ordered. If requisitions are prepared online, counties should have equivalent procedures to maintain evidence of applicable reviews and approvals.

Budgetary Control

The budgetary control function is responsible for verifying that sufficient budget capacity exists before the purchasing department issues purchase orders to vendors. The budgetary control function may be established as an independent department or may be performed entirely by computer edit checks.

The estimated cost recorded on completed requisition forms should be compared to budget capacity. If budget capacity is not sufficient for the proposed purchase, this should be noted on the requisition and the requisition should be returned to the requisitioning department. If budget capacity is available, the requisition should be approved and forwarded to the purchasing department. Evidence of the budgetary check should be documented on the requisition.

After receiving an approved requisition from the budgetary control function, the purchasing department should issue a purchase order to a vendor. If encumbrance accounting is used, monies should be encumbered at that time. The county should maintain records that identify monies committed for expenditures so that an unencumbered and unexpended budget balance may be determined.

Each month, a report should be generated by department of current expenditures, encumbrances, unexpended and unencumbered balances, and year-to-date amounts.

Purchasing

The purchasing department negotiates purchases with vendors and follows up with vendors when goods are not received or are returned.

Counties may use several different purchasing methods. The most common method is a purchase through the formal purchasing process. Lease purchases and installment purchases may be used to acquire assets when feasible. Some expenditures are specifically exempted from the formal purchasing process. Exempt expenditures may include salaries and related costs, jury and witness fees, travel, utilities and communications, postage, and uniform allowances for sheriff's deputies.

Other purchases for small dollar amounts and orders that require immediate cash outlay may be paid from petty cash or by check from a revolving fund bank account (see **§VI-C, Cash** for procedures relating to these types of purchases).

Upon receipt of an approved requisition, the purchasing department should obtain vendor price quotations or solicit bids and document such quotations and bids based on guidelines prescribed by statute and county purchasing policy.

The department should select a qualified vendor based on the price quotations or bids received (competitive purchasing requirements are listed below). The department should then complete the requisition by adding the price quotation or bid amount submitted by the selected vendor and a total cost, including tax, delivery, insurance, and other ancillary costs. If the total cost exceeds the estimate recorded on the requisition, budget capacity should again be verified. See page **VI-F-10** for a discussion of purchase orders.

Competitive Purchasing—Counties must use sealed, competitive bidding procedures for purchases of supplies, materials, equipment, and contractual services, except professional services, with an estimated cost exceeding $10,000, unless the board of supervisors elects to adopt the State's procurement threshold (currently $100,000) provided in A.R.S. §41-2535. A.R.S. §§11-254.01 and 41-2501(C)

Counties that use the $10,000 threshold should adopt the following competitive purchasing guidelines for purchases estimated to cost less than that amount.

1. For purchases costing less than $3,000, counties should use procedures providing for adequate and reasonable competition.
2. For purchases costing at least $3,000 but less than $5,000, counties should obtain at least three oral price quotations.
3. For purchases costing at least $5,000 but not more than $10,000, counties should obtain at least three written price quotations.

Counties that adopt the $100,000 threshold should adopt the following competitive purchasing guidelines for purchases estimated to cost less than that amount.

1. For purchases costing less than $10,000, counties should use procedures providing for adequate and reasonable competition.
2. For purchases costing at least $10,000 but less than $50,000, counties should obtain at least three oral price quotations.
3. For purchases costing at least $50,000 but not more than $100,000, counties should obtain at least three written price quotations.

Any variations from these guidelines, such as lower dollar limits or higher levels of required competition, responsive to local circumstances, should be reasonable and documented in the board minutes.

Whether to request an oral or written price quotation is determined by analyzing the known requirements for an item or a collection of items that, in the aggregate, may result in the purchase of the item or items, above the applicable threshold, from one vendor. The vendors contacted and their price quotations should be written on or attached to the file copy of the related requisition or purchase order. If three price quotations cannot be obtained, the county should also document the vendors contacted and their reasons for not providing price quotations. If a vendor is selected because of reasons other than the lowest price, such as quality of the product or work to be performed, the reasons should be fully documented. The invitation for price quotations should be issued in sufficient time before the purchase is made and in sufficient detail to allow vendors to respond.

When a county determines that a purchase meets the criteria requiring that it be bid, the county must issue the invitation for bids and specifications in sufficient time before the purchase is made and in sufficient detail to permit free competition. Notice of the invitation for bids must be published in the official newspaper of the county. The official newspaper of the county is that to which the county annually awards the contract for advertising publications and printing required by the county pursuant to the requirements in A.R.S. §11-255.

Unless otherwise specified in law, written notice must be published in a daily newspaper 4 consecutive times or a weekly newspaper once each week for 2 consecutive weeks. A.R.S. §39-204 The county must retain an affidavit attached to a copy of the published notice from the newspaper as proof of the publication. A.R.S. §39-205 Copies of the invitation and specifications must be supplied to and bids must be solicited from qualified sources consistent with the item to be purchased as determined by the county purchasing agent. Those sources include all qualified suppliers who, before the invitation is issued, notify the purchasing department in writing that they desire to bid on materials, supplies, equipment, or contractual services. A.R.S. §11-254.01

Bids must be opened publicly at the time and place stated in the invitation. On board approval, the county purchasing agent must make awards with reasonable promptness by giving written notice to the qualified bidder whose bid conforms to the invitation and whose bid is the most advantageous to the county concerning price, conformity to the specifications, and other factors. The board may reject all bids if rejection is in the public interest. A.R.S. §11-254.01

Emergency Purchases—For emergency purchases to be exempt from legal restrictions or normal county purchasing requirements, the board of supervisors must determine, by at least a two-thirds vote, that an emergency exists, or existed, that requires immediate action to protect the public health or safety. A.R.S. §11-254.01

An emergency condition threatens the functioning of the county, the preservation or protection of property, or the health or safety of the county's citizens and creates an immediate and serious need for materials, services, or construction that cannot be met through normal purchasing methods. Some examples of emergency conditions are floods, epidemics, riots, fire, or other natural disasters. Emergency purchases should be limited to only the materials, services, or construction necessary to satisfy the emergency need. The board of supervisors should designate a member, or members, or county official authorized to make emergency purchases.

The department requesting the emergency purchase should prepare a written request documenting the existence of an emergency condition and explaining the immediate purchase need, the name of the supplier, the duration and estimated amount of the procurement, and documentation that the price submitted is fair and reasonable. The request should be signed by an authorized department employee and submitted to the county official authorized to make emergency purchases. The authorized county official should determine whether to grant the request and document that decision. A copy of each request and approval processed under this procedure should be kept on file in the department requesting the emergency purchase and at the county finance department.

The county official authorized to make emergency purchases must, at the first scheduled meeting following the emergency purchase, provide to the board of supervisors a report concerning the emergency purchase including the following information:

- The basis for the emergency that necessitated immediate response and why it was impracticable to convene a meeting of the board of supervisors.
- The basis for the selection of vendor, including an explanation of how the purchase was made with as much competition as was practicable under the circumstances.
- Why the price paid was reasonable.

Vendor Selection—Counties should establish criteria for selecting vendors to ensure that each vendor is a legitimate, established business; is financially responsible; and is able to meet the county's requirements. Counties may establish and maintain a list of vendors that have provided satisfactory service in the past and any new vendors that have requested to be contacted in the future to fulfill county requirements. When a new vendor is being considered, the county may wish to contact the Better Business Bureau, local Chamber of Commerce, or former customers for references. Prices paid to vendors should be periodically reviewed to evaluate the competitiveness of the purchasing function.

Generally, counties cannot make purchases from board members, officers, or employees, unless the purchase is made through the competitive bidding process. Counties should develop a conflict-of-interest policy to help ensure that purchases are made at arm's length. A.R.S. §38-503 requires that board members, officers, and employees make known any substantial interest they have in any contract, sale, purchase or service, and refrain from voting or participating in such contract, sale, or purchase. Counties should require board members, officers, or employees to complete or update conflict-of-interest statements annually, if applicable, and should maintain a conflict of interest file. See page **VI-F-21** for an example Conflict-of-Interest Statement and Disclosure. A.R.S. §38-503

However, counties may purchase limited supplies, materials, and equipment from a member of the board of supervisors without using public competitive bidding procedures. These purchases are limited to $300 in any single transaction and no more than $1,000 annually from any board member. The board of supervisors must annually approve any policy that allows such purchases. A.R.S. §38-503(C)(2)

Purchase Orders—Purchase orders should be prenumbered and contain five copies, including the original (see exhibit on **VI-F-23**). The five copies should be either color-coded or otherwise identified by recipient (vendor, accounts payable, purchasing, requisitioning, and receiving). These procedures provide control over copy distribution and facilitate purchase order filing. However, if purchase orders are prepared electronically, similar procedures should be in place that provide the same level of internal controls.

Purchase orders should include the county name, prenumbered purchase order number, requisition number, account code, date prepared, vendor, county department, terms, expected delivery date, destination, quantity, description, unit, unit price, total cost, and an authorizing signature and date.

Unused purchase orders should be physically controlled, and access should be limited to authorized employees. Purchase orders initiated but not issued should be voided to prevent reuse and retained in the numeric purchase order file.

An authorized employee should prepare and sign the purchase order. Purchase orders should be controlled sequentially and reconciled to monthly reports. They should also be reviewed against the applicable unencumbered and unexpended budget balance. Finally, open purchase orders should be closed at the end of the fiscal year. If purchase orders are prepared online, counties should have equivalent procedures to maintain evidence of applicable reviews and approvals.

The receiving report copy should have the quantity ordered and estimated unit price and amount blocked out before it is submitted to the receiving department. The requisition should accompany the copy of the purchase order submitted to the accounts payable department. The requisition and purchase order should be filed together. The distribution of approved purchase orders is illustrated on page **VI-F-25**.

The accounts payable department should maintain an open purchase order file for all outstanding purchase orders. This file should be reviewed periodically to investigate all unmatched or outstanding purchase orders and to verify that the file agrees with the encumbrance records.

Credit Cards/Purchasing Cards—The county board of supervisors may authorize the use of county credit cards or purchasing cards (p-cards) by employees. Because of the relatively high risk associated with transactions involving such cards, the board should establish and maintain effective internal controls to safeguard and restrict card usage to county business and limit credit card distribution to necessary employees. Formal, written policies governing the use of credit cards and p-cards should be established and provided to authorized employees. The policies should specify purposes for which the cards may be used and dollar limits for charges, and require an effective accounting system to account for and control the cards.

Credit card usage should be limited and restricted to expenditures that require immediate payments, such as freight, fuel, travel, and emergency vehicle repairs. Employees using credit cards should submit all receipts to the county as soon as possible. Receipts for fuel or vehicle repairs should include the vehicle license plate number.

P-cards are a form of a credit card provided to employees by a county (through a contract with a bank) for the purpose of conducting controlled purchase or payment activities for a valid public purpose. P-card programs are established to streamline acquisition processes by providing a low-cost, efficient method for obtaining goods or services directly from vendors, and to provide a method for making purchases from vendors that do not accept purchase orders.

Supporting documentation should be prepared and retained to adequately support all credit card and p-card expenditures. Such documentation should clearly indicate the employee making the purchase, and the specific county purpose for the expenditure. Billing statements for county credit cards and p-cards should be sent directly to the county, not to the employee using the card. Upon receipt, billing statements should be compared to the supporting documentation for propriety. All charges should be reviewed by a responsible supervisor and any suspicious charges, or charges made in violation of the credit card agreement or county policy, should be reported to an appropriate level of management for further investigation. Payments should be made in a timely manner to avoid finance charges.

Blanket Purchase Orders—Counties may use blanket purchase orders for items, such as auto parts, office supplies, and gasoline that are purchased on a recurring basis from the same vendor within a specified time frame. Procedures for preparing, approving, and processing blanket purchase orders are subject to the same internal controls as standard purchase orders. A blanket purchase order should also state a specific time period that the purchase order is in effect and a maximum dollar limit. Invoice amounts paid against a blanket purchase order should be deducted from the total limit to determine the unexpended balance remaining.

The county should periodically review open blanket purchase orders and investigate and cancel purchase orders outstanding for more than the specified time period. All blanket purchase orders must be closed with the vendor at year-end and new blanket purchase orders should be issued.

Leases—Lease agreements are classified as either operating or capital leases (also known as lease-purchase agreements). An operating lease is an agreement between a lessee and a lessor for the use or service of an asset. Title of ownership does not pass to the lessee in an operating lease. Under the provisions of a capital lease, title to the asset passes to the lessee at the end of the lease term. The criteria for designation as a capital lease are presented in **§VI-E, Capital Assets**.

All lease agreements are subject to competitive purchasing requirements. The county may require a requisition and purchase order to be prepared at the inception of the lease agreement and at the beginning of each subsequent fiscal year. The accounts payable department should process payments in the same manner as invoices for purchases of goods and services. However, the current portion of a capital lease payable should be encumbered in its entirety at the start of the fiscal year.

A lease-purchase agreement must be executed for a period of 1 fiscal year only and allow the county to continue the agreement for succeeding 1-year periods until the purchase is completed. The board of supervisors may cancel any lease-purchase agreement by giving written notice to the seller. Title to the equipment remains with the seller until full payment has been made. A.R.S. §§11-651, 11-652, and 11-653

Counties may also enter into lease-purchase agreements for real property and improvements to real property. The agreement may not extend beyond 25 years. In addition to lease-purchases, counties may enter into other long-term agreements for the purchase of personal property, provided that a provision is included allowing the county to cancel the agreement at the end of each fiscal year of the agreement. A.R.S. §11-251

Installment Purchase Contracts—Installment purchase contracts are similar to capital leases in that the contract requires a specified number of periodic payments. Title may pass at the time the property is transferred, after a specified number of payments, or following the final payment.

A requisition and purchase order should be prepared at the initiation of the installment purchase contract to check for sufficient budgetary capacity to make the current year's payments. For budgetary control purposes, a new requisition and purchase order should be prepared in each subsequent year of the installment purchase contract. The current portion of the contract should be encumbered at the beginning of each fiscal year. Vendor invoices for installment purchase contracts should be processed by the accounts payable department in the same manner as invoices for other purchases of goods and services.

Receiving

Counties should establish a central receiving department to inspect and verify goods received. Receiving duties should be separated from warehousing and inventory recordkeeping functions. Counties may also designate employees within certain departments to perform the receiving function. Receiving at the specific user department may be appropriate for large or specialized equipment.

Receiving personnel should inspect goods to verify that they meet county specifications and should note any damaged goods. The goods should be counted, weighed, or measured, and the quantities received should be recorded on the receiving report. The receiving report may be prepared using copy 4 of the purchase order (see exhibit on **VI-F-24**). The employee receiving the goods should sign and date the receiving report. Goods should be delivered to the requisitioning department or stored in the warehouse until an authorized issue is made. The requisitioning department should also indicate the receipt of goods by signing and dating the receiving report. After delivery, the receiving department should submit the receiving report to the accounts payable department with applicable shipping documents, such as a bill of lading or packing slip. The receiving department should retain a copy of the receiving report.

If goods received are damaged, of substandard quality, or otherwise unsatisfactory, the accounts payable department should be directed to initiate a request for a credit memo from the vendor. Return shipments should be documented by recording the date, vendor name, quantity, description, purchase order number, and other pertinent information. A receipt should be obtained from the vendor or independent carrier for all return shipments. Additionally, all documents relating to the return shipment should be submitted to the accounts payable department.

The county should also prepare receiving reports for services rendered and projects completed to verify performance and completion (see exhibit on **VI-F-24**). The employee responsible for procuring the services or planning the project should prepare such receiving reports. Receiving reports should be signed, dated, and submitted to the accounts payable department. If receiving reports are prepared online, counties should have equivalent procedures to maintain evidence of applicable reviews and verifications.

Accounts Payable

The accounts payable department issues warrants to vendors, processes credit memos from vendors, and establishes year-end cutoff procedures for paying outstanding liabilities.

The accounts payable department should receive invoices directly from vendors. The department should maintain an open purchase order file that contains purchase orders and related requisition forms received from the purchasing department. Receiving reports should be filed with the related requisition and purchase order when received. When received, the invoice should be matched against the applicable requisition, purchase order, and receiving report. For items that do not involve materials and supplies, such as fees, rentals, travel, etc., invoices should be matched to applicable supporting documentation that indicates approval for payment by a designated person, such as a department head.

The invoice and supporting documentation should also be analyzed to identify purchases of capital assets so that the property control officer may be notified and the item properly identified and recorded in the capital assets records (see **§VI-E, Capital Assets**).

The invoice, with all supporting documentation (requisition, purchase order, and receiving report) attached, should be submitted to a second accounts payable employee for voucher preparation. Once the voucher is prepared, the accounts payable supervisor should review it. The review should include random checks of the completeness and accuracy of supporting documentation. After review, the supervisor should sign and date the voucher and submit it to the board of supervisors for approval. After board approval, prenumbered warrants and a warrant register should be prepared. The warrant register should be reviewed and totals should be compared to the voucher. The expenditure should then be recorded in the cash disbursements journal by fund using the account codes indicated on the approved voucher. Detailed information concerning warrant processing is provided in **§VI-C, Cash**.

The county should issue warrants in a timely manner to comply with statute and ensure that vendor discounts are taken. A.R.S. §35-342 requires that counties pay in full for goods and services received from a nongovernmental entity within 30 days after receipt of the goods and services and written notice of the amount due. If the county fails to do so, it must pay interest on the outstanding balance at the rate prescribed in A.R.S. §44-1201 until the account is paid in full, unless a good faith dispute exists as to the obligation to pay all or a portion of the account. After warrants are issued to the vendor, invoices should be canceled to prevent duplicate payment. This may be done by stamping the invoice with the date of payment and recording the warrant number on it. Except for purchases of capital assets, the canceled invoice with its attached supporting documentation should be filed in a paid invoice file by vendor. Invoices and supporting documentation related to capital assets should be filed separately to ensure that documents are not destroyed until the required number of years after disposing of the asset. (Counties should refer to specific retention requirements in the *Records Retention and Disposition for Arizona Counties*, produced by the Arizona State Library, Archives and Public Records.) The voucher should also be canceled and filed in a paid voucher file.

Counties should maintain and continually update accounts payable records. Monthly statements from vendors should be periodically reconciled to the accounts payable records. Accounts payable personnel should agree encumbrances to open purchase orders and commitments periodically. Unmatched invoices and receiving reports should also be periodically reviewed and investigated.

Supervisory personnel in the accounts payable department should periodically review accounts payable in the accounting records for debit balances, and investigate and resolve such balances. The supervisor should also properly approve any adjustments to accounts payable records.

If payments are made electronically, similar procedures should be in place that provide the same level of internal controls.

Payments on Demand—The county may make payments exceeding $500 on presentation of a demand. A "demand," as used within the statute, refers primarily to a claim. Claims for goods or services may be submitted in writing or by online data exchange, if the board of supervisors approves this method. All other claims must be submitted in writing. A.R.S. §§11-621 and 11-622

A county may not pay a demand unless it is received within 6 months after the goods have been received or the services have been performed. Payments due to jurors and witnesses, official salaries, and amounts not exceeding $500 may be paid without presentation of a demand. The county may issue a warrant without presentation of a demand if all other required supporting documentation is maintained. The required supporting documentation consists of a requisition, purchase order, receiving report, and invoice. A.R.S. §§11-621 and 11-622

The board's minutes must contain the following demand payment information: the demand number, presenter, amount, and paying fund. The minutes must also contain the following warrant information: warrant number, payee, amount, and purpose of payment. A.R.S. §11-623

The board's minutes must report all approved demands and warrants in excess of $1,000 and multiple demands and warrants under $1,000 that were for a single supplier or individual whose cumulative total exceeded $1,000 in a single reporting period. A.R.S. §11-217

Warrants—The county treasurer may pay for county expenditures on warrants issued and signed by the chairman and the clerk of the board, or by electronic transfer authorized in writing as provided by A.R.S. §11-493.

Credit Memos—Goods that are returned, other claims against vendors, and the resulting credit memos should be accounted for properly. Documents verifying return shipments from the receiving department and credit memos that include reference to the information on the original invoices from vendors should be obtained.

Credit memos should be filed in an open credit memo file. Additionally, the credit memos should be recorded in a log and periodically reviewed by a designated employee independent of the recordkeeping responsibilities related to credit memos. The log should include all pertinent information relating to goods returned to vendors, and all other claims, such as short deliveries, freight claims, and claims for damaged goods not returned. If credit memos are not resolved within a specified time period, the accounts payable department should contact the vendor to initiate a refund.

Credits applicable to unpaid invoices should be netted against those invoices prior to payment. Credits applicable to current year invoices that have already been paid should be accounted for as reductions of the corresponding expenditures. If the credit memo is to be received after the fiscal year in which the goods were purchased, the county should request a cash refund, which is generally recorded as a miscellaneous revenue. When the credit memo is issued after the invoice has been paid, a journal entry should be recorded to reflect the receivable due from the vendor.

Year-End Cutoff—At fiscal year-end, the county should prepare an Advice of Encumbrance by fund for goods received or services rendered on or before June 30, that will not be paid by June 30. The Advice of Encumbrance should include the vendor name, receiving report date, purchase order number, and estimated cost as recorded on the purchase order, or actual cost if the county has received the invoice.

The board may draw warrants on these amounts for up to 60 days after the close of the fiscal year. Encumbrances still outstanding at the end of 60 days, lapse. A.R.S. §11-624.01

COMPLIANCE CHECKLIST

This compliance checklist was developed to assist the county in establishing and maintaining adequate controls over the purchasing process and may be used to evaluate compliance with UAMAC requirements. Questions are phrased in such a way that "Yes" answers indicate satisfactory conditions, while "No" answers indicate possible weaknesses that should be corrected.

	YES	NO
General		
1. Have uniform purchasing policies and procedures been developed and distributed to all county personnel involved in the purchasing function?	______	______
2. Does the county have a policy statement regarding conflicts of interest and employee/vendor relationships?	______	______
3. Is the purchasing function separate from the receiving and accounting functions?	______	______
Requisitioning		
1. Are requisitions used to initiate all purchases except those specifically exempted by the board of supervisors?	______	______
2. Are purchase requisitions prenumbered and controlled?	______	______
3. Does the department head or a designated employee approve requisitions?	______	______
Budgetary Control		
1. Are requisitions checked against budget capacity?	______	______
2. Does the person performing the budget check sign and date the requisition?	______	______
3. If encumbrance accounting is used, are funds encumbered when copies of purchase orders are received?	______	______
4. Are encumbrance entries reversed after expenditures are made?	______	______
5. Are departments notified at least monthly of their remaining budget capacity?	______	______
Purchasing		
1. When formal bidding procedures are required:		
a. Is a file maintained to document the bidding process?	______	______
b. Does the file include bid letters, bid specifications, affidavits of publication when advertised, and copies of all bids received?	______	______
c. Is a written explanation required in instances in which bids were not requested?	______	______
d. Is documentation maintained to support vendor selection, including an explanation when the vendor with the lowest bid was not selected?	______	______
e. If construction contracts are to be awarded, are bid and performance bonds obtained?	______	______
2. Is splitting orders to avoid higher levels of approval prohibited?	______	______

	YES	NO
3. When formal bidding procedures are not required, are price lists and other appropriate records of price quotations maintained?	______	______
4. When emergency purchases are required:		
a. Did the board of supervisors, by a two-thirds vote, declare an emergency exists or existed?	______	______
b. Does the department requesting the emergency purchase prepare a written request documenting the existence of an emergency condition and explaining the immediate purchase need, the name of the supplier, the duration and estimated amount of the procurement, and documentation that the price submitted is fair and reasonable?	______	______
c. Is the request signed by an authorized department employee and submitted to the county official authorized to make emergency purchases?	______	______
d. Does the authorized county official document the decision whether to grant the request?	______	______
e. Is a copy of each request and approval processed under this procedure kept on file in the department requesting the emergency purchase and at the county finance department?	______	______
f. At the first scheduled meeting following the emergency purchase, does the county official authorized to make emergency purchases provide to the board of supervisors a report concerning the emergency purchase including the following information: • The basis for the emergency that necessitated immediate response and why it was impracticable to convene a meeting of the board of supervisors. • The basis for the selection of vendor, including an explanation of how the purchase was made with as much competition as was practicable under the circumstances. • Why the price paid was reasonable.	______	______
5. Are approvals on requisitions compared with signature/approval lists of personnel authorized to approve them for the related department?	______	______
6. Does an authorized individual approve purchase orders? Is additional review or approval required for expenditures exceeding a specific dollar limit?	______	______
7. If the county used credit cards, were policies and procedures in place to monitor transactions and identify misuse (including ensuring transactions were for authorized county purposes and within dollar limits set by the board of supervisors)? Were such policies and procedures distributed to employees authorized to use credit cards?	______	______

	YES	NO
8. Were credit card purchases only for expenditures requiring immediate payment, for authorized county purposes, within the dollar limits set by the board of supervisors, and supported by appropriate receipts that clearly identify the employee making the purchase?	______	______
9. If the county used p-cards, were policies and procedures in place to monitor transactions and identify misuse (including ensuring transactions were for authorized county purposes, within dollar limits set by the board of supervisors, and limited to applicable vendors)? Were such policies and procedures distributed to employees authorized to use p-cards?	______	______
10. Were p-card purchases only for authorized county purposes, within dollar limits set by the board of supervisors, limited to applicable vendors, and supported by appropriate receipts that clearly identify the employee making the purchase?	______	______
11. Are blanket purchase orders and long-term contracts adequately controlled?	______	______
a. Are blanket purchase orders used only for essential purchases?	______	______
b. Are purchases under blanket purchase orders compared to the authorized quantity and dollar amount?	______	______
c. Are blanket purchase orders closed at fiscal year-end?	______	______

Receiving

	YES	NO
1. Are receiving personnel independent of the purchasing and requisitioning personnel?	______	______
2. If copies of purchase orders are furnished to the receiving department, are quantities omitted to require an actual count of quantities received?	______	______
3. Are merchandise, materials, and supplies inspected for condition and counted, weighed, or measured in the receiving department?	______	______
4. Are descriptions of supplies, materials, and equipment checked by the receiving department against the purchase orders?	______	______
5. Is a receiving report prepared by the person responsible for obtaining the services or coordinating the project to document that services were rendered or projects were completed?	______	______
6. Are receiving reports signed, dated, and controlled?	______	______
7. Are copies of receiving reports or other permanent record of receipts kept in the receiving department?	______	______

Accounts Payable

	YES	NO
1. Are all invoices received directly by the persons who process invoices for payment?	______	______
2. Is control over the invoices established immediately upon receipt?	______	______

	YES	NO
3. Are payments made only on the basis of original invoices and are duplicate copies of the invoices clearly marked upon receipt to prevent duplicate payment?	______	______
4. Are the invoices verified in the accounts payable department rather than in the purchasing department?	______	______
5. Does the verification of items for payment include:		
a. Check of terms, prices, and quantities on invoices against purchase orders?	______	______
b. Check of items and quantities on invoices against receiving reports obtained directly from the receiving department?	______	______
c. Check to determine that the county is not paying inapplicable federal excise tax?	______	______
d. Mathematical check of totals, extensions, and discounts?	______	______
e. Check of account distribution?	______	______
f. Check of invoices that do not involve materials or supplies (fees, rentals, travel, etc.) for approval by designated persons such as department heads?	______	______
g. A final approval for payment?	______	______
h. Indication on the invoice that the checks and approvals listed above were made?	______	______
6. Are allowable vendor discounts taken?	______	______
7. Is partial payment information clearly indicated on purchase orders to prevent duplicate payment upon completion of the order?	______	______
8. Are the goods to be returned, other claims, and the resulting credit memos controlled by the accounts payable department?	______	______
9. Are vendor credit memos resolved promptly by cash refund or taken against subsequent purchases?	______	______
10. Are the amounts to be refunded for returned goods or other claims, such as freight or damaged goods claims, recorded in a log for accounting control purposes at the time the goods are returned or the claims are first established for subsequent checking with the related credit?	______	______
11. Are unmatched records of returns and claims reviewed on a regular basis?	______	______
12. Do persons other than those who maintain credit memo records carry out the review?	______	______
13. Are unmatched purchase orders, receiving reports, and vendor invoices maintained? Are these unmatched documents periodically reviewed and investigated?	______	______

	YES	NO
14. Are monthly statements from vendors regularly reconciled to accounts payable records?	_____	_____
15. Are adjustments to recorded accounts payable properly approved?	_____	_____
16. Are debit accounts payable balances investigated?	_____	_____
17. Are encumbrances periodically agreed to open purchase orders and commitments?	_____	_____
18. Is an Advice of Encumbrance filed with the board of supervisors at year-end?	_____	_____

____ COUNTY, ARIZONA

CONFLICT-OF-INTEREST STATEMENT AND DISCLOSURE

Arizona Revised Statutes (A.R.S.) §38-503 requires that all public officers and employees of a public agency who have, or whose relatives have, a substantial interest in any decision, contract, sale, purchase, or service to that public agency to disclose that interest in the official records of that public agency and refrain from voting upon or otherwise participating in any manner as an officer or employee in such decision, contract, sale, purchase, or service.

"Substantial interest" is defined by A.R.S. §38-502 as any pecuniary or proprietary interest, either direct or indirect, other than a remote interest.

"Relative" is defined by A.R.S. §38-502 as a spouse, child, grandchild, parent, grandparent, brother, or sister of the whole or half blood and their spouses, and the parent, brother, sister, or child of a spouse.

Except as otherwise noted, I, ____________________________, hereby certify that:

1. I do not participate in any private contracts with the County to provide or receive equipment, materials, supplies, or services.

2. I do not maintain a direct or indirect financial interest such as an officer, employee, or any ownership interest, in any proprietorship, partnership, corporation, or governmental entity doing business with the County.

3. I do not have private contracts to provide materials or services to any proprietorship, partnership, or corporation that maintains a business relationship with the County.

4. I do not have any relatives who have a direct or indirect financial relationship with the County.

5. I do not have any relative employed by the County who would receive a direct economic benefit or detriment from a contract or decision or who would confer a direct economic benefit or detriment upon me.

6. I do not have any relatives employed by another public agency or political subdivision who would receive a direct benefit or detriment from a contract or decision or who would confer a direct economic benefit or detriment upon me.

Disclose any exceptions to the above statements here: (If none, please state "None".)

Name	Organization	Relationship

Date __________________________ Signed ____

____________________________ COUNTY, ARIZONA

REQUISITION

Requisition No. _________________

Requesting Department_________________ Fund Name/Number_______________________________

Date required________________________ Function ____

Deliver to___________________________ Object Code _____________________________________

Suggested Vendor ____

				For Purchasing Department Use Only Price Quotes		
Quantity	**Unit Cost**	**Description**	**Estimated Total Cost**	**Vendor 1**	**Vendor 2**	**Vendor 3**

Comments: ____

Department Approval: ___________________________ Budget Approval: ___________________________
(Requesting Department Signature) (Finance Department Signature)

Title: ____ Title: ______________________________________

Date: ____ Date: ______________________________________

FOR PURCHASING DEPARTMENT USE ONLY

Selected Vendor ____

Vendor No. _________ P.O. No. __________ P.O. Date _____________

Rejected by _____________________________ Date _________________

Reason: ____

______________________________ COUNTY, ARIZONA

PURCHASE ORDER

P.O. No. (Prenumbered) _______
Req. No. ____________________
Acct. Code __________________
P.O. Date ___________________

TO: (Vendor) **FROM:** (County Department)

TERMS: ____
EXPECTED DELIVERY DATE: _______________________________________
PLACE OF DELIVERY: ____
DO NOT BACK ORDER—Unless otherwise indicated, all prices are FOB destination.

Quantity Ordered	Description	Quantity Received	Unit	Unit Price	Amount
				$	$

TOTAL $ ________

SUMMARY BY ACCOUNT CODE

Department	Fund	Object Code	Unit	Amount
				$

TOTAL $ ________

I hereby certify under penalties of perjury that the purchase described above is for a valid public purpose and that monies have been appropriated or are otherwise available for payment of any claims against this encumbrance; and that if the available monies are from a federal grant, contract, or source, this purchase is authorized under the terms of such grant, contract, or source. Purchases by ________________ County, are exempt from federal excise taxes.

By______________________ ____________
Authorized Signature Date

Vendor (Original)
County (Copies 1, 2, and 3)*

*Copy 4 serves as the receiving report. See page VI-F-24.

_______________________________________ **COUNTY, ARIZONA**

PURCHASE ORDER

P.O. No. (Prenumbered)
Req. No. ________________
Acct. Code ________________
P.O. Date ________________

TO: (Vendor) **FROM**: (County Department)

TERMS: ____
EXPECTED DELIVERY DATE: ____________________________________
PLACE OF DELIVERY: ____________________________________
DO NOT BACK ORDER—Unless otherwise indicated, all prices are FOB destination.

Quantity Ordered	Description	Quantity Received	Unit	Unit Price	Amount
				$	$
				TOTAL	$

I certify that the items described above were received and inspected by me; that the quantities were as stated; and the condition was satisfactory except as otherwise noted:

Signed: ________________________________
Receiving Employee

Date: ______________________ (if more than one delivery, indicate dates by items above)

RECEIVING REPORT
(Copy 4)

PURCHASE ORDER DISTRIBUTION

Original	Initial distribution Purpose Final filing by	Vendor Authorization to supply N/A
Copy 1	Initial distribution Purpose Final filing by	Accounts payable department Encumber available funds and process payment Vendor name, then P.O. number within the vendor file Note: Documentation related to capital asset purchases should be filed separately. See page **VI-F-14**.
Copy 2	Initial distribution Purpose Final filing by	Purchasing department Document evidence of review and approval P.O. number
Copy 3	Initial distribution Purpose Final filing by	Requisitioning department Compare with requisition P.O. number
Copy 4	Initial distribution Purpose Final filing by	Receiving department Serves as a receiving report, which is submitted to the accounts payable department after goods are received and the report is completed Vendor name, then P.O. number within the vendor file

CONTENTS

INTRODUCTION

Counties use a significant percentage of their resources to pay salaries, wages, and related expenses. Consequently, payroll processing is an extremely important function that requires strong internal controls.

Internal controls and procedures should be tailored to each county's specific needs. Controls and procedures recommended in this section are provided as examples of sound financial and administrative practices. Other procedures may be used if they provide the same level of control.

LEGAL REQUIREMENTS

The legal requirements governing county personnel policies and the payroll process are primarily derived from the United States (U.S.) Department of the Treasury, Internal Revenue Service (IRS), *Circular E, Employer's Tax Guide*; Arizona Revised Statutes (A.R.S.); and the *Arizona Administrative Code* (AAC) published by the Arizona Secretary of State. Counties should refer to these sources for additional information.

1. The board of supervisors should establish salary and wage schedules for employees, and the schedules should comply with the requirements of the federal *Fair Labor Standards Act*. For county officers, salary and wage schedules must also conform to the salary schedules established by law. Neither officers nor employees may receive salaries, wages, or other compensation in excess of amounts authorized by statute. Arizona Constitution, Article 22, §17 and A.R.S. §§11-419 and 38-601

2. The board of supervisors may provide fringe benefits for county employees, including sick leave, personal leave, vacation, holiday, and jury duty pay. A.R.S. §11-251

3. Counties may provide merit awards for employees in accordance with restrictions described in A.R.S. §38-614. Merit award payments must be made from the Special Merit Award Fund, and an award may not exceed $2,500.

4. Counties may provide employee safety recognition awards for the safe operation of county government. A safety award may not exceed $250. A.R.S. §38-617

5. Counties may provide severance pay for appointed county officers by ordinance or by contract with an individual officer. A.R.S. §11-251.11

6. Federal law requires counties to compensate certain employees for overtime at either one and one-half times their regular pay rate or one and one-half hours of compensatory leave for each hour worked. At the board's discretion, it may compensate other employees for overtime worked by either paying them at their regular rate or awarding compensatory leave on an hour-for-hour basis. A.R.S. §23-391

7. County employees working 40 or more hours per week who do not receive either compensation or commensurate time off for legal holidays worked must receive, for each such holiday worked, one day additional vacation leave or one day additional compensation. A.R.S. §38-608

8. County officers and employees may be granted a leave of absence without loss of time, pay, or efficiency rating on all days he or she is attending training, camps, maneuvers, formations, or drills

under orders with any branch, reserve, or auxiliary of the armed forces of the U.S. The leave may not exceed 30 days in any 2 consecutive years. A.R.S. §38-610

9. Counties must designate 2 or more days each month, not more than 16 days apart, for paying salaries and wages. On each regular payday, the county must pay terminating employees all wages due up to that date. The county may establish a delayed payroll system and withhold up to 5 days of regular pay for continuing employees. Overtime or exception pay must be paid no later than 16 days after the end of the most recent pay period. A.R.S. §23-351

10. Counties may pay officers and employees retiring with at least 1,000 hours of accumulated sick leave an amount equal to 50 percent of their hourly pay rate for each hour of accumulated sick leave not to exceed 1,500 hours. However, an employee may not be paid more than $30,000. Lesser payouts are allowable for 500 to 1,000 accrued hours. This benefit must be paid in installments over a 3-year period. Only employees who apply immediately upon separation from county employment are eligible to be paid for their accumulated sick leave under this statute. A.R.S. §38-615 and A.G. Opinion I99-023

11. The board of supervisors may provide insurance coverage for county elected officials, employees, and dependents. The county may elect to pay all or any portion of the premiums for the health, life, accident, and disability insurance. However, the county may not pay for life insurance coverage in excess of $50,000 or the elected official's or employee's annual salary, whichever is more. A.R.S. §11-263

12. Counties may provide employees with tax-deferred annuity and deferred compensation plans, as well as health care and dependent care flexible spending account plans. Additionally, counties may provide plans for county employees that allow for participation in a cafeteria plan that meets the requirements of the U.S. Internal Revenue Code of 1986. A.R.S. §11-251

13. The board of supervisors may establish group health and accident coverage for retired county employees who are receiving income from a retirement program of this State, and for their dependents. Agreements for these coverages may group current and former employees, and their dependents, to obtain favorable group rates. The county may expend public monies to pay all or part of the premium for these benefits. A.R.S. §11-263

14. Counties must withhold federal income tax from employee salaries and wages in accordance with the Internal Revenue Code using a federal W-4 Form *Employee Withholding Allowance Certificate*. The amount withheld should be a percentage of the employee's gross salary less contributions to an approved retirement system, and amounts contributed to any deferred compensation plan, federal tax-sheltered annuity plan, or other program with federally approved pre-tax status. Federal income tax must also be withheld from amounts paid to employees as supplemental wages. IRS *Circular E*

15. Counties must withhold state income tax in an amount authorized by the employee using Arizona Form A-4 *Employee's Arizona Withholding Percentage Election*. Any employee who fails to complete an election form shall be deemed to have elected the withholding percentage authorized by the Arizona Department of Revenue. A.R.S. §43-401

16. Counties must withhold social security and Medicare taxes from employee salaries and wages in accordance with the *Circular E, Employer's Tax Guide*, published annually by the IRS. Counties must also contribute an amount equal to employee withholdings. Counties must submit employee and county social security and Medicare taxes, and employee withholdings for federal income tax, using the electronic federal tax payment system or by mailing or delivering payment to a financial institution that is an authorized depositary for federal taxes. IRS *Circular E* and *Employer's Quarterly Federal Tax Return* (Form 941)

17. Employee withholdings for state income tax must be remitted to the Arizona Department of Revenue as prescribed by A.R.S. §43-401. (See **§II, Calendar of Events**, for required remittance dates.)

18. Counties must withhold amounts from employees' gross salaries and wages for contributions to retirement systems. Counties must also contribute to the retirement systems as specified by statute. A.R.S. §§38-735, 38-736, 38-737, 38-810, 38-843, and 38-891

19. At the end of each calendar year, counties must prepare an IRS Form W-2, Wage and Tax Statement, for each employee. Form W-2 reports employee gross earnings, including fringe benefits, and federal, state, social security, and Medicare withholdings for the calendar year. Three copies of the Form W-2 must be sent to each employee by January 31 of the following year. IRS *Circular E*

20. By the last day of February, counties must file Form W-3, Transmittal of Wage and Tax Statements, and copies of the Form W-2 with the Social Security Administration. On or before February 28, a tax return Form A-1R and copies of the Form W-2 must be filed with the Arizona Department of Revenue. IRS *Circular E* and A.R.S. §43-412

21. Counties must contribute to the State Unemployment Compensation Fund. Counties may contribute to the Fund based on a percentage of total salaries and wages. Alternatively, counties may contribute an amount equal to the actual benefits the Fund paid to former county employees during the previous quarter. Unemployment contributions may not be deducted from employees' salaries or wages. The county should submit contributions to the Arizona Department of Economic Security on or before the last day of the month following the close of each calendar quarter (April 30, July 31, October 31, and January 31). A.R.S. §§23-726, 23-728, 23-750, and AAC R6-3-1704

22. Counties must ensure that workers' compensation will be paid to their employees, if necessary. Counties must provide for compensation by insuring the payment of such compensation with the State Compensation Fund or an authorized insurance carrier, or by furnishing proof to the Industrial Commission that the county is able to pay compensation directly. If the county insures its workers' compensation liability with the State Compensation Fund, it must furnish documentation of a payroll each quarter to the Fund showing the amount paid to employees during each month of the quarter. A.R.S. §§23-902, 23-961, and 23-962

23. The Arizona State Retirement System (ASRS) includes all county officers and employees who are covered by federal social security and Medicare and all elected officials who are subject to term limits and who choose not to participate in the Elected Officials Retirement Plan, pursuant to A.R.S. §§38-711 and 38-727. The ASRS may also return inactive members to active status when a member terminates employment without terminating membership in ASRS and later is reemployed by the same or another employer, in accordance with A.R.S. §38-741. County contributions and employee

withholdings must be submitted to the ASRS within 14 days after the end of the payroll period. A.R.S. §38-735 and AAC R2-8-122

24. A county employee who is a member of the ASRS may purchase credited service as described in A.R.S. §§38-742 through 38-745 and 38-922. Credited service is earned in accordance with the requirements of A.R.S. §38-739. The member may pay ASRS directly or elect to have the county make the payments through a salary reduction program as prescribed by A.R.S. §38-747(B).

25. Counties must notify the ASRS of any plans to implement a retirement incentive program that may affect ASRS funding. If the incentive program results in an actuarial unfunded liability to the ASRS, the county must pay the ASRS the amount of the unfunded liability. A.R.S. 38-749

26. The Elected Officials Retirement Plan includes all county elected officials. County contributions and employee withholdings must be deposited into the plan's fund within 10 working days after the end of the payroll period. A.R.S. §§38-804 and 38-810

27. The Public Safety Personnel Retirement System includes county sheriffs, deputies, county attorney investigators, and county park rangers who are certified peace officers and who meet the requirements of A.R.S. §38-842. County contributions and employee withholdings must be deposited into the system's fund within 10 working days after the end of the payroll period. A.R.S. §38-843

28. The Correctional Officers Retirement Plan includes county detention officers and nonuniformed employees of a sheriff's department whose primary duties require direct contact with inmates. However, the county must elect to have its employees covered under the plan, pursuant to A.R.S. §38-902. The county must submit county contributions and employee withholdings to the retirement plan within 5 working days after the end of the payroll period. A.R.S. §38-891

29. The board of supervisors may adopt a supplemental retirement plan for county employees and officers who are included within agreements entered into between the board and a state agency that provides for extending federal old age and survivors' insurance benefits to the officers and employees. The plan must specify the start date, which is the first day of the month following board approval. County contributions and employee withholdings must be submitted to the ASRS in accordance with that date. A.R.S. §38-729

30. Counties must verify that all employees hired after November 6, 1986, are eligible for employment in the U.S. by completing an Employment Eligibility Verification (Form I-9) provided by the U.S. Department of Homeland Security, U.S. Citizenship and Immigration Services. In cases in which the employment eligibility documents have an expiration date, counties are responsible for reverifying employees' eligibility. Completed forms must be retained for 3 years after the date of hire or 1 year after termination, whichever is later. Form I-9 Instructions

31. Counties must not intentionally or knowingly employ an unauthorized alien. As of January 1, 2008, counties, after hiring an employee, must verify the employment eligibility of the employee through the Basic Pilot Program. The Basic Pilot Program is the Basic Employment Verification Program jointly administered by the U.S. Department of Homeland Security and the Social Security Administration or its successor program. A.R.S. §§23-211, 23-212, and 23-214

32. County officers and employees must sign a loyalty oath in the form prescribed by A.R.S. §38-231.

33. If a county has unencrypted computerized data that includes personal information and becomes aware of unauthorized acquisition and access to its unencrypted or unredacted computerized data that includes an individual's personal information, it must conduct an investigation to promptly determine if there has been a breach of the security system. If the investigation determines that there has been a breech, the county must notify the individuals affected. The notice must be made in the most expedient manner possible and without unreasonable delay. A.R.S. §44-7501

34. A county must not knowingly discard or dispose of records or documents without redacting the information or destroying the records or documents, if they contain an individual's first and last name or first initial and last name in combination with a corresponding complete social security number; credit card, charge card, or debit card number; retirement account number; savings, checking, or securities entitlement account number; or driver license or nonoperating identification license number. This only applies to paper records and paper documents. A.R.S. §44-7601

PROCEDURES

Counties should establish separate personnel and payroll departments, with responsibilities separated between these departments and among employees within each department. As an additional control, counties may wish to train several employees to perform each procedure and periodically rotate responsibilities within each department to help ensure that one employee does not have sole knowledge of a particular responsibility. The chart on page **VI-G-13** illustrates proper separation of responsibilities for the personnel and payroll departments.

Personnel and payroll policies should be approved by the board of supervisors and distributed to all employees.

Personnel Department

The personnel department should establish written policies and procedures for personnel administration, including recruiting and hiring employees. Personnel policies should prescribe accrual rates for vacation and sick leave at specified years of service, including the maximum amount that may be accrued at a specified date and the disposition of accrued leave upon termination. Counties should require all leave taken, other than for emergencies or illness, to be approved in advance by authorized employees. Employee leave time and accrual rates should be verified periodically to ensure that employees accrue leave time at the proper rate. Personnel policies may also provide for other employee benefits, such as health and life insurance.

The personnel department should maintain centralized employee personnel files for each employee to provide adequate support for payroll expenditures. Records maintained by the personnel department are generally of a long-term nature and do not change with each pay period. Only authorized personnel department employees should be allowed access to employee personnel files as well as the electronic employee master files to add or delete employees or change pay rates. After pay or position change documents have been approved by a supervisor, the personnel department should enter the applicable information into the employee master file. A second employee should review the entries to ensure accurate information was input into the computer system. Also, each pay period, the personnel department should forward copies of pay or position change documents and withholding and voluntary deduction authorization forms to the payroll department. Copies of the forms should be retained in the personnel department and filed in the personnel files.

After payroll warrants have been distributed, the personnel department should obtain and investigate unclaimed or returned warrants.

Employee personnel files should include the following documents.

Employment Eligibility Verification and Loyalty Oath—See **Legal Requirements Nos. 30 through 32**.

Employment Contracts—Employment contracts, whether legal or informational, document terms such as position, salary, benefits, and length of employment.

Retirement System Applications—A retirement system application should be prepared by each individual upon employment. Upon termination, an employee who has participated in the system may choose either to leave the contributions in the retirement system or apply to have the contributions returned.

If an employee chooses to have the contributions returned, an application for the return of contributions should be prepared. Counties should submit the application to the appropriate retirement system board and retain a copy in the employee's personnel file. After the county submits the application, the retirement system board becomes responsible for paying the individual, and the county has no further obligation.

Withholding Allowance Certificates—Employees are required to prepare federal and state withholding allowance certificates, Forms W-4 and A-4, upon employment. Such forms are effective with the first salary or wage payment. If an employee has not submitted a completed Form W-4 before the end of the first payroll period, counties should withhold federal income tax at the single rate with no withholding allowances. If a completed Form A-4 has not been submitted, counties should withhold state income tax at the withholding percentage authorized by the Arizona Department of Revenue. Such withholding procedures should remain in effect until the employee submits completed W-4 and A-4 forms.

Voluntary Deduction Authorizations—Upon an employee's request, counties may withhold amounts for items such as credit union deposits or insurance premium payments. Employees should prepare a voluntary deduction authorization form to support each voluntary deduction from the employee's earnings. The authorization form should include the date, employee name, social security number, signature, and the description and amount of the deduction. The voluntary deduction authorization form should remain in effect until the employee submits a new one or requests in writing that the deduction be canceled. Counties should remit voluntary deductions to the appropriate entities under the terms of the agreements with such entities.

Direct Deposit Authorizations—Counties should retain a direct deposit authorization form, updated for any changes, in the employee's personnel file to document an employee's authorization for the payroll department to process direct deposits of wages to the employee's bank account. The direct deposit authorization form should be accompanied by a voided check, deposit slip, or other financial institution documents that provide the bank, branch, routing, and account information.

Pay or Position Change Documents—Pay or position changes should be documented and approved by an authorized individual such as a county department head. Terminations of employee service should also be documented.

Payroll Department

The payroll department is responsible for the accurate and timely processing and payment of employee salaries and wages. To help ensure accurate payment, counties should establish a delayed payroll system. This type of system allows time for payroll adjustments to be made before payment. The maximum payroll lag time allowed by A.R.S. §23-351 is 5 working days. Counties should establish written procedures for processing payroll and should separate responsibilities of preparing and authorizing payroll and distributing warrants among employees. Additionally, controls should be established for payroll adjustments, remittance of payroll taxes and withholdings, and accrual of payroll expenditures at fiscal year-end. For additional policies and procedures regarding input, processing, and output controls over the county's computerized payroll system, see **§VII, Information Technology**.

Records the payroll department maintains change frequently and should be updated each pay period. These records include time summaries and leave summaries.

Time Summaries—Counties should require hourly employees to prepare time summaries each pay period. Time summaries should be signed by the employees, approved by a supervisor, and retained to support payroll expenditures. These procedures may be performed electronically. Time summaries should document regular and overtime hours worked, vacation and sick leave taken, leave without pay, holidays, and compensatory time taken or earned during the pay period. If the county does not need the information for management purposes, it may allow contracted or salaried employees to submit time sheets on an exception basis. In that case, employees would submit time sheets only when they worked more or less than their contracted hours such as when they worked overtime, took vacation time, or did not work because of a holiday.

Leave Summaries—An employee's leave rate may be programmed into the county's payroll system based on data such as starting date and job title. Counties should use a vacation, sick leave, and compensatory leave summary or ledger to record and monitor the vacation, sick leave, and compensatory time earned and used by each employee. The payroll department should ensure that these records are updated from employee time summaries at the end of each pay period. Compensatory time earned should be approved in advance and closely monitored by a supervisor.

Payroll records should also include documentation of the following procedures.

Authorization to Prepare Payroll—Each pay period, county departments should forward properly approved time summaries to the payroll department. The payroll department should verify that all time summaries have been submitted and that no unapproved or duplicate time summaries have been received.

Leave taken, as recorded on a time summary, should be compared to current balances recorded on vacation, compensatory time, and sick leave summaries to ensure that accrued leave time is available. If accrued leave time is not available, the payroll department should return the time summary to the employee for correction. Paying an employee for leave taken but not earned is a gift of public monies and is prohibited by Article 9, §7 of the Arizona Constitution. Updating leave summaries may be performed automatically by the county's computer system, and the system should be programmed to ensure that employees do not take vacation or sick leave in excess of their accrued leave balances. Exception reports should be generated to identify employees who take vacation or sick hours in excess of their accrued balances. Reports that show employee leave balances may be generated each pay period and distributed to department heads to help them determine that employees have adequate leave balances before leave requests are approved.

Payroll Register Preparation—The payroll department should prepare a payroll register from the time summaries, pay or position change documents, and withholding and voluntary deduction authorization forms. Only authorized payroll department employees should have access to the system for payroll input.

The payroll register should include the following information for each employee:

- Name
- Employee identification and social security number
- Fund, function, department, and object code from which the employee will be paid
- Wage or salary rate (regular and overtime)
- Hours worked (regular and overtime)
- Gross pay
- Withholdings
- Authorized voluntary deduction amounts
- Net pay
- Year-to-date earnings and tax withholdings

The payroll register should also provide total payroll amounts for the pay period and the year-to-date.

On a test basis, an employee whose responsibilities are independent of payroll preparation should compare individual pay rates recorded on the register with pay or position change documents. Withholdings and voluntary deductions should also be verified to authorization forms.

The payroll department should perform reasonableness tests to identify unusual occurrences such as excessive hours worked, higher than expected salary or wage rates, or deductions that exceed a reasonable percentage of gross pay. The payroll department should also compare the current payroll to the previous payroll and investigate significant fluctuations. An exception report should be generated and discrepancies should be investigated. The payroll supervisor should review and initial the report. Distribution of payroll charges should also be checked and aggregate amounts compared to budgeted amounts. Documentation of these tests should be maintained, even if the county’s computer system is used to perform these tests. The payroll department should make all changes necessary after it has performed these tests, and a payroll supervisor should approve these changes.

Upon completion of the payroll, the payroll department should file the time summaries, pay or position change documents, and withholding and voluntary deduction authorization forms.

The completed payroll register should be reviewed and approved by a payroll supervisor.

Warrant Preparation—Payroll warrants and a warrant register should be prepared from the payroll register by an employee who is not responsible for completing the payroll register or signing or distributing warrants.

Payroll warrants should be prenumbered and issued sequentially by a custodian whose responsibilities do not include payroll preparation and signing warrants. The custodian should store unused warrants in a safe or locked drawer and should issue only the number of warrants necessary for payroll preparation.

If a warrant-signing machine and signature plate are used to sign the warrants, the county should restrict access to authorized personnel. Further, the employee controlling the signature plate should not approve hours worked; prepare the payroll register; or maintain, prepare, and distribute warrants.

A payroll supervisor should review and approve the completed warrants and warrant register. Payroll warrants should be printed with a maximum dollar limit and a time limit for cashing. The county should prohibit signing blank warrants and warrants drawn payable to cash or bearer. All voided warrants should be mutilated and retained in a numerical file.

On a test basis, the payroll department should compare the warrant register to the payroll register and reconcile the total of the signed payroll warrants with the total net pay on the payroll register.

Direct Deposit Preparation—Direct deposit notices should be prepared from the payroll register by an employee who is not responsible for completing the payroll register or signing or distributing warrants.

When direct deposit data is transmitted to the servicing bank for processing, the transmission should be confirmed. The number of employees and the amount paid should be verified. If any transactions are rejected, they should be investigated and resolved.

Direct Deposit Notice/Warrant Distribution—Direct deposit notices and payroll warrants should be received and distributed by authorized employees not responsible for preparing the payroll or signing the warrants. A log should be maintained of signatures of employees who are authorized to receive and distribute direct deposit notices or payroll warrants to county employees. The payroll department should account for unclaimed direct deposit notices or payroll warrants and forward them to the personnel department. (See **§VI-C, Cash**, for further information on unclaimed warrants.)

Upon distribution of the direct deposit notices and payroll warrants, the payroll register, warrant register, and other documentation should be filed by payroll period.

Payroll Adjustments—Adjustments to payroll may include corrections to gross or net pay, reimbursement for erroneous deductions, and termination payments. The payroll department should assign an employee independent of payroll preparation to investigate requests for adjustments and initiate the adjustment process. The county should develop a standard adjustment form to document the nature of and reason for each adjustment. This form should be signed by the requesting employee, the employee investigating the request, and the supervisor authorizing the adjustment. A list of all authorized adjustments should be prepared and reviewed by a payroll supervisor before processing. After the payroll adjustments are made, supporting documentation should be filed with the related payroll register.

Remittance of Taxes and Withholdings—Counties must remit all federal and state income tax, social security, Medicare, and retirement plan withholdings; related county contributions; and state unemployment compensation fund payments in accordance with guidelines established by the appropriate agencies. Additionally, the county should remit amounts withheld as voluntary deductions along with any county contributions to the appropriate agencies under the terms of agreements with such agencies.

Accrual Procedures at Fiscal Year-End—Counties should establish procedures to ensure that payroll expenditures are reported in the fiscal year in which the employees' services are rendered. The payroll cycle generally does not coincide with the last day of a fiscal year; therefore, adjusting journal entries should be made at the end of the fiscal year to accrue expenditures for payroll and employee benefits.

Accrual entries should be reversed at the beginning of the next fiscal year. The reversal establishes a credit balance in the payroll expenditure accounts for the amount of the payroll and employee benefits recognized in the previous fiscal year. When the first payroll is paid in the following fiscal year, the usual entries should be made. As a result, the payroll and employee benefits expenditure accounts are left with net debit balances that represent actual payroll expenditures related to the first payroll of the current fiscal year.

COMPLIANCE CHECKLIST

This compliance checklist was developed to assist the county in establishing and maintaining adequate controls over payroll, and may be used to evaluate compliance with UAMAC requirements. Questions are phrased in such a way that "Yes" answers indicate satisfactory conditions, while "No" answers indicate possible weaknesses that should be corrected.

	YES	NO
1. Is the personnel department separate from the payroll department? Are responsibilities adequately separated between these departments?	_______	_______
2. Has the county established written personnel and payroll policies? Have these policies been distributed to employees?	_______	_______
3. Has the county established a delayed payroll system?	_______	_______
4. Has the county developed, approved, and implemented salary and wage schedules?	_______	_______
5. Are complete personnel records maintained? Are authorizations on file for rates of pay, withholdings, and deductions?	_______	_______
6. Are written authorizations required for names added to or deleted from the payroll records, and individual wage or salary rate changes?	_______	_______
7. Do personnel policies prescribe accrual rates for vacation and sick leave and the disposition of accrued leave upon termination?	_______	_______
8. Is the use of leave other than emergency or sick leave and accrual of compensatory and overtime approved in advance?	_______	_______
9. Does an employee independent of payroll preparation compare pay rates on the payroll register with pay or position change documents?	_______	_______
10. Are the responsibilities of payroll preparation, authorization, and warrant distribution (including distribution of direct deposit advice) separated?	_______	_______
11. Are individual employee time summaries for hourly employees and other appropriate employees:		
a. Prepared and signed by each employee each pay period?	_______	_______
b. Sufficiently detailed to show time charged to assignments and leave time used?	_______	_______
c. Reviewed and signed by each employee's supervisor?	_______	_______
12. Are vacation, sick leave, and overtime records checked to avoid overdrawn balances?	_______	_______
13. Is the distribution of payroll charges checked and are aggregate amounts compared to budgeted amounts?	_______	_______
14. Is the current payroll compared to the previous payroll for reasonableness?	_______	_______

	YES	NO
15. Are exception reports used to highlight items in excess of stated limits?		
16. Are all salaries and wages paid by warrant or direct deposit?		
17. Are the employees who manually or electronically sign the warrants, or control the use of the facsimile signature plates, independent of employees approving hours worked, preparing the payroll, and operating the facsimile signature machine?		
18. Does the payroll department compare the warrant register to the payroll register and reconcile the total of the signed warrants and direct deposits with the total net pay on the payroll register on a test basis?		
19. Are all unclaimed warrants and direct deposit notices accounted for and secured?		
20. Have accrual procedures been established to ensure that payroll expenditures are recorded in the appropriate reporting period?		

SEPARATION OF RESPONSIBILITIES FOR PERSONNEL AND PAYROLL FUNCTIONS

COUNTY DEPARTMENTS	PERSONNEL DEPARTMENT	PAYROLL DEPARTMENT			
(Supervisors)		Payroll Preparation (Payroll Clerk I)	Payroll Register and Direct Deposit/ Warrant Approval (Payroll Supervisor)	Direct Deposit/ Warrant Preparation (Payroll Clerk II)	Direct Deposit/ Warrant Distribution (Payroll Clerk III)
1. Approve employees' time summaries and submit to payroll department. 2. Initiate and authorize payroll changes, such as promotions and new employees, and communicate the changes to personnel department.	1. Recruit employees in cooperation with county departments needing personnel. 2. Receive payroll changes and new hire documents from county departments. 3. Maintain personnel files. 4. Submit properly authorized pay or position change documents, and withholding and voluntary deduction authorization forms to payroll department. 5. Receive unclaimed payroll warrants and direct deposit notices from payroll department and investigate.	1. Receive time summaries from county departments. Verify that all time summaries have been submitted and that no unapproved or duplicate time summaries have been received. 2. Verify that used vacation, sick leave, and compensatory time recorded on time summaries was properly approved and available. 3. Receive pay or position change documents, and withholding and voluntary deduction authorization forms from personnel department. 4. Prepare payroll register using supporting documents outlined in steps 1 and 3 above. 5. From payroll register, prepare exception report of unusual occurrences, such as excessive hours worked, or higher than expected pay, and investigate. 6. Verify that gross payroll does not exceed budgeted amounts and that distribution of payroll charges is accurate. 7. Submit payroll register and supporting documents to payroll supervisor.	1. Secure a signature plate or electronic signature. 2. Receive payroll register and supporting documents from payroll clerk I. Review and approve payroll register. 3. On a test basis, compare individual pay rates with pay or position change documents, and verify withholdings and voluntary deductions to authorization forms. 4. Submit approved payroll register and supporting documents to payroll clerk II. 5. Receive warrants, warrant register, and direct deposit notices from payroll clerk II. Review and approve them. 6. Operate warrant-signing machine or electronically sign warrants. 7. Approve and submit direct deposit transmission files. 8. Submit signed warrants, warrant register, and direct deposit notices to payroll clerk III. 9. Receive payroll adjustment requests from payroll clerk III. Review and approve them. Return payroll adjustment requests to payroll clerk III.	1. Receive unused warrants from payroll clerk III. 2. Receive approved payroll register and supporting documents from payroll supervisor. Prepare warrants and warrant register. Prepare direct deposit notices. 3. Compare information from warrant register to payroll register on a test basis. 4. Reconcile the total of payroll warrants and direct deposits to total net pay on payroll register. 5. Submit warrants, warrant register, and direct deposit notices to payroll supervisor for approval. 6. File payroll register and supporting documents. 7. Receive warrant register from payroll clerk III and file with other payroll documents. 8. Receive payroll adjustment requests from payroll clerk III and file with other payroll documents.	1. Maintain custody of unused payroll warrants in a safe or locked room. 2. Issue the number of unused warrants necessary for the pay period to payroll clerk II. 3. Receive signed warrants, direct deposit notices, and warrant register from payroll supervisor. 4. Distribute payroll warrants and direct deposit notices to employees. 5. Return unclaimed payroll warrants and direct deposit notices to the personnel department. 6. Return warrant register to payroll clerk II. 7. Investigate payroll adjustment requests. 8. Submit payroll adjustment requests to payroll supervisor for approval. 9. Process payroll adjustment requests and submit to payroll clerk II.

CONTENTS

INTRODUCTION

Counties should establish and provide to employees written policies and procedures for travel and reimbursement of authorized travel expenses. The U.S. Department of the Treasury, Internal Revenue Service (IRS), rules and regulations state that an employee is "traveling away from home" if the employee's duties require him to be away from the general area of his tax home substantially longer than an ordinary day, and the employee needs to "sleep or rest" to meet the demands of his work while away from home. Generally, your tax home is your regular place of business or duty post; it includes the entire city or general area where the duty post is located. Travel expenses may be incurred whenever county officers or employees must conduct county business away from their designated duty post, i.e., where the officer or employee spends the largest portion of regular working time, or the place where the employee returns upon completion of a special assignment. A duty post may also be a geographical area, such as a patrol area or beat, or where the same routes are traveled frequently on one-day trips.

Internal controls and procedures should be tailored to each county's specific needs. The controls and procedures recommended in this section are provided as examples of sound financial and administrative practices. Other controls may be used if they provide the same level of control.

LEGAL REQUIREMENTS

1. Officers and employees driving private automobiles on county business must have adequate liability insurance. A.R.S. §28-4135

2. Members of the board of supervisors must follow the county travel policy. The board must establish a duty post or station for each board member at an appropriate location in the county. This is limited to the place where the board member spends the largest portion of the regular workday or working time. A.R.S. §11-215

3. The board of supervisors may establish and enforce rules for the reimbursement of travel and subsistence expenses of members of a county board, commission, or advisory committee, authorized by federal or state law, or county ordinance, when acting in the performance of their duties and the members serve without compensation. A.R.S. §11-251(49)

PROCEDURES

Travel Purpose

Travel is generally warranted when personal contact is the most economical method of conducting official county business. The purpose of the travel must be for the public's benefit and be related to the county department's primary business activities. All authorized travelers, when representing the county in travel status, may claim allowances and expenses as provided by law and county policy. Authorized travel expenses may include costs for transportation, lodging, meals, and other incidentals directly related to travel. Counties should designate an appropriate person in each department to authorize travel in advance. When official duties or activities require traveling out-of-state, the travel order should be counter-signed by the board of supervisors or the board's delegated representative.

To maximize the county resources allocated to travel activities, all travel plans should represent a combination of the most economical and safe travel, lodging, and cost of employee time. Counties should maximize the use of reduced fares when possible.

Travel Requests

Counties should require officers and employees to prepare travel requests before leaving on assignments. (See page **VI-H-7** for a sample Travel Request.) Travel requests should include the requestor's name; date of request; dates, purpose, and means of travel; and estimated travel costs including transportation, meals and incidentals, and lodging. If vehicles will be used, the travel requests should also certify that the employee holds a valid driver's license. Additionally, counties should require travelers using private vehicles for county business to certify that the vehicles are adequately insured.

A department supervisor or other designated individual should review travel requests to verify that officers and employees are conducting official county business away from their designated duty posts. Travel requests should then be signed and dated, to document approval, and forwarded to the finance department.

The finance department should verify that sufficient monies are available for the travel costs and encumber an amount equal to the estimated travel allowance. The finance department should sign and date the travel request to document review, retain a copy, and forward a copy to the employee.

Travel Advances

Counties may advance to officers and employees all or part of their estimated travel costs. Travel advances may be made through the finance department or from a revolving fund. To obtain a travel advance, officers and employees should prepare a travel advance request that includes the officer's or employee's name; amount of advance requested; and type, purpose, dates, and destination of travel. (See page **VI-H-8** for a sample Travel Advance Request.) A department supervisor or other designated individual should review the travel advance request, and sign and date it, to document approval. The approved travel advance request should then be forwarded to the finance department for payment.

All advances should be considered a lien against wages. The county should require officers and employees receiving travel advances to sign statements indicating they understand that travel advances not reimbursed in a timely manner may be deducted from their salaries, wages, or travel expense reimbursements. (See pages **VI-H-8** and **VI-H-9** for sample statements.)

The finance department should maintain a travel advance ledger containing the officer's or employee's name, purpose of travel, and departure and return dates. Upon receipt of an approved travel advance request, the amount of the travel advance should be recorded in the ledger. Prior to the final payment to any terminating employee, the county should verify that all travel advances have been repaid to the county.

County Warrants—When travel advances are paid by a county warrant, normal warrant processing procedures should be followed. (See **§VI-C, Cash**, for a detailed discussion of warrant processing.)

Revolving Fund—If travel advances are paid from a revolving fund, the finance department should issue a check from the revolving fund payable to the employee. (See **§VI-C, Cash**, for a detailed discussion on establishing and maintaining revolving funds.)

Advance Payments to Outside Vendors—Advance payments to vendors may be made to prepay registration fees and airfare. When prepayment is required, normal payment procedures should be followed and documentation should include a copy of the travel authorization, expense form, conference registration form, airline invoice, or any other related paperwork.

Payments by County Credit Cards—Payments to vendors for travel expenses may also be made using a county credit card. When payment is made by credit card, normal payment procedures should be followed and documentation should include a copy of the travel authorization, expense form, conference registration form, airline invoice, receipts, or any other related paperwork.

Travel Claims

County officers and employees should prepare a travel claim for reimbursement of authorized travel expenses. (See page **VI-H-9** for a sample Employee Travel Claim.) The travel claim should include the officer's or employee's name, address, license plate number, duty post, purpose and dates of travel, places and times of departure and arrival, and amount to be reimbursed for transportation, meals and incidentals, lodging, and other related expenses, as applicable. Reimbursement for travel expenses between an employee's residence and designated duty post should not be allowed unless the employee is required to report to the duty post outside of normal working hours.

The county should require that documentation to support travel expenses, such as original receipts for lodging or car rental, be attached to the travel claim. A department supervisor or other designated individual should review the claim for mathematical accuracy, review expenditures for propriety, sign and date the travel claim to document approval, and submit it to the finance department.

Transportation—Counties should reimburse necessary transportation costs for common carrier fares, private vehicle or aircraft mileage, taxi or bus fares, vehicle and aircraft rentals, and necessary parking fees. Counties should require receipts for reimbursement of transportation by common carrier, rental car, train, or airplane. However, receipts for local public transportation, including taxis and buses, need not be required. Travel should be limited to the most cost-efficient method available giving consideration to safety and other concerns. To determine the most cost-efficient method of transportation, the county should consider direct cost as well as the traveler's time.

County vehicles should be used whenever possible. The county is responsible for the costs of county vehicles, including fuel, parking, and emergency repairs. If private vehicles are used on county business, officers and employees should be reimbursed for actual mileage at an established rate. However, if an employee receives a vehicle allowance for the use of a personal vehicle, they may not be eligible to receive mileage reimbursement based on the terms and conditions documented for the vehicle allowance and county policy.

Counties should periodically review and revise mileage rates as necessary. If travel begins or ends at the individual's residence, mileage should be calculated for the most direct route to the destination less the commute mileage from the designated duty post. Officers and employees should maintain a travel log to support travel claims for mileage in noncounty vehicles. If a travel log is used, the travel claim should include summary mileage information and a statement indicating that a copy of the log is available upon request. If a log is not used, the claim should list the place of departure, initial mileage, addresses of locations visited, and final destination and mileage. When two or more employees are traveling together for authorized purposes in the same vehicle, only one mileage allowance should be reimbursed.

Counties should require officers and employees driving vehicles on county business to hold valid drivers' licenses, and should periodically review their driving records. Officers and employees with unsafe driving records should be suspended from driving on county business.

If airlines are used, the county should reimburse officers and employees for the lowest commercial airfare available. If the lowest fare seat is not available, the decision to pay a higher fare must take into consideration the best interest of the county. Generally, benefits from any airline promotion, such as free tickets for frequent fliers, should be remitted to the county.

Meals and Incidentals—Counties should establish maximum per diem amounts for reimbursement of meals and incidental expenses and periodically review and revise them, if necessary. When establishing per diem rates for meals and incidental expenses, counties may establish multiple rates because costs may vary by geographic destination and time of year. The county should determine reimbursement amounts for breakfast, lunch, and dinner, and the specific times of day the traveler must be in travel status to be reimbursed for each. Meals provided at no additional cost to the traveler, such as meals included in air travel, lodging, or conference registration fees, should not be reimbursed. Incidental expenses may include but are not limited to tips and laundry. Expenses related to business communications (i.e., telephone charges, fax charges, copying expenses) may be reimbursable if documented by a receipt.

Reimbursements for meals at conferences may be made when the charge for the meal is not included in the conference fees and the meal features a speaker, formal panel discussion, or other activity integral to the purpose of the conference. In order to be reimbursed for such expenditures, the traveler should submit the travel claim with proof of the expenditure for the amount claimed and a copy of the conference brochure or agenda showing the nature of the activity that was presented or conducted during the meal and the amount charged. This does not include expenditures for recreational or social activities that may be offered in connection with, but not integral to, the conference.

The IRS requires employees to be "traveling away from home" in order to exclude reimbursements for meals from their income. If an employee is not traveling overnight or long enough to require substantial "sleep or rest," then meal reimbursements must be reported as a taxable employee benefit. For travel with an overnight stay, meal reimbursements for the day of and the day after the actual overnight stay should be excluded from income.

Lodging—Counties should establish maximum reimbursement amounts for lodging expenses and periodically review and revise them, if necessary. When establishing lodging rates, counties may establish multiple rates because costs may vary by geographic destination and time of year. Officers and employees should be reimbursed for the actual cost of lodging up to the maximum. Lodging should be at a commercial establishment and the traveler should request the lowest available rate, such as a government, corporate, or conference rate. When required to stay at a conference-designated hotel, reimbursement should be for the least expensive conference lodging cost plus tax, provided the brochure from the conference indicating the lodging rates accompanies the lodging receipt.

Lodging costs incurred within a predetermined distance from the traveler's duty post or residence should not be reimbursed, except in an approved emergency.

When lodging is shared between county officers or employees, reimbursement per person should not exceed the amount allowable per person at the single room rate plus tax. When lodging is shared with someone not on county business, such as a spouse, the traveler should be reimbursed at the single room rate plus tax.

Travel Reimbursement

Approved travel claims should be reimbursed by a warrant drawn on the county treasurer. Reimbursement should not exceed the actual amount of travel-related expenses. In addition, the amount of the travel claim should be reduced by any amounts paid by county credit card. If a travel advance was issued, and the travel claim is greater than the advance, the finance department should prepare a warrant only for expenses in excess of the advanced amount. (See **§VI-C, Cash**, for a detailed discussion of warrant processing.) If the travel claim is less than the advance, the finance department should require the employee to remit the difference. The county should establish a standard deadline for excess advances to be returned to the county (for example, within 10 days). The employee's personal check should be deposited in the appropriate county fund.

The finance department should periodically review the travel advance ledger to verify that travel advances have been repaid and, if necessary, implement collection procedures.

COMPLIANCE CHECKLIST

This compliance checklist was developed to assist the county in establishing and maintaining adequate controls over travel, and may be used to evaluate compliance with UAMAC requirements. Questions are phrased in such a way that "Yes" answers indicate satisfactory conditions, while "No" answers indicate possible weaknesses that should be corrected.

	YES	NO
1. Has the county established written policies and procedures for travel and the reimbursement of travel expenses?	______	______
2. Has a duty post or station been established for each member of the board of supervisors?	______	______
3. Has the county established maximum allowances for the reimbursement of travel expenses (i.e., meals and incidentals, lodging)?	______	______
4. Have established rates been periodically reviewed and revised, as necessary?	______	______
5. Are travel requests prepared and approved at the department level before departure?	______	______
6. Are out-of-state travel requests counter-signed by the board of supervisors or their delegated representative?	______	______
7. Is budgetary capacity verified before approval of travel?	______	______
8. Are travel advances approved and properly documented?	______	______
9. Are travel advances recorded in a travel advance ledger and periodically reviewed for advances outstanding for an excessive period of time?	______	______
10. Are travel claims reviewed for propriety, reasonableness, accuracy, and authorization?	______	______
11. Are county officers' and employees' driving records reviewed periodically?	______	______

_________________________ COUNTY, ARIZONA

TRAVEL REQUEST

1. Name of Requestor: ______________________________
2. Date of Request: ______________________________
3. Dates of Travel: ______________________________
4. Department: ______________________________
5. Purpose of Travel: ______________________________
6. Means of Travel: ☐ County Vehicle ☐ Privately owned Vehicle ☐ Airplane
   ☐ Other ______________________________
7. Driver's License Number[1]: ______________ Expiration Date[1]: __________
8. Name of Insurance Company[2]: ______________________________
   Policy Number[2]: ______________ Expiration Date[2]: __________
9. Total Estimated Expenses (transportation, meals and incidentals, lodging): __________
10. Account Code No.: ______________________________
11. Encumbrance (No., Amount, Date): ______________________________
12. I certify that if a privately owned vehicle is used, it is covered by minimum liability insurance as required by statute.

______________________________ ______________
Employee Signature Date

13. ______________________________ ______________
Department Head Signature Date

14. ______________________________ ______________
Finance Department Signature Date

[1] **Complete if vehicle will be used for county business**
[2] **Complete if privately owned vehicle will be used for county business**

____________________________ COUNTY, ARIZONA

TRAVEL ADVANCE REQUEST

Employee: ______________________________ Employee ID No.: _____________________
Department: ______________________________ Account Code No.: _____________________
Date: ______________________________ Amount: $_____________________

Type of Travel (check box):
☐ In county—single trip ☐ In county—continuous
☐ Out of county—single trip ☐ Out of county—continuous

Purpose of Travel: ____

____

Dates of Travel: From _________________ To ______________________

Destination(s): ____

NOTE TO EMPLOYEE:

If travel advances made to an employee are not reimbursed within 10 days after completion of travel, such advances may be deducted from any salary or wages, or travel expense reimbursement due to the employee.

I hereby authorize _________________________ to assign my travel claim, or claims, to the Finance Department Travel Advance Revolving Fund as repayment of the travel advance given to me. I further agree that if the amount of the claim is less than the amount advanced to me, I will return the difference to the Travel Advance Revolving Fund within 10 days from the date on which travel was completed.

______ Date ____________________________ Employee Signature

I hereby certify the above named employee will be traveling on authorized county business.

______ Date ____________________________ Department Head Signature

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FINANCE DEPARTMENT:
Check/Warrant No. ___________________
Amount $________________

______ Date ____________________________ Finance Department Signature

____________________________ COUNTY, ARIZONA

EMPLOYEE TRAVEL CLAIM

Employee Name	Address	Employee ID No.	Department	License Plate[1]	Project	Amount
						$

Period (Mo/Yr)	Duty Post	Claim No.	Date	Purpose of Travel

					Odometer								
Date	Place Departed From	Time	Place Arrived At	Time	Start	End	Miles	Miles X Rate=$	Meals and Incidentals	Lodging	Other Expenses	Transpor-tation	Total Expenses
													$
						Totals			Balance brought forward from continuation pages				

Total travel expenses $__________

By my signature, I certify that this expenditure/transaction is for a valid public purpose. I further certify that I have reviewed and understand the County's Travel Policy and that the amounts claimed represent the actual, qualified amounts and/or miles incurred during authorized, official county business and that I am not requesting any reimbursements not allowed. If a travel advance was issued, I agree that I will return any amounts advanced to me in excess of the amount of this claim within 10 days of the date travel is completed. I understand that any travel advance not reimbursed in a timely manner may be deducted from any salary, wages, or travel reimbursement due to me.

______________________________ Employee Signature/Date

______________________________ Driver's License Number

As the Supervisor, I certify that the expenses claimed were incurred for authorized official county business and that they are correct and proper charges. I certify further that this expenditure/transaction is for a valid public purpose. I approve the expenses as outlined above for reimbursement.

______________________________ Supervisor Signature/Date

______________________________ Finance Dept. Signature/Date

[1]Complete if vehicle was used for county business

CONTENTS

INTRODUCTION

The information technology (IT) internal control guidelines presented in this section are provided to help county officials and IT personnel develop and implement adequate internal controls for IT-based systems. These controls are intended to provide reasonable assurance that the resulting data is accurate and reliable.

IT controls are a specialized application of basic accounting internal controls. The basic concepts are expressed in terms of control objectives and, therefore, are independent of the data processing method used, whether manual or computer-based. IT controls are divided into two basic categories: (1) **general controls**, which are the policies and procedures that apply to all IT activities and help ensure their proper operation; and (2) **application controls**, which relate to specific applications, such as the accounting or payroll systems.

Given the wide range of computer systems and applications, each county should appropriately tailor IT internal controls to effectively and efficiently address its specific environment and risks. For example, Internet accessibility and wireless networks present more opportunities for unauthorized users to gain access to the county's network, systems, and data. Documented and enforced policies and procedures regarding IT systems and specific risks, such as Internet use and wireless access, can protect the county from unintended exposure and consequences. Additionally, the county's IT policies and procedures should address prevention and detection of technology-related issues and should include guidelines on its response to specific incidents.

As used throughout this section, "user" refers to employees and others who use the IT systems to carry out their assigned or authorized activities. "IT personnel" refers to employees who manage, design, program, or operate the IT system(s).

INTERNAL CONTROLS

General Controls

General controls refer to controls embedded in IT processes and services and include areas such as systems development, change management, security, and computer operations. General controls are intended to ensure that IT resources are directed toward and support business requirements, that business application programs are properly managed and maintained, that data and systems are safeguarded, and that computer operations provide for continuous and effective service.[1] There are four general control areas that management should consider:

1. Systems development helps ensure that computer systems and applications:
   - are acquired or designed in accordance with business needs,
   - address security and control requirements,
   - are tested to ensure that they operate as designed, and

[1] As used in this section, "business" refers to the activity with which an organization is principally and seriously concerned. The context relates to the entity's broader operations, and the intent is that IT processes and services must be focused on the needs and requirements of the entire enterprise rather than on IT itself.

- are properly maintained throughout their life.

2. Change management:

- addresses needed changes and prevents unauthorized changes to information system resources (for example, software programs and hardware configurations), and
- provides reasonable assurance that systems are configured and operating securely and as intended.

3. Security provides a framework and continuing cycle of activity for:

- managing risk,
- developing and updating security policies, procedures, and training,
- assigning responsibilities for security requirements, and
- monitoring the adequacy of security-related controls.

One particularly important security area that deserves management's special attention relates to access controls, which are designed to limit or detect access to computer resources (data, programs, equipment, and facilities) and protect them against unauthorized use, modification, loss, and disclosure.

4. Computer operations help ensure that critical operations:

- continue effectively and without disruption, or
- are promptly resumed when unexpected events occur.

Systems Development Controls—Counties should design controls for the acquisition and/or development of, and changes to, their computer systems and applications. IT systems should be developed or modified based on business needs defined by management and users. Policies and procedures for systems development should include:

1. A process to help ensure that systems are designed, or acquired, and implemented in accordance with business and security needs and requirements, and are maintained properly throughout their useful life.[2] Formal policies and procedures over the Systems Development Life Cycle (SDLC) should be considered. The SDLC begins as projects are initially planned and ends when they are finally retired.
2. Requirements that users and IT personnel test the system or changes for consistency with design specifications and user requirements. Testing is usually performed as critical phases of the system are finished and again after the entire system has been completed but before it is put into actual use.
3. Requirements that IT personnel obtain formal approval from business users before placing a system or system modification into operation.
4. Requirements that IT personnel develop and retain <u>system</u> documentation, including documented changes from original design specifications.
5. Requirements that <u>user</u> documentation and training be provided to users of the system based upon their job role and function and the way they will be expected to interact with the system.

[2] Business requirements include those that may be both internally and externally mandated.

6. Procedures to ensure secure and appropriate disposal of information technology equipment, devices, network components, operating systems, application software, and storage media to prevent unauthorized use or misuse of information.

Change Management Controls—Counties should design controls to ensure that key components of their network and systems are kept up to date and secure. They can do this by:

1. Developing a plan, strategy, and guidelines to ensure that their computer and network infrastructure (i.e., computers, servers, routers, switches, etc.) are properly maintained and that changes to key equipment and settings are consistent with the organization's policies and standards.
2. Establish procedures for monitoring available updates to IT systems and for testing and applying updates to ensure that systems run effectively and securely.

Security Controls—Counties should establish a framework and continuous cycle of assessing risk; develop and implement effective security procedures; design and provide security awareness training to staff and users of their computer systems; and monitor and report on the overall effectiveness of their security policies and procedures. In order to do this, counties should:

1. Assign responsibility for security of their IT systems and data, and require periodic reporting on security-related activities to management.
2. Develop and maintain up-to-date security-related policies and procedures, including those that address access to their IT systems and data, and user security-awareness training.
3. Periodically assess risks to their IT systems and data, and develop policies and procedures to prioritize and address risks that are identified.
4. Manage information system security activities, such as installing security patches, and anti-virus and other anti-malware software and updates.
5. Develop policies and procedures that define requirements and actions needed when security incidents occur.
6. Monitor and periodically audit system activity and adherence to security-related policies, procedures, and guidelines.

Access Controls—Special attention should be paid to security-related controls over access to IT systems and data. Physical and logical access controls help ensure that only those individuals authorized by management to access and use IT systems and data are able to do so.

Physical access controls include those that restrict the entry and exit of personnel (and often equipment and media) from a physical area, such as an office building, suite, data center, or room containing critical computer-related equipment, such as network servers, routers, and switches. Controls over physical access include barriers that isolate areas and employ screening measures to restrict access. Some examples include:

1. Combination entry pads and card-key door locks.
2. Surveillance monitors.
3. Intrusion detectors and alarms.

4. Hardware locking mechanisms.

Logical access controls are protection mechanisms that limit users' access to information and restrict the types of access to only what is necessary for them to carry out their assigned duties. Logical access controls are often built into computer and/or network operating systems, or may be part of the "logic" of applications programs or major utilities, such as database management systems. They may also be implemented in add-on security packages that are installed onto computer systems. Some examples of logical security control techniques include the use of:

1. Individual user accounts and passwords, with defined password requirements such as length, characteristics (i.e., use of upper/lower case letters, numbers, symbols, etc.), frequency with which they must be reset, prohibitions against reuse, termination of access rights when a user no longer has a need for access to data, etc.
2. Different levels of access capabilities, such as read/write privileges, based on data classification and/or ownership.
3. Data encryption technologies.
4. Properly configured firewalls and intrusion detection/prevention systems.
5. Up-to-date anti-virus, anti-spyware, anti-spam and other anti-malware programs, and signatures.
6. System access and exception reports and logs.

Access to program files and production data, including general ledger accounting structure, electronic signatures, vendor file information, and employee file data, should be controlled and limited where possible. Program documentation contains information regarding how the programs work, their data file structures, control mechanisms and criteria, and other sensitive information that could be manipulated or used to access or modify the systems and data. Therefore, access to program documentation should be restricted to only those employees authorized to maintain computer programs.

Access controls should include maintaining an audit trail to enable tracing of electronic transactions from inception to final disposition. If appropriate electronic audit trails are not available, manual processes should be used to provide for sufficient tracking of changes made to records.

Computer Operations Controls—Counties should establish policies and procedures to ensure that IT systems are operating effectively and kept up-to-date, and that systems and data are protected from unintended loss or destruction. To do this, counties should:

1. Collect and analyze key system information, such as server processor and disk space utilization, error/incident logs, and capacity management reports, in order to be able to plan for system upgrades or replacements.
2. Establish system replacement guidelines and procedures, including requirements for the proper destruction of information contained on systems that are retired or taken out of service.
3. Maintain and regularly update network infrastructure and configuration information.
4. Implement environmental controls. The computer facility should be protected against safety hazards and environmental damage. Storage media, such as computer hard drives, disks, tapes, portable

external storage devices such as jump drives, etc., should be protected from exposure to moisture, extreme temperatures, powerful magnetic fields, and other environmental risks. Safeguards against fire might include smoke detectors and fire suppression equipment.

5. Implement backup controls. Backup controls help ensure that current copies of critical system and data files are maintained and easily retrievable. Files, programs, and documentation should be physically safeguarded by maintaining backup copies and regularly storing backups in an off-site storage facility. The frequency and timing of backup procedures or archival policies should be determined by the amount of effort to recreate the current system in the event of losses and legal requirements. Ordinarily, data files may be backed up daily or more frequently; software programs and the related documentation may be backed up when new program changes are made. Counties should develop and document policies and procedures for data recovery, such as the prioritization of programs and files necessary to resume normal operations. Backup copies of information and software should be tested regularly in accordance with the backup policy.

6. Implement disaster recovery controls. Disaster recovery controls help ensure the continuity of operations should an event cause damage or loss to critical computer resources or facilities. Counties should develop and routinely update a documented disaster recovery plan, test the plan periodically, and ensure adequate insurance coverage to provide resources necessary to allow continuity of operations in the event of a disaster affecting IT systems and data. A disaster recovery plan should include:

   - Business impact analysis, including a risk assessment of critical business functions, risk mitigation, and disaster scenarios.
   - Business recovery strategies, including recovery tasks and procedures, as well as considerations for data availability, including requirements for the amount of data that could be lost from the point of failure to the point of recovery and the time frame within which it must be recovered.
   - Computer equipment and software inventories.
   - Vital records required for resumption and recovery efforts.
   - List of supplies and equipment required for resumption and recovery efforts.
   - Crisis management plan.
   - Escalation procedures; used to specify exactly how to respond to emergencies and how to tell when a “problem” has become a potential “disaster.” Disaster recovery plans should state the steps to follow for escalating unresolved problems to disaster status.
   - Notification procedures for recovery teams.
   - Contact lists of recovery team members, management personnel, vendors, and others as may be appropriate.
   - Plan maintenance and training requirements to ensure that the plan is kept up-to-date and to ensure that all parties understand their roles and responsibilities during the plan’s execution.

Application Controls

Application controls are manual or programmed activities intended to ensure the completeness and accuracy of records and the validity of entries made into business computer systems. They are embedded in business process applications and include checks over completeness, accuracy, validity, authorization, and separation of duties.

1. Completeness checks help ensure all records were processed from initiation to completion (i.e., provide reasonable assurance that all transactions that occurred are input into the system), accepted for processing, processed in accordance with system requirements, and properly included in output. The most commonly encountered controls for completeness include the use of record counts and control totals, computer sequence checking, computer matching of transaction data with data in a master or suspense file, and checking of reports for transaction data.

2. Accuracy checks provide reasonable assurance that transactions are properly recorded with correct information, data elements are processed correctly by applications, reliable results are achieved, transactions detected with errors are controlled to ensure that they are corrected and reentered in a timely manner, and output is reviewed and control information is reconciled to determine whether errors occurred during processing.

3. Validity checks help ensure that a program operates on clean, correct, and useful data by checking for correctness, meaningfulness, and security of data that is input to the system. The simplest data validation verifies that the characters provided come from a valid set. For example, telephone numbers should include the digits and possibly the dash, and left and right parentheses. A more sophisticated data validation routine would check to see that the user had entered a valid country code (i.e., that the number of digits entered matched the convention for the country or area specified).

4. Authorization checks help ensure that only approved users have access to the application system and that data is properly authorized before it is entered or accepted into the system.

5. Separation of duties helps ensure that checks are in place to prevent fraud and errors by separating the tasks and associated privileges for a specific business process among multiple users. These controls include policies, procedures, and an organizational structure established so that one individual cannot control key aspects of computer-related operations and thereby conduct unauthorized actions or gain unauthorized access to assets or records.

The responsibility for application controls is a joint responsibility between the business and IT personnel. Business personnel are responsible for properly defining functional and control requirements and use of automated services. IT personnel are responsible for automating and implementing business functional and control requirements, and establishing controls to maintain the integrity of applications controls.

Application controls are commonly categorized into the following three phases of a processing cycle:

1. **Input—**Data is authorized, converted to an automated form, and entered into the application in an accurate, complete, and timely manner.

   Controls in this phase would include data validation and edit checks that enforce system requirements for data entering the application. For example, they would check for valid account codes, missing data elements, data reasonableness, proper formats, mathematical accuracy, or batch totals.

Counties should establish review and control policies and procedures for the prevention, detection, and correction of data input errors. Additionally, to minimize the risk of fraud and identity theft, error logs should not contain sensitive or confidential information, such as social security numbers or bank account numbers. Further, an employee who does not input data should review and approve error corrections and ensure that an adequate audit trail exists to document and record them.

2. **Processing**—Data is properly processed by the computer, and files are updated correctly. These controls would include requirements that users reconcile relevant input control totals with data processed by the application.

   To the extent possible, application processing should be standardized, and the manual and automated procedures used should be documented. Audit trails and output reports should be monitored on a regular basis to help ensure that transactions are processed as intended. Users should reconcile relevant input control totals with data processed by the application. For example, the ledger in an accounting system could provide total debits and credits to be calculated for the input transactions to ensure balancing.

   Further, the application should have controls to ensure that the correct file is processed, file processing errors are detected, and operator errors are identified. Errors may indicate control weaknesses or control processes that are being bypassed. Where possible, limit and reasonableness checks should be incorporated within programs to help detect clerical or processing errors. Counties should also implement sufficient controls to protect the confidentiality of data during processing.

3. **Output—**Files and reports generated by the application are created properly and accurately reflect the results of processing, and reports are controlled and distributed to the authorized users.

   Output controls provide assurance that data has been processed accurately and completely, and that the output is distributed correctly and in a timely manner. Output can be in hardcopy form, electronic files that become input to other systems, or as information available for online viewing.

   A designated employee independent of processing responsibilities should prepare reconciliations, or automated controls may be incorporated into the application to ensure that correct processing has occurred. When feasible, an employee should compare processed information to original source documents.

   Output controls should ensure that the application's results are delivered only to the appropriate end users, output is restricted from unauthorized access, and record retention and backup schedules are established. In particular, counties should ensure that content and availability of output and data are consistent with end users' needs, data sensitivity, confidentiality requirements, and applicable laws and regulations. Further, critical documents and reports, such as blank check stock and confidential employee or taxpayer information, should be properly secured from unauthorized access and use.

Separation of Duties—As with non-IT internal controls, counties should establish the structure in which operations function and determine their relationships to each other. Often, separation of duties is achieved by splitting responsibilities between two or more organizational groups. Dividing duties this way diminishes the likelihood that errors and wrongful acts will go undetected because the activities of one group or individual will serve as a check on the activities of the other. Separation of functions, duties, and responsibilities is necessary so that no individual performs incompatible duties that may permit errors or fraud to occur and remain undetected.[3]

The extent to which duties are separated depends on the size of the organization and the risk associated with its activities. A large organization will have more flexibility in separating key duties than a small organization that must depend on only a few individuals to perform its operations. These smaller organizations may rely more extensively on supervisory review to control activities. Similarly, activities that involve extremely large dollar transactions, or are otherwise inherently risky, should be divided among several individuals and be subject to relatively extensive supervisory review.[4]

Additionally, to prevent the unauthorized or fraudulent manipulation of applications or data, counties should separate key responsibilities between IT personnel and users. To accomplish this, counties should designate specific users to initiate and authorize transactions, and prohibit IT personnel from initiating or authorizing transactions. In addition, users should not have system-level access to modify data or programs. When independence is not possible, such as when users also perform IT functions related to the system(s), management must periodically review transactions to help compensate for inadequate separation of duties.

Further, among the IT personnel, programming responsibilities should be separated from computer operation responsibilities. Unauthorized modifications to programs or files are more likely if an employee has the ability to perform both programming and operating functions. If separation of these duties is not feasible, counties should ensure that a supervisor reviews system logs, balancing reports, and other relevant indicators regularly.

DOCUMENTATION

Counties should establish and document policies and procedures for its IT operations. The amount of documentation necessary depends upon the circumstances and complexity of the county's IT systems. However, at a minimum, standards and procedures related to systems development, change management, security, and computer operations, as described above, should be developed and regularly maintained.

Documentation of application systems and the controls associated with them is also very important. System, program, operations, and user documentation should be prepared and maintained in a standardized, organized manner.

In designing and implementing IT systems, organized and thorough documentation can:

1. Provide an understanding of the system's objectives, concepts, processes, and output.
2. Provide a resource for systems analysts and programmers responsible for maintaining and revising existing systems.
3. Enable supervisory review of work performed on the system.
4. Serve as a reference for existing staff and as a basis for training new personnel.

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[3] Based on the Federal Information System Controls Audit Manual (FISCAM), GAO-09-232G, February, 2009. Chapter 3, section 3.4.

[4] Ibid

5. Communicate system information to systems analysts, programmers, operators, and auditors.

System documentation should include a brief narrative description of the system's business purpose and provide both an overview of the system and an explanation of the integration, if any, with other systems. Information on system testing performed and user involvement and sign-off should be maintained. Input, processing, output, file, security, and related controls for each system should be described. In addition, information regarding significant system changes, including their purpose, scope, authorization, and effective dates, should be preserved.

Program documentation should include a description of the program's purpose; a flowchart, decision table, or detailed logic narrative; a list of built-in control features such as error-detection routines; a detailed description of file formats and record layouts; and the program code itself. Operating instructions, input and output formats, users' request for any changes, change test results, and user's approval of the revised program, if applicable, should also be documented. The interrelationship between that program and other programs that make up the system should also be described.

Operations documentation should include setup instructions and on-going operational requirements, recovery and restart procedures in the event of hardware or software malfunctions, and error-correction procedures. The error-correction procedures should include documentation of the problem, cause-analysis, identification of the individual assigned to correct it, and timely review by a supervisor to verify that the problem was resolved. Furthermore, this documentation should also include a list of control procedures and the personnel (positions) responsible for performing them.

User documentation should outline user instructions and provide information about how to use the application, including:

1. Input and output descriptions including data entry screens and data display screens.
2. Applicable cut-off procedures for submitting data.
3. Balancing and reconciliation procedures.
4. Basic and common functionality.
5. Advanced functionality.
6. Instruction on using the Help functionality.
7. Explanation of error messages and appropriate responses.
8. Problem escalation procedures and/or technical support resources.

INTERNET AND E-MAIL

The Internet provides a mechanism for systems and users to connect to other systems and users outside of the organization's own network. While this provides opportunities, it also introduces potential threats. Therefore, the county's networks and the systems that reside on them need to be properly secured to ensure that its IT resources and data are not accessible and used by unauthorized individuals, or in unauthorized or inappropriate ways. Two important steps counties can take to increase security and ensure proper use of electronic resources and information is to develop Internet and e-mail use and security policies; and to implement security and monitoring measures to ensure computer users' compliance with the policies. These policies should address:

1. Who is allowed to use the Internet and e-mail.
2. When they are allowed to use it.
3. What constitutes acceptable use of the Internet and e-mail.
4. What constitutes unacceptable use of the Internet and e-mail.
5. Monitoring procedures for Internet account activity.
6. Virus, spam, and other types of malware protection.
7. Requirements and guidelines over the use and configuration of firewalls and other network perimeter security devices, such as intrusion prevention systems, intrusion detection systems, network access control devices, content filtering, etc.
8. Procedures for reporting and responding to suspected security and policy violations.

A written Internet and e-mail policy raises users' level of security awareness and serves as guidance for technical decisions affecting Internet and e-mail activity. Further, the policy may help strengthen the county's position in the event of legal prosecution of a security violation. This policy need not be technical; however, it should include a summary of the county's Internet and e-mail security concerns. Further, users should be required to acknowledge and document receipt of the policy, and their intention to follow the policy before being granted access to the Internet and e-mail. Counties should also institute periodic security awareness training to remind users of their requirements and responsibilities.

WIRELESS NETWORKS

Wireless networks provide the ability to access network resources, such as files, printers, the Internet, e-mail, and data, without the use of the traditional cables and wires generally required to connect to a county's network infrastructure. In general, wireless networks should be given special attention and need to be adequately controlled due to the risks inherent in using this type of technology. Specifically:

1. All of the vulnerabilities that exist in a wired network also apply to wireless networks (e.g., unauthorized access, viruses, denial-of-service attacks, etc.).
2. Unauthorized wireless connections may be set up without anyone's knowledge by either authorized (i.e., staff or contractors) or unauthorized individuals and may affect network security and performance.
3. Wireless access points, particularly those set up on an ad hoc basis, are often implemented without attention to security and authentication issues, such as the use of default passwords, and may bypass existing network and firewall protections.
4. Sensitive information that is transmitted wirelessly between devices may be easily intercepted if not encrypted.

Reducing the risks and security issues related to wireless networks may require significant effort, resources, and vigilance. Actions needed to maintain a secure wireless network include:

1. Performing periodic risk assessments of the new threats and vulnerabilities introduced by wireless technology and regularly monitoring the network for unauthorized wireless access points.
2. Developing or expanding and disseminating the security policy to address the proper use and security requirements over wireless access networks.
3. Enabling encryption and authentication security features to mitigate unauthorized access and wireless eavesdropping.
4. Training users on how to properly use wireless access technologies to minimize risks to the county's network.

CONTENTS

INTRODUCTION

The county's primary objective in financial reporting is to demonstrate its fiscal and operational accountability to taxpayers and citizens, legislative and oversight bodies, investors, and creditors. To achieve this objective, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. This financial reporting model includes both government-wide and fund financial statements and assists users in evaluating the county's operating results for the reporting period and in assessing both the level of services provided and the county's ability to meet its obligations.

Government-wide financial statements help to demonstrate the county's operational accountability and fund financial statements help to demonstrate its fiscal accountability.

To be of value, accounting data reported in these financial statements must be understandable, reliable, relevant, timely, consistent, and comparable. County financial statements should include adequate disclosures, explanations, and interpretations to provide at least the minimum information needed by users to assess and gain a fair understanding of the county's financial position, results of operations, and cash flows.

Ideally, counties should prepare and publish a comprehensive annual financial report (CAFR), which provides additional information on the county's financial condition. At a minimum, counties must prepare:

- Basic Financial Statements (BFS) consisting of government-wide financial statements, fund financial statements, and the notes to the financial statements
- Required Supplementary Information (RSI) including management's discussion and analysis (MD&A) and other information

Additionally, although not a part of the BFS, Arizona Revised Statutes (A.R.S.) require counties to prepare an Annual Expenditure Limitation Report (AELR). A.R.S. §41-1279.07

The BFS and AELR must be prepared and audited annually (see **§IX, Audit Requirements**). The county must submit its BFS, AELR, and the independent auditors' reports on the financial statements and AELR to the board of supervisors, the Joint Legislative Audit Committee of the Arizona State Legislature, and the Office of the Auditor General. Counties may also be required to distribute the financial statements and independent auditors' report on the financial statements to specific users, such as federal or state grantors.

LEGAL REQUIREMENTS

1. Counties must annually prepare the BFS in accordance with generally accepted accounting principles (GAAP). Counties must also prepare an AELR in accordance with the format prescribed by the Auditor General. A.R.S. §41-1279.07(A)
2. Counties must file the AELR with the Auditor General within 4 months after the close of each fiscal year. Upon written request, the Auditor General may grant up to a 120-day extension if extenuating circumstances exist. A.R.S. §41-1279.07(C)

3. The Auditor General must audit or contract for an annual audit of the county's BFS and AELR. In addition, each county must provide financial information for inclusion in the annual audit that verifies that Highway User Revenue Fund monies received by the county pursuant to 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. A.R.S. §§41-1279.07(D) and 41-1279.21(A)

4. Counties that expend $500,000 or more in federal awards in a given fiscal year must have a single audit in accordance with the requirements of the *Single Audit Act Amendments of 1996* and Office of Management and Budget (OMB) Circular A-133.

For detailed information on the preparation of the AELR, counties should consult the *Uniform Expenditure Reporting System* manual published by the Office of the Auditor General.

COMPREHENSIVE ANNUAL FINANCIAL REPORT

To comply with GAAP for financial reporting, counties must prepare the BFS, including note disclosures, and RSI. Preferably, however, counties should prepare a CAFR. A CAFR includes an introductory section, a financial section, and a statistical section.

The introductory section provides general information on the county as well as other information useful in assessing the county's financial condition.

The financial section includes the MD&A, the BFS, notes to the financial statements, other RSI, and the independent auditor's report. This section also includes information on individual funds and other supplementary information.

The statistical section includes trend data for key financial indicators from the current year and previous 9 years. This section also includes demographic and miscellaneous data that may be of interest to report readers.

Counties may refer to the GASB and its publications or the *Governmental Accounting, Auditing, and Financial Reporting* published by the Government Finance Officers Association for a detailed discussion on CAFR preparation.

BASIC FINANCIAL STATEMENTS AND REQUIRED SUPPLEMENTARY INFORMATION

Although preparing a CAFR is preferred, at a minimum, counties must prepare the BFS and RSI in accordance with GAAP. A brief description of the BFS and RSI necessary for a fair presentation in conformity with GAAP follows.

Management's Discussion and Analysis

The MD&A is a component of the RSI. The MD&A should precede and introduce the BFS and should provide an objective and easily readable analysis of the county's financial activities based on currently known facts, decisions, or conditions. The MD&A should focus on the county and should distinguish between information pertaining to the county and that of its component units. The MD&A section should discuss the current-year results in comparison with the prior year, with emphasis on the current year. This fact-based analysis should discuss the positive and negative aspects of the comparison with the prior year. If the county prepares a CAFR, it should not duplicate in the letter of transmittal information that is included in the MD&A. The information presented in the MD&A should be limited to the following topics:

- a brief discussion of the county's BFS, including the relationships of the statements to each other, and the significant differences in the information they provide
- condensed financial information derived from the county's government-wide financial statements comparing the current year to the prior year
- an analysis of the county's overall financial position and results of operations to assist users in assessing whether financial position has improved or deteriorated as a result of the year's operations; the analysis should address both governmental and business-type activities as reported in the government-wide financial statements and should include reasons for significant changes from the prior year, not simply the amounts or percentages of change
- an analysis of balances and transactions of individual funds, including reasons for significant changes in fund balances or net assets
- an analysis of significant variations between adopted and final budget amounts and between final budget amounts and actual amounts for the general fund
- a description of the county's significant capital asset and long-term debt activity during the year
- for counties that use the modified approach to report some or all of their infrastructure assets, a discussion of (1) significant changes in assessed condition of eligible infrastructure assets from previous assessments; (2) how the current assessed condition compares to the condition level the county established; and (3) any significant differences from the estimated annual amount to maintain and preserve eligible infrastructure assets compared with the actual amount spent during the current period
- a description of currently known facts, decisions, or conditions that are expected to have a significant effect on the county's financial position or results of operations

Government-wide Financial Statements

The government-wide statements display information about the county as a whole, except for its fiduciary funds and component units that are fiduciary in nature. The statements should include separate columns for the governmental and business-type activities of the county as well as for its component units. The government-wide financial statements consist of a statement of net assets and a statement of activities, and are prepared using the economic resources measurement focus and the accrual basis of accounting.

Statement of Net Assets—The statement of net assets should report all assets and liabilities of the county as a whole without displaying individual funds or fund types.

Counties are encouraged to present the statement in a form that displays assets less liabilities equal net assets, although the traditional balance sheet format may be used. Regardless of the format used, the statement of net assets should report the difference between assets and liabilities as net assets, not fund balances or equity. Counties are also encouraged to present assets and liabilities in order of their relative liquidity. An asset's liquidity should be determined by how readily it is expected to be converted to cash and whether restrictions limit the county's ability to use the resource. A liability's liquidity is based on its maturity, or when cash is expected to be used to liquidate it. Liabilities whose average maturities are greater than 1 year should be reported in two components—the amount due within 1 year and the amount due in more than 1 year.

The difference between a government's assets and its liabilities is its *net assets*. Net assets are reported in three components—*invested in capital assets, net of related debt; restricted*, distinguishing between major categories of restrictions; and *unrestricted*.

Statement of Activities—The statement of activities reports the county's operations and presents them in a format that reports the net (expense) revenue of the county's individual functions. The net (expense) revenue format is designed to display the relative financial burden of each of the county's functions on the taxpayers. Counties should report all expenses by function except for those that meet the definition of special or extraordinary items. At a minimum, counties should report direct expenses for each function. Direct expenses are those that are specifically associated with a service, program, or department and therefore are clearly identifiable to a particular function. Counties are not required to allocate indirect expenses among functions; however, if counties choose to allocate them, direct and indirect expenses should be presented in separate columns to enhance comparability of direct expenses between counties that allocate indirect expenses and those that do not.

Depreciation expense for capital assets that can be specifically identified with a function should be included in its direct expenses. Depreciation expense for shared capital assets should be ratably included in the direct expenses of the applicable functions. Depreciation expense should not be presented as an indirect expense.

Depreciation expense for capital assets that serve essentially all functions may be reported as a separate line item, included as part of the general government function, or may be allocated to other functions if the county chooses. If the county uses a separate line item to report unallocated depreciation expense, it should clearly indicate on the face of the statement that this line item excludes direct depreciation expense reported in various functions.

Since a purpose of the statement of activities is to report the financial burden of each of the county's functions to taxpayers, program revenues and general revenues are reported separately in the statement.

Program revenues, reported as charges for services, program-specific operating grants and contributions, or program-specific capital grants and contributions, reduce the expense of the benefiting function which allows the net expense of providing the program to be reported.

All revenues that do not qualify as program revenues should be reported as general revenues. Tax revenues should be reported by type of tax, such as sales, property, franchise, and income taxes. General revenues should be presented immediately following total net expense of the county's functions.

Converting Governmental Fund Data—Because the government-wide financial statements are prepared using a different measurement focus and basis of accounting than the governmental fund financial statements (see the following discussion of fund financial statements), counties must present a reconciliation to the government-wide financial statements at the bottom of the fund financial statements or in an accompanying schedule. Three steps are needed to convert governmental fund data to governmental activities as reported in the government-wide statements. First, governmental fund data is converted from the current financial resources measurement focus and the modified accrual basis of accounting to the economic resources measurement focus and the accrual basis of accounting. Second, data from internal service funds that primarily serve governmental funds must be incorporated into governmental activities. Third, interfund balances and activities must be eliminated except for those interfund services used and provided between functions whose elimination would distort the presentation of costs by function in the government-wide statement of activities.

Fund Financial Statements

The focus of governmental and proprietary fund financial statements is on major funds. A fund is determined to be a major fund based on specific size criteria or if the county determines the fund to be particularly important to financial statement users. The General Fund is always considered a major fund. Any other governmental or enterprise fund may be reported as a major fund if county officials believe that fund is particularly important to financial statement users. Other governmental and enterprise funds should be reported as major if the following two criteria are met:

- total assets, liabilities, revenues, or expenditures or expenses, excluding extraordinary items, of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all governmental or enterprise funds, respectively
- total assets, liabilities, revenues, or expenditures or expenses of the individual fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined

Major fund reporting requirements do not apply to internal service funds.

Whether a fund is reported as major or nonmajor does not affect how it is accounted for in the county's accounting records. Major fund determination is only used when reporting fund information on the financial statements. Each major fund should be presented on the financial statements in a separate column while nonmajor funds are aggregated and displayed in a single column.

Governmental Funds—The governmental fund financial statements report additional and detailed information about the county. The governmental fund financial statements consist of a balance sheet and a statement of revenues, expenditures, and changes in fund balances. These statements should be presented using the current financial resources measurement focus and the modified accrual basis of accounting.

Balance Sheet—The balance sheet reports information on the assets, liabilities, and fund balances of each major governmental fund and for the nonmajor governmental funds in the aggregate. A total column should be presented. The assets, liabilities, and fund balances of governmental funds should be displayed in a balance sheet format.

A summary reconciliation should be included at the bottom of this statement or in an accompanying schedule to reconcile total governmental fund balances to net assets of governmental activities in the statement of net assets. This reconciliation should include, but is not limited to, the effects of:

- reporting capital assets at their historical cost and depreciating them instead of reporting capital acquisitions as expenditures when incurred

- adding general long-term liabilities not due and payable in the current period
- reducing deferred revenue for amounts earned but not available to pay current-period expenditures
- adding internal service fund net asset balances

Statement of Revenues, Expenditures, and Changes in Fund Balances—This statement reports information about the inflows, outflows, and balances of current financial resources for each of the county's major governmental funds and for the nonmajor governmental funds in the aggregate. A total column should be presented.

A summary reconciliation should be included at the bottom of this statement or in an accompanying schedule to reconcile the total change in governmental fund balances to the change in net assets of governmental activities in the statement of activities. This reconciliation should include, but is not limited to, the effects of:

- reporting revenues on the accrual basis
- reporting annual depreciation expense instead of expenditures for capital outlays
- reporting long-term debt proceeds in the statement of net assets as liabilities instead of other financing sources; also, reporting debt principal payments in the statement of net assets as reductions of liabilities instead of expenditures
- reporting other expenses on the accrual basis
- adding the net revenue (expense) of internal service funds

Proprietary Funds—The proprietary fund financial statements consist of a statement of net assets or balance sheet; a statement of revenues, expenses, and changes in fund net assets or fund equity; and a statement of cash flows. Either a balance sheet or a net assets format may be used, and either fund net assets or fund equity may be used as the label for the difference between proprietary fund assets and liabilities. The statements should be presented using the economic resources measurement focus and the accrual basis of accounting.

Proprietary fund statements should present the financial information for each major enterprise fund in a separate column. Nonmajor enterprise funds should be aggregated and displayed in a single column, and a combined total column should be presented for all enterprise funds. Major fund reporting requirements do not apply to internal service funds. The combined totals for all internal service funds should be reported in a separate column on the face of the proprietary fund statements to the right of the total enterprise fund column.

Statement of Net Assets—Counties should present this statement in a classified format to distinguish between current and long-term assets and liabilities. Net assets should be categorized as *invested in capital assets, net of related debt; restricted*, distinguishing between major categories of restrictions; and *unrestricted*.

Statement of Revenues, Expenses, and Changes in Fund Net Assets—This statement reports information on operating and nonoperating revenues and expenses, and includes a separate subtotal for operating revenues, operating expenses, and operating income. Nonoperating revenues and expenses should be reported after operating income. Capital grants and contributions, special and extraordinary items, and transfers should be reported separately after nonoperating revenues and expenses.

Revenues should be reported by major source identifying revenues used as security for revenue bonds. Generally, the amounts reported as net assets and changes in net assets in the proprietary fund financial statements for total enterprise funds will be the same as net assets and changes in net assets of business-type activities in the government-wide statement of activities. If differences exist, a summary reconciliation should be included at the bottom of this statement or in an accompanying schedule to explain the differences.

Statement of Cash Flows—The statement of cash flows is the third proprietary fund statement. Counties should categorize cash flows as cash flows from operating activities, cash flows from noncapital financing activities, cash flows from capital and related financing activities, and cash flows from investing activities.

Cash flows should generally be reported gross rather than net. Cash flows may be reported at their net, rather than gross amounts in two cases: (1) items with quick turnover, large amounts, and short maturities such as certain investments, loans receivable, and debt, provided the original maturity of the asset or liability is 3 months or less; or (2) enterprises whose assets for the most part are highly liquid investments and that have little or no debt outstanding during the period.

Cash flows from operating activities should be reported by major classes of receipts and disbursements using the direct method. At a minimum, the amounts that should be reported separately are receipts from customers, receipts connected with interfund services, payments to suppliers for goods or services, payments to employees for services, and payments connected with interfund services. Interest receipts and interest payments should not be included as cash flows from operating activities except in the case of program loans.

The statement of cash flows should be accompanied by a reconciliation of operating income as reported on the statement of revenues, expenses, and changes in fund net assets to cash flows from operating activities as reported on the statement of cash flows. This reconciliation must be presented either on the face of the statement of cash flows or on the next page.

In addition, the statement of cash flows should be accompanied by information in narrative or table form concerning noncash investing, capital, or financing activities of the period that affected recognized assets or liabilities. The required information must be presented either on the face of the statement of cash flows or on the next page. Also, when a single transaction involves both cash and noncash components, this schedule should clearly describe the cash and noncash aspects of the transaction.

The amount reported as cash and cash equivalents at the end of the period should agree to a similar account or accounts on the statement of net assets. If not, the county should provide a reconciliation.

Fiduciary Funds—The fiduciary fund financial statements consist of a statement of fiduciary net assets and a statement of changes in fiduciary net assets. Counties should include in the fiduciary fund financial statements information about all fiduciary funds, as well as component units that are fiduciary in nature. These statements should be presented using the economic resources measurement focus and the accrual basis of accounting, except for the recognition of certain liabilities of defined benefit pension plans and certain postemployment healthcare plans.

Major fund reporting requirements do not apply to the fiduciary funds. Counties should present in the statements a separate column for each fund type—pension (and other employee benefit) trust funds, investment trust funds, private-purpose trust funds, and agency funds. Financial statements for individual pension plans and postemployment healthcare plans should be presented in the notes to the financial statements if separate GAAP financial reports have not been issued. If separate GAAP financial reports have been issued, the notes should include information about how to obtain these reports.

Statement of Fiduciary Net Assets—The statement of fiduciary net assets should include information about assets, liabilities, and net assets for each fiduciary fund type. In the statement of net assets, agency fund assets should equal liabilities.

Statement of Changes in Fiduciary Net Assets—The statement of changes in fiduciary net assets should include information about the additions to, deductions from, and net increase or decrease for the year in net assets for each fiduciary fund type.

Agency funds should not be reported in the statement of changes in fiduciary net assets.

Notes to the Financial Statements

The notes to the financial statements are an integral part of the county's BFS. The notes communicate information necessary for a fair presentation at the BFS level that is not readily apparent from or cannot be displayed on the face of the financial statements themselves. The notes should focus on the county—specifically, its governmental activities, business-type activities, major funds, and nonmajor funds in the aggregate. The notes should include a summary of the county's significant accounting policies in addition to topical note disclosures necessary for an adequate understanding of the government-wide and fund financial statements. The notes should also include other disclosures necessary to prevent the financial statements from being misleading.

Counties should maintain detailed schedules and other documentation that support information reported in the notes. Such schedules and documentation are required by the county's auditors.

Other Required Supplementary Information

In addition to MD&A, which is presented immediately before the BFS, counties must prepare other RSI for inclusion with the BFS. When applicable, the county must include budgetary comparison schedules for governmental funds, information about infrastructure assets reported using the modified approach, and information about pensions and other postemployment benefits.

The budgetary comparison schedules should be presented for the general fund and for each major special revenue fund that has a legally adopted annual budget. This comparison should present both the adopted and the final budgets for the reporting period, as well as actual inflows, outflows, and balances stated on the county's budgetary basis. A separate column to report the variance between the final budget and actual amounts may be included to present more detailed information, but is not required.

The county should also present the following information in schedules as RSI for all eligible infrastructure assets that are reported using the modified approach:

- the assessed condition of assets, performed at least every 3 years, for at least the three most recent complete condition assessments, indicating the assessment dates
- the estimated annual amount calculated at the beginning of the fiscal year to maintain and preserve at or above the condition level the county established and disclosed compared with the amounts actually expensed for each of the past five reporting periods

The following disclosures should accompany the two schedules above:

- the basis for the condition measurement and the measurement scale used to assess and report condition
- the condition level at which the county intends to preserve its eligible infrastructure assets reported using the modified approach
- factors that significantly affect trends in the information reported in the required schedules

For more information on capital asset reporting requirements, see **§VI-E, Capital Assets**.

FINANCIAL REPORTING ENTITY

The concept underlying the definition of the county financial reporting entity is that elected officials are accountable to their constituents for their actions. The BFS should provide users with a basis for assessing the performance of those elected officials.

The county's financial reporting entity consists of (a) the county as the primary government, (b) organizations for which the county is financially accountable, and (c) other organizations for which the nature and significance of their relationships with the county are such that exclusion would cause the county's BFS to be misleading or incomplete. The following criteria set forth a primary government's financial accountability for a legally separate organization.

- the primary government is financially accountable if it appoints a voting majority of the organization's governing body and it is able to either impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government
- the primary government may be financially accountable if an organization is fiscally dependent on the primary government regardless of whether the organization has a separately elected governing board, a governing board appointed by a higher level of government, or a jointly appointed board

Counties must evaluate all of the criteria outlined in GASB Statements Nos. 14 and 39 when determining whether to include a potential component unit in the financial reporting entity.

The BFS of the county reporting entity should provide an overview of the county based on fiscal accountability, and allow users to distinguish between the county and its component units. Based on their relationship with the county, some component units should be blended as though they are a part of the county while other component units should be discretely presented.

The blending method should be used when either (1) the component unit's governing body is substantively the same as that of the county, or (2) the component unit benefits or provides services entirely, or almost entirely, to the county government, not to its citizens directly. Component units that do not meet one of these criteria must be presented discretely in the BFS.

Discrete presentation of component units requires that financial data be reported in one or more columns separate from the financial data of the county, distinguishing between the financial data of the county including blended component units and those of the discretely presented component units by providing descriptive column headings. A total column should be presented for the county's primary operations in the government-wide financial statements that excludes discretely presented component units. In addition, a total column for the county reporting entity as a whole that includes discretely presented component units may be presented, but is not required.

The notes to the financial statements should include a brief description of all component units and their relationships to the county. This disclosure should include the criteria used in determining the scope of the county reporting entity for financial reporting purposes as well as the component units combined to form the county reporting entity and how the component units are reported. The notes should also include information about how the separate BFS for the individual component units may be obtained.

COMPLIANCE CHECKLIST

This compliance checklist was developed to assist the county in establishing and maintaining adequate controls over financial reporting, and may be used to evaluate compliance with UAMAC requirements. Questions are phrased so that "Yes" answers indicate satisfactory conditions, while "No" answers indicate possible weaknesses that should be corrected.

	YES	NO
Basic Financial Statements and Required Supplementary Information		
1. Is the MD&A section presented before the BFS?	______	______
2. Does the MD&A provide an objective and easily readable analysis of the county's financial activities based on currently known facts, discussions, or conditions?	______	______
3. Did the county limit the MD&A section to only the most relevant information and was standardized discussion avoided?	______	______
4. Did the county prepare the BFS along with the related notes to the financial statements?	______	______
5. Do the government-wide financial statements:		
a. Report information about the county overall without displaying individual funds or fund types?	______	______
b. Exclude information about fiduciary activities?	______	______
c. Distinguish between the county and its discretely presented component units?	______	______
d. Distinguish between the county's governmental activities and its business-type activities?	______	______
6. In the government-wide statement of net assets:		
a. Has the county reported all financial and capital resources?	______	______
b. Has the county reported the difference between assets and liabilities as net assets rather than fund balance or fund equity?	______	______
7. In the government-wide statement of activities:		
a. Has the county used a format that reports the net (expense) revenue of each function?	______	______
b. Have program revenues and general revenues been reported separately?	______	______
c. Has depreciation expense been reported in accordance with GASB Statement No. 34, paragraphs 44 and 45?	______	______
8. In the governmental fund financial statements:		
a. Has the county included only governmental fund types (general fund, special revenue funds, debt service funds, capital projects funds, and permanent funds)?	______	______
b. Is each major governmental fund reported in a separate column?	______	______

	YES	NO
c. Are all nonmajor governmental funds reported in a single column, regardless of fund type?	______	______
d. Is a total column presented?	______	______
9. In the governmental funds' balance sheet:		
a. Are assets, liabilities, and fund balances displayed in a balance sheet format?	______	______
b. Is the difference between assets and liabilities labeled fund balance?	______	______
c. Are fund balances segregated into reserved and unreserved amounts?	______	______
10. In the governmental funds' statement of revenues, expenditures, and changes in fund balances:		
a. Are revenues classified by major revenue source?	______	______
b. Are expenditures classified, at a minimum, by function?	______	______
c. Are special and extraordinary items reported separately after other financing sources and uses?	______	______
11. Has the county prepared either a statement of revenues, expenditures, and changes in fund balances—budget and actual for the general fund and major special revenue funds as a basic governmental fund financial statement, or a budgetary comparison schedule presented as RSI?	______	______
12. In the proprietary fund financial statements:		
a. Has the county included only proprietary fund types (enterprise funds and internal service funds)?	______	______
b. Is each major enterprise fund reported in a separate column?	______	______
c. Are all nonmajor enterprise funds reported in a single column?	______	______
d. Is a combined total column presented for all enterprise funds?	______	______
e. Are the internal service funds reported in a single column?	______	______
13. In the proprietary fund statement of net assets or balance sheet:		
a. Are assets and liabilities classified as current and long-term?	______	______
b. Is the difference between assets and liabilities reported as net assets or equity?	______	______
14. In the proprietary funds' statement of revenues, expenses, and changes in fund net assets:		
a. Does the statement distinguish between operating and nonoperating revenues and expenses?	______	______
b. Has the county reported each of the following items separately after nonoperating revenues and expenses: capital contributions, special items, extraordinary items, and transfers?	______	______
15. Has the county presented the statement of cash flows using the direct method?	______	______
16. In the fiduciary fund financial statements:		
a. Has the county included only fiduciary fund types [pension (and other employee benefit) trust funds, investment trust funds, private-purpose trust funds, and agency funds]?	______	______
b. Are all funds of a given fund type reported in a single column?	______	______

	YES	NO
17. In the statement of fiduciary net assets:		
a. Are assets reported by major category?	______	______
b. Is the difference between assets and liabilities reported as net assets?	______	______
c. Do assets equal liabilities in agency funds?	______	______
18. Is the statement of changes in fiduciary net assets segregated into two sections—additions and deductions?	______	______
19. Is all RSI, other than the MD&A section, located immediately following the notes to the financial statements?	______	______
20. If the county does not present budgetary comparisons as a basic governmental fund financial statement, is it included in the RSI?	______	______
21. If the county uses the modified approach for one or more networks or subsystems of infrastructure assets, is information on these networks and subsystems provided as RSI?	______	______

Year-End Procedures

	YES	NO
1. Is the trial balance prepared from the general ledger accounts, analyzed for errors, and corrected, as necessary?	______	______
2. Are all necessary adjusting entries recorded at year-end to account for revenues and expenditures or expenses in the proper period, properly classifying them, and properly valuing all asset accounts?	______	______
3. Are revenues and other financing sources, expenditures or expenses, other financing uses, and transfers-in and -out accounts closed to fund balance or net assets at the end of the reporting period?	______	______
4. Are the completed BFS and AELR reviewed for accuracy by someone independent of the preparer and by the chief fiscal officer?	______	______
5. Is adequate documentation retained to support the amounts recorded in the BFS and AELR?	______	______

Laws and Regulations

	YES	NO
1. Is the scope of the reporting entity properly defined for financial statement purposes?	______	______
2. Are the BFS prepared in accordance with GAAP and are statutory and regulatory requirements met?	______	______
3. Does the county prepare an AELR in accordance with A.R.S. in the format prescribed by the Auditor General?	______	______
4. If the county expended $500,000 or more in total federal financial assistance, did the county obtain a single audit in accordance with the requirements of the *Single Audit Act Amendments of 1996* and OMB Circular A-133?	______	______

Filing

	YES	NO
1. Are the BFS and AELR filed with the appropriate agencies within 4 months after the close of the fiscal year or by the applicable extension due date?	______	______
2. If a single audit was performed, are the reports filed with the appropriate federal and pass-through agencies in a timely manner?	______	______

CONTENTS

INTRODUCTION

Arizona Revised Statutes (A.R.S.) §41-1279.21(A)(1) requires the Auditor General to ensure that counties are audited annually. Our Office may perform the audit or we may contract with an independent certified public accounting firm to perform the audit. The audits must be conducted in accordance with generally accepted auditing standards (GAAS) established by the American Institute of Certified Public Accountants (AICPA) and the standards for financial audits contained in *Government Auditing Standards* (GAS) issued by the Comptroller General of the United States. Additionally, counties that expend more than $500,000 in federal awards during a fiscal year must also have a compliance audit over 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 the county's major federal programs as defined in OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The audit of the County's compliance will be conducted in accordance with GAAS, the standards applicable to financial audits contained in GAS, and with the requirements of OMB Circular A-133.

GAAS require that the audit be planned and performed to obtain reasonable assurance that the financial statements are free of material misstatement. GAS require that the auditor report on the county's internal control over financial reporting and compliance with laws, regulations, contracts, and grant agreements. The *Single Audit Act Amendments of 1996* and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, extends the auditors' responsibilities to include reporting on the Schedule of Expenditures of Federal Awards (SEFA), expressing an opinion on the county's compliance with requirements applicable to major programs, and reporting on the county's internal control over compliance with requirements applicable to major federal programs.

In addition, counties are required to prepare an annual expenditure limitation report (AELR) that also must be audited. The AELR is reported on the basis of accounting prescribed by the uniform expenditure reporting system as required by Arizona law. For further information on preparing the AELR, counties should consult the *Uniform Expenditure Reporting System* (UERS) manual issued by the Office of the Auditor General.

The county's basic financial statements (BFS) are the responsibility of county management. The auditors' responsibility is to express an opinion on the BFS based on the audit. County management is responsible for adopting sound accounting policies and for establishing and maintaining internal controls that will help to ensure that financial data is recorded, processed, summarized, and reported consistently with management's assertions embodied in the BFS.

This section discusses audit requirements along with audit preparation, the audit process, audit reports, and county reporting requirements.

LEGAL REQUIREMENTS

The legal requirements pertaining to audit requirements are derived from A.R.S. and federal laws and regulations. Counties should refer to these sources for additional information.

1. Counties must prepare annual BFS in accordance with U.S. generally accepted accounting principles (GAAP) (see **§VIII, Financial Reporting**). In addition, Arizona Constitution, Article IX, §20 requires each county to prepare an AELR. A.R.S §41-1279.07(A)(1)

2. The AELR must be filed with the Auditor General within 4 months after the close of each fiscal year. A.R.S. §41-1279.07(C)

3. The board of supervisors is required to provide to the Auditor General by July 31 of each year the name of the chief fiscal officer (CFO) designated by the county to submit the current fiscal year's AELR. The CFO must certify the AELR's accuracy. A CFO who refuses to file the county's AELR with the Auditor General within the specified time periods, or who intentionally files erroneous reports, is guilty of a Class 1 misdemeanor. A.R.S. §41-1279.07(E) and (G)

4. Counties in which a transportation excise tax is in effect, as provided in A.R.S. §§42-6106 and 42-6107, must have a performance audit performed by the Auditor General in the tenth year, and every fifth year thereafter. For a transportation excise tax in effect as provided in A.R.S. §42-6107, the auditors should determine whether the expenditures of the transportation excise revenues comply with A.R.S. §28-6392(B). A.R.S. §41-1279.03(A)(6)

5. Each county must provide financial information for inclusion in its annual audit that verifies that Highway User Revenue Fund monies received by the county pursuant to Title 28, Chapter 18, Article 2, and any other dedicated state transportation revenues the county received are being used solely for the authorized transportation purposes. A.R.S. §41-1279.21(A)(1)

6. Counties must provide reasonable and needed facilities, and provide schedules and documents to the Auditor General under oath, upon request. A.R.S. §41-1279.22(A)

7. The Auditor General will contact the county in advance to arrange a suitable date to begin audit work and inform the county of the necessary audit requirements. Any person who knowingly fails or refuses to provide documentation or to give information as required is guilty of a Class 5 felony. Any person who otherwise knowingly obstructs or misleads the Auditor General in the execution of the Auditor General's duties is guilty of a Class 1 misdemeanor. A.R.S. §41-1279.22(B)

8. The Auditor General is required to report the results of the Auditor General's examinations of the counties to the Joint Legislative Audit Committee and to the Governor as often as required by public interest. A.R.S. §41-1279.21(A)(8)

9. Counties that expend $500,000 or more of federal awards in a fiscal year must have a single audit conducted in accordance with OMB Circular A-133 §200 and §500.

10. Counties that expend more than $50 million a year in federal awards are assigned a federal cognizant agency. The cognizant agency for a single audit is the federal agency designated to carry out the federal responsibilities related to the audit. Cognizant agency duties include providing technical audit advice to auditees and auditors; considering requests for extensions to the report submission due date; obtaining or conducting quality control reviews of selected audits; and coordinating a management decision for audit findings that affect the federal programs of more than one agency. The cognizant agency for audit is the federal awarding agency that provides the predominant amount of direct funding. However, OMB may make a specific cognizant agency assignment, provided notice is published in the federal register. OMB Circular A-133 §400(a)

11. To provide for continuity of cognizance, the determination of the predominant amount of direct funding must be based on direct federal awards spent in the county's fiscal years 2004, 2009, 2014, and every

fifth year thereafter. For example, audit cognizance for periods ending in 2006 through 2010 will be determined based on federal awards spent in 2004. OMB Circular A-133 §400(a)

12. Counties spending less than $50 million a year in federal awards are not assigned a cognizant agency for audit. Instead, these counties are assigned an oversight agency. This is the agency that provides the predominant amount of direct funding to the county. If there is no direct funding, the federal agency with the predominant amount of indirect funding assumes oversight responsibilities. The oversight agency must provide technical advice to auditors and auditees as requested and may assume some or all of the responsibilities performed by a cognizant agency. OMB Circular A-133 §400(b)

13. A federal agency with oversight for a county may reassign oversight responsibility to another federal agency that provides substantial funding and agrees to be the oversight agency. Within 30 days after reassignment, both the old and new oversight agency must notify the county and, if known, the auditor. OMB Circular A-133 §105

AUDIT PREPARATION

County personnel have a significant role in the audit process. The county's first step in planning for the audit is to assign an audit liaison between the county and the auditors. The audit liaison may be the chief financial officer, an internal auditor, or a designated employee responsible for preparing financial statements or maintaining accounting records.

The auditors should provide a list of or clearly communicate the schedules, analyses, and other supporting documentation required for the audit and specify the dates such documentation should be completed. The audit liaison should acknowledge whether such documentation will be prepared by the dates indicated.

The audit liaison should review the list of supporting schedules, analyses, and documents requested by the auditor and begin preaudit preparation before fiscal year-end. This review and preparation may entail notifying county departments of requirements for year-end reports, and performing physical inventories of supplies and capital assets. Appropriate forms and instructions should be provided to employees to help ensure proper completion of these tasks. Files of contracts, agreements, leases, insurance policies, judgments, and other relevant documents should be reviewed for completeness before June 30. The audit liaison should also inform the auditors of any accounting changes since the previous audit.

AUDIT PROCESS

Audit Engagement Letter

The auditors will issue an engagement letter to establish an understanding with the county regarding the nature of the audit. The letter includes the objectives of the engagement, county management's responsibilities, the auditors' responsibilities pertaining to the audit, and the engagement's limitations. In the letter, the auditors usually request cooperation from the county's management and staff in furnishing the accounting records and supporting documentation, and assistance in preparing certain audit schedules and analyses. The letter should state that the audit will be conducted in accordance with GAAS, GAS, and OMB Circular A-133 and that an audit is designed primarily to express an opinion on the county's BFS.

Audit Test Work

The auditors must perform risk assessment procedures by gathering information about the county and its environment, including its internal control. In obtaining an understanding of the county and its environment, the auditors make inquiries of management and others within the county, perform analytical procedures, observe employees, and inspect documents. The auditors' understanding of the county and its environment is used to identify and assess risks of material misstatement. The risks of material misstatement must be addressed at the opinion unit and financial statement level and considered for the specific assertions that are related to a given account, class of transactions, or disclosure. Then, the auditors can design and perform audit procedures, and evaluate audit findings. Although described as a sequential process, risk assessment is an ongoing process of gathering, updating, and analyzing information throughout the audit. <u>The auditor's understanding of the county and its environment consists of an understanding of the following five aspects</u>:

1. **Industry, regulatory, and other external factors**: This includes factors such as the competitive environment, supplier and customer relationships, and technological developments; the regulatory environment encompassing, among other matters, relevant accounting pronouncements, the legal and political environment, and environmental requirements affecting the county; and other external factors, such as general economic conditions.

2. **Nature of the entity:** This includes the county's operations, its ownership, governance, the types of investments that it is making and plans to make, the way that the county is structured, and how it is financed.

3. **Objectives and strategies and the related business risks that may result in a material misstatement of the financial statements**: This includes objectives and overall plans defined by the county's management or those charged with governance; strategies or operational approaches by which management intends to achieve its objectives; and business risks that result from significant conditions, events, circumstances, actions, or inactions that could adversely affect the county's ability to achieve its objectives and execute its strategies.

4. **Measurement and review of the county's financial performance**: This includes the county's performance measures that management and others consider to be important. Performance measures, whether external or internal, create pressures on the county that, in turn, may motivate management to take action to improve the business performance or to misstate the financial statements.

5. **Internal control**: This includes the selection and application of accounting policies consisting of five components: control environment, risk assessment, information and communication, control activities, and monitoring. The county should design its internal control components to provide reasonable assurances regarding the achievement of county objectives in the following categories: reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

   - Control environment is affected by communication and enforcement of integrity and ethical values, commitment to competence, participation of the board of supervisors, management's philosophy and operating style, the organizational structure, assignment of authority and responsibility, and human resource policies and practices.

- Risk assessment for financial reporting purposes is identification, analysis, and management of risks relevant to the preparation of financial statements in accordance with GAAP.
- Information and communication consists of the methods and records established to record, process, summarize, and report county transactions and to maintain accountability for the related assets, liabilities, and equity. Communication involves providing an understanding of individual roles and responsibilities pertaining to internal control over financial reporting.
- Control activities are the county's policies and procedures that help ensure that management's directives are carried out. Examples of control activities include authorization, separation of responsibilities, safeguarding, and asset accountability.
- Monitoring is the process that assesses the quality of internal control performance over time. It requires the county to assess the design and operation of its controls in a timely manner and take the necessary corrective action when weaknesses are found.

An internal audit department, if one exists in a county, provides oversight as to the effectiveness of the county's internal control. The primary responsibility of an internal audit function is to monitor the performance of the county's controls. Internal audit personnel are responsible for providing analyses, evaluations, assurances, recommendations, and other information to the county's management and board of supervisors. External auditors may request the county's internal auditors to assist in performing an audit. For instance, internal auditors may assist the auditors in obtaining an understanding of internal control, in performing tests of controls, or in performing substantive tests. To fulfill these responsibilities, an internal auditor must maintain objectivity with respect to the activity being audited.

To form an opinion on the BFS and prepare reports on compliance and internal control, the auditors must obtain sufficient appropriate audit evidence. The auditors obtain this evidence by inspecting documents on a test basis; observing county policies and procedures; asking questions of county personnel; and confirming transactions, account balances, and other information with county employees and outside entities, such as vendors and financial institutions.

Audit testwork consists of two basic types of tests: tests of controls and substantive tests. Tests of controls are directed toward the design or operation of a control to assess its effectiveness in preventing or detecting material misstatements in a financial statement assertion or when substantive procedures alone do not provide sufficient appropriate audit evidence at the relevant assertion level. These tests also determine whether the county complied with applicable laws and regulations. The auditor may perform tests of controls or substantive procedures before or after fiscal year-end. The higher the risk of material misstatement, the more likely it is that the auditor may decide to perform substantive procedures nearer to or after fiscal year-end. The results of tests of controls are used to determine the nature, timing, and extent of substantive tests.

Substantive tests are performed to detect material misstatement and include tests of details to determine the validity and the propriety of transactions, account balances, and disclosures. Substantive tests also include confirmation of account balances; analytical procedures; and the review of litigation, claims, assessments, and subsequent events.

Federal Compliance Test Work—OMB Circular A-133 requires the auditor to give an opinion on whether the county complied with laws, regulations, contracts, and grant agreement provisions that are applicable to each of the county's major federal programs. In addition, the auditors must obtain an understanding of and test internal control used in the County's administering of major federal programs.

OMB Circular A-133 requires the auditors to determine major federal programs using a risk-based approach that considers current and prior audit experience with the county, oversight by federal agencies and pass-through entities, and the inherent risk of the federal program. Although a federal program may not be a major program under the auditors' risk-based approach, a federal agency may request that it be considered a major program for audit purposes. OMB Circular A-133 specifies the level of audit coverage which must be obtained based on a county's risk. The auditor must audit as major programs those programs with federal awards expended that, in the aggregate, encompass at least 50 percent of the total federal awards expended. If the county has been identified as a low-risk auditee, the auditor need only audit as major programs federal programs with federal awards expended that, in the aggregate encompass at least 25 percent of total federal awards expended.

To determine which federal programs should be audited as major, the auditors must first identify federal programs as either Type A or Type B programs. Type A programs are programs with federal expenditures during the audit period that exceed the larger of $300,000 or 3 percent of a county's total federal expenditures for counties with total federal expenditures of at least $300,000 but less than or equal to $100 million (higher thresholds apply for counties with total federal expenditures in excess of $100 million). All other programs are Type B Programs.

Then, the auditor must identify Type A programs that are low-risk. For a Type A program to be considered low-risk, it must have been audited as a major program in at least one of the two most recent audit periods and, in the most recent audit, have had no findings. However, the auditors may use judgment and determine that certain findings do not preclude the Type A program from being low-risk. In addition, the auditors must consider the results of audit followup and whether any changes in personnel or systems affecting a Type A program have significantly increased risk, and apply professional judgment.

Next, the auditors must identify Type B programs that are high-risk using professional judgment and criteria in OMB Circular A-133 §525. The auditors are not expected to perform risk assessments on relatively small programs. The auditors are required to perform risk assessments only on Type B programs that exceed the larger of $100,000 or 0.3 percent of total federal award expenditures when the county has less than $100 million (higher thresholds apply for counties with total federal expenditures in excess of $100 million).

At a minimum, the auditors must audit all Type A programs, except those which the auditor has identified as low-risk. In addition, from the high-risk Type B programs identified for audit, the auditors have two options:

- Audit at least one-half of the Type B programs identified as high-risk, but not more high-risk Type B programs than the number of low-risk Type A programs identified, or
- Audit one high-risk Type B program for each low-risk Type A program identified.

The auditors must determine the applicable compliance requirements to be tested and reported on for each major program.

The results of all testwork are documented in working papers that are retained by the auditors. Working papers and reports must be maintained for at least 5 years from the date of the audit report. Although generally confidential, audit working papers are required to be made available on request to the cognizant or oversight agency, or its designee, a federal agency providing direct or indirect funding, and to the U.S.

Government Accountability Office as authorized by OMB Circular A-133 §515. In addition, for those counties that are not audited by the Auditor General, working papers must also be made available to the Auditor General's designated representative upon request as provided by contract.

Representation Letter

As part of the audit, the auditors must obtain certain written representations from the county. The representation letter should be addressed to the auditors, dated no earlier than the date of the auditors' report, and signed by authorized county officials with overall responsibility for financial and operating matters who the auditors believe are responsible for and knowledgeable about matters covered by the representations.

The representation letter is management's assertions regarding the presentation of the county's financial statements. It includes management's acknowledgment of its responsibility for the fair presentation in the financial statements of the county's financial position, results of operations, and cash flows in conformity with GAAP. Other specific representations must be made relating to the completeness of the information presented; information on recognition, measurements, and disclosures; and information relating to subsequent events. Specific examples are included in the *AICPA Codification of Statements on Auditing Standards*, AU §333.

AUDIT REPORTS

The county is responsible for fair presentation of each opinion unit reported in the basic financial statements. The auditors' responsibility is to express an opinion as to whether the financial statements present fairly, in all material respects, the county's financial position of each opinion unit, the respective changes in financial position and, where applicable, cash flows in conformity with U.S. GAAP. The type of report the independent auditors issue depends on the content of the financial statements and on the scope and results of the audit.

The auditors' single audit reporting responsibilities encompass three levels of auditing standards and requirements: GAAS, GAS, and OMB Circular A-133. These standards and requirements expand the level of the auditors' responsibility from reporting on the county's basic financial statements to also reporting on internal control and compliance. The auditor has additional reporting responsibilities when auditing financial statements in accordance with GAS and for auditing federal programs in accordance with OMB Circular A-133. The auditors' reports are described below.

Independent Auditors' Report on the Basic Financial Statements

The auditors must issue a report to the county board of supervisors on the BFS. The auditors may express an unqualified opinion stating that the opinion units reported in the BFS are presented fairly in accordance with U. S. GAAP; qualified opinion(s) stating that "except for" the matter(s) to which the qualification relates, opinion units are presented fairly in accordance with U. S. GAAP; or an adverse opinion stating that opinion unit(s) are not presented fairly in accordance with U. S. GAAP. Certain circumstances, although not affecting the auditors' unqualified opinions, may require that the auditor add an explanatory paragraph to the standard report. If the auditors cannot examine sufficient, competent evidential matter to support the fairness of certain information reported in the BFS, the auditors should disclaim an opinion on that information. The auditors should state all of the substantive reasons for modifying or disclaiming an opinion in the auditors' report on the BFS in separate explanatory paragraphs.

When a single audit reporting package is issued with all auditors' reports combined under one cover, the auditors may issue a combined report on the BFS and SEFA. However, if the BFS are issued separately from the other reports of the single audit reporting package, the auditors should include information relating to the SEFA in the reports issued to meet the federal compliance reporting requirements of OMB Circular A-133.

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*

In this report, the auditors are required to report on internal controls tested as part of the financial statement audit and to list any significant control deficiencies. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the county's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. GAAP such that there is more than a remote likelihood that a misstatement of the county's BFS that is more than inconsequential will not be prevented or detected by the county's internal control. The auditors must also indicate whether any of the significant deficiencies are considered to be material weaknesses and, if they are, describe it or refer to where it is described in the schedule of findings and questioned costs (SFQC). A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the BFS will not be prevented or detected by the county's internal control.

In this report, the auditors are also required to report on the county's compliance with applicable laws, regulations, contracts, and grant agreements for which noncompliance could have a direct and material effect on the determination of financial statement amounts.

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

In this report, the auditors report on the tests of internal controls and compliance for major federal award programs and express an opinion on whether the county has complied with laws, regulations, and provisions of contracts or grant agreements that could have a direct and material effect on each major federal award program.

Also, in this report, if the BFS are issued under separate cover, the auditor may also report on whether the SEFA is presented fairly in all material respects in relation to the BFS taken as a whole.

Schedule of Findings and Questioned Costs

The auditors are required to prepare a schedule detailing the findings and questioned costs discovered during the audit. This schedule includes three sections.

Summary of Auditors' Results—This section includes the following information:

- The type of auditors' report issued on the financial statements (i.e., unqualified, qualified, adverse, or disclaimer of opinion).
- Whether significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements and whether any such deficiencies were material weaknesses.

- A statement on whether the audit disclosed any noncompliance that is material to the county's financial statements.
- Whether significant deficiencies in internal control over major programs were identified by the audit and whether any such deficiencies were material weaknesses.
- The type of auditors' report issued on compliance for major programs (i.e., unqualified, qualified, adverse, or disclaimer of opinion).
- A statement on whether the audit disclosed any audit findings that the auditors are required to report under OMB Circular A-133 §510(a).
- An identification of major programs.
- The dollar threshold used to distinguish between Type A and Type B programs.
- A statement on whether the auditee qualified as a low-risk auditee under OMB Circular A-133 §530.
- A statement on whether the county was required to prepare a summary schedule of prior audit findings in accordance with OMB Circular A-133 §315(b).

Financial Statement Findings—This section identifies the significant deficiencies, material weaknesses, fraud, illegal acts, instances of noncompliance, abuse, and other matters related to the BFS that are required to be reported in accordance with GAS.

Federal Award Findings and Questioned Costs—This section identifies significant deficiencies, material weaknesses, and instances of noncompliance, including questioned costs, related to the audit of major federal programs, as required to be reported by OMB Circular A-133 §510(a). Audit findings should be presented in sufficient detail for the county to prepare a corrective action plan.

Audit findings that relate to both the financial statements and federal awards should be reported in both sections. However, the reporting in one section may be in summary form with a reference to detailed reporting in the other section of the SFQC.

REPORTING REQUIREMENTS

Reporting Package

Counties are required to submit to the Federal Clearinghouse a reporting package that includes the BFS and SEFA prepared by the county, and that includes the auditors' reports described on pages **IX-7 through IX-9**. The reporting package should also include when applicable a corrective action plan, and a summary schedule of prior audit findings that is prepared by the county.

Corrective Action Plan—At the completion of the audit, counties must prepare a corrective action plan to address each current-year audit finding. The corrective action plan must provide the name(s) of the contact person(s) responsible for corrective action, the anticipated completion date, and the corrective action planned. The corrective action plan should include explanations or specific reasons if the county does not agree with the audit findings or believes that corrective action is not required.

Summary Schedule of Prior Audit Findings—Counties are responsible for taking corrective action on all audit findings. In addition, they are required to prepare a summary schedule of prior audit findings that reports the status of all audit findings relative to federal awards included in the prior audit's SFQC. It should also include audit findings reported in the prior audit's summary schedule of prior audit findings, except those audit findings that were identified as corrected or no longer valid in the prior audit. Counties must include the reference number that the auditors assigned to each finding in the SFQC and should include the fiscal year in which the finding initially occurred.

When audit findings have not been corrected or only partially corrected, the schedule should describe the planned corrective action and any partial corrective action taken. When the county believes that an audit finding is no longer valid, or does not warrant further action, the reasons should be described in the summary schedule.

Data Collection Form

Counties are required to complete and sign certain sections of a data collection form that states whether the audit was completed in accordance with OMB Circular A-133 and provides information about the county, its federal programs, and the results of the audit. The data collection form is not part of the county's single audit reporting package. The information included in the form, however, is a summary of the information contained in the reporting package.

Report Submission

The single audit reporting package and data collection form must be submitted to the federal clearinghouse within the earlier of 30 days after the receipt of the auditors' reports or 9 months after the end of the fiscal year, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit.

Counties are required to submit a copy of the single audit reporting package and data collection form to the federal clearinghouse to retain as an archival copy. In addition, the federal clearinghouse distributes copies to federal agencies electronically for each federal agency when the SFQC discloses audit findings relating to federal awards that a federal awarding agency provided directly, or when the summary schedule of prior audit findings reports the status of any audit findings relating to federal awards that a federal awarding agency provided directly. Counties that are subrecipients must also provide a copy of the single audit reporting package to each pass-through entity when the SFQC discloses audit findings relating to federal awards that the pass-through entity provided or the summary schedule of prior audit findings reports the status of any audit findings relating to federal awards that the pass-through entity provided. When counties are not required to submit a single audit reporting package to a pass-through entity, they must provide written notification to the pass-through entity that:

- An audit was conducted in accordance with OMB Circular A-133 [including the period covered by the audit and the name, amount, and *Catalog of Federal Domestic Assistance* (CFDA) number of the federal awards provided by the pass-through entity].
- The SFQC disclosed no audit findings relating to the federal awards that the pass-through entity provided.
- The summary schedule of prior audit findings did not report on the status of any audit findings relating to the federal awards that the pass-through entity provided.

Counties may submit a copy of the single audit reporting package to a pass-through entity to comply with the notification described above.

Counties must retain one copy of the single audit reporting package and data collection form on file for 3 years from the date of submission to the federal clearinghouse. Counties that are pass-through entities should keep subrecipients' submissions on file for 3 years from the date of receipt.

If an extension to the report submission due date is granted by the cognizant or oversight agency for audit, the county should provide notification of the extension to the federal clearinghouse and each pass-through entity providing federal awards.

APPENDICES

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The Glossary is designed to provide definitions of financial and accounting terms and concepts as they are commonly used in the professional literature.

Abatement—A complete or partial cancellation of a levy imposed by the county. Abatements usually apply to tax levies, special assessments, and service charges.

Account classification—A name, number, or distinctive symbol that identifies general ledger accounts, such as assets, liabilities, fund equity, revenues, and expenditures.

Accounting system—The methods and records established to identify, assemble, analyze, classify, record, and report the county's transactions, and to maintain accountability for the related assets and liabilities.

Accounts payable—A short-term liability account reflecting amounts owed to individuals or organizations for goods and services received by the county. Amounts due to other funds or other governments are not classified as accounts payable.

Accounts receivable—An asset account reflecting amounts due from individuals or organizations for goods and services furnished by the county. Amounts due from other funds or other governments are not classified as accounts receivable.

Accrual basis of accounting—A method of accounting that recognizes the financial effect of transactions, events, and interfund activities when they occur, regardless of the timing of related cash flows.

Accrued interest receivable—Interest on investments that has been earned but not received at the reporting date. This includes purchased interest.

Accrued liabilities—Amounts owed but not yet due. For example, accrued wages payable is a liability for wages earned by employees between the last payment date and the balance sheet date that are not yet paid.

Accumulated depreciation—A contra-asset account used to report the accumulation of periodic credits to reflect the expiration of capital assets' estimated useful lives.

Ad valorem tax—A tax based on value, such as a property tax.

Additions—Term used to describe increases in the net assets of fiduciary funds.

Adjusting journal entry—An entry made, usually in the general journal, to correct an amount previously recorded in error, to record an accrual, or make other adjustments to the general ledger accounts. These entries are usually made at the end of the month or year after all other journals have been posted.

Advice of encumbrance—A list of outstanding liabilities attributable to the budgetary allotments for the fiscal year just ending. In Arizona, each county department or agency that has such encumbrances outstanding must file with the board of supervisors a completed Advice of Encumbrance form annually on or before June 30. For each item, the board of supervisors must encumber available monies to pay the encumbrance. Encumbrances outstanding at the end of 60 days lapse and the balance reverts to the appropriate county fund.

Agency funds—One of four types of fiduciary funds. Agency funds are used to report resources held by the county in a purely custodial capacity (assets equal liabilities). Agency funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.

Allocation of costs—The act of designating a portion of any allowable cost to a specific account, department, or program. The allocation may be made on any reasonable basis, such as square footage occupied, number of personnel, or salaries.

Allowance for uncollectibles account—A contra-asset valuation account used to indicate the portion of a receivable not expected to be collected.

Amortization—The gradual extinguishment of an amount over a period of time, such as the retirement of a debt by serial payments to the creditor or into a sinking fund. Examples also include amortization of bond premium or discount.

Application controls—Information technology controls over specific tasks that are designed to provide reasonable assurance of proper input, processing, and output of data.

Appropriated budget—The expenditure authority created by the appropriation bills or ordinances that are signed into law and related estimated revenues. The appropriated budget would include all reserves, transfers, allocations, supplemental appropriations, and other legally authorized legislative and executive changes.

Appropriation—A legal authorization granted by a legislative body to make expenditures and to incur obligations for specific purposes, usually with specific limitations as to amount, purpose, and time. In addition, an account used to record the budgetary appropriation for the period.

Arbitrage—The county's reinvestment of the proceeds of tax-exempt securities in materially higher yielding taxable securities.

Assess—To establish an official property value for taxation.

Assessed valuation—A valuation set for real estate or other property by a government as a basis for levying taxes.

Assessment roll—In the case of real property, the official list containing the legal description of each parcel of property and its assessed valuation. The name and address of the last known owner are usually shown. In the case of personal property, the official list containing the name and address of the owner, a description of the personal property, and its assessed value.

Audit committee—A group of individuals, selected by the board of supervisors, having specific responsibility for addressing all issues related to the independent audit of the financial statements.

Audit guides—A series of American Institute of Certified Public Accountants (AICPA) publications that are recognized as "level 2" status on the hierarchy of authoritative sources of generally accepted accounting principles (GAAP) established by Statement on Auditing Standards (SAS) No. 69, *The Meaning of "Present Fairly in Conformity with Generally Accepted Accounting Principles" in the Independent Auditor's Report,* when they are specific to state and local government and cleared by the Governmental Accounting Standards Board (GASB).

Availability criterion—Requirement of the modified accrual basis of accounting according to which revenues may only be recognized when they are collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

Availability period—A specific period immediately following the close of the fiscal year by the end of which cash must be collected for related revenue to be recognized in accordance with the availability criterion for the modified accrual basis of accounting.

Average cost—Cost flow assumption that assigns costs to all similar inventory items by dividing the total cost by the total quantity received.

Basic financial statements—The minimum combination of financial statements and note disclosures required for fair presentation in conformity with GAAP. The basic financial statements include government-wide financial statements, fund financial statements, and the notes to the financial statements.

Basis of accounting—The timing of recognition; when the effects of transactions or events should be recognized for financial reporting purposes. There are three bases of accounting: accrual, modified accrual, and cash. Basis of accounting is an essential part of measurement focus because the timing of recognition is necessary to accomplish a particular measurement focus.

Blanket purchase order—A purchase order that authorizes numerous purchases from one vendor and is approved up to a specified dollar amount for items of a similar nature over a specified period of time.

Bond—A written promise to pay a specified sum of money (called the face value or principal amount) at a specified future date, together with interest until maturity, and secured by the issuer's faith and credit.

Bond anticipation notes—Short-term interest-bearing notes issued in anticipation of improvement bonds to be issued at a later date. The notes are retired from bond proceeds when they are issued.

Bond premium—The difference between the bond proceeds and the face amount of bonds when the former is greater than the latter.

Bonded debt—The portion of indebtedness represented by outstanding bonds.

Book value—Value as shown by the books of account. In the case of assets that are subject to reduction by valuation allowances, "book value" refers to cost or stated value before the appropriate allowance.

Budget—An itemized and systematic plan of operation for a given period that estimates proposed expenditures and the means of financing them.

Budgetary control—The control or management of financial activity, in accordance with an approved budget, to keep expenditures within the limits of available appropriations and revenues.

Business-type activities—One of two classes of activities reported in the government-wide financial statements. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services and usually reported in enterprise funds.

Capital and related financing activities—Term used in connection with cash flows reporting. Capital and related financing activities include (a) acquiring and disposing of capital assets used in providing services or producing goods, (b) borrowing money for acquiring, constructing, or improving capital assets and repaying the amounts borrowed, including interest, and (c) paying for capital assets obtained from vendors on credit.

Capital assets—Land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible or intangible assets that are used in operations and that have initial useful lives of more than 1 year.

Capital budget—A plan of proposed capital expenditures and the means of financing them.

Capital expenditures—An expenditure intended to benefit future periods. Generally, the acquisition of or improvements to capital assets.

Capital lease—An agreement that conveys the right to use property, plant, or equipment, for a stated period of time, that meets one or more of the criteria set forth in Statement of Financial Accounting Standards No. 13 for lease capitalization.

Capital projects fund—Fund type used to account for financial resources to be used for the acquisition or construction of major capital facilities other than those financed by proprietary funds and trust funds.

Capitalization threshold—The dollar value at which a county elects to capitalize individual assets that are used in operations and that have initial useful lives of more than 1 year.

Cash—The term, as used in connection with cash flows reporting, includes not only currency on hand, but also demand deposits with banks or other financial institutions. Cash also includes deposits in other kinds of accounts or cash management pools that have the general characteristics of demand deposit accounts in that the county may deposit additional cash at any time and withdraw cash at any time without prior notice or penalty.

Cash basis of accounting—Basis of accounting that recognizes transactions or events when related cash amounts are received or disbursed.

Cash equivalent—Term used in connection with cash flows reporting. Short-term, highly liquid investments that are both (a) readily convertible to known amounts of cash or (b) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Generally, only investments with original maturities of 3 months or less meet this definition.

Change fund—An imprest basis fund used by a county department to make change for cash transactions.

Chart of accounts—A list of all accounts used in an accounting system.

Check—A written order on a bank to pay on demand a specified sum of money to a named person, to his or her order, or to bearer from money on deposit in the maker's account.

Classification by character—Expenditure classification based on the periods that the expenditures are presumed to benefit. The four character groupings are (a) current operating expenditures, presumed to benefit the current fiscal period; (b) debt service, presumed to benefit prior fiscal periods as well as current and future periods; (c) capital outlays, presumed to benefit the current and future fiscal periods; and (d) intergovernmental, when one government transfers resources to another.

Classified presentation—The separate presentation of the current and long-term portions of assets and liabilities on the statement of net assets or balance sheet. A classified presentation is required for the proprietary fund statement of net assets.

Clearing account—An account used to accumulate debits or credits for the purpose of distributing them later among the accounts to which they are allocable, or for the purpose of transferring the net difference to the proper account.

Cognizant agency—A federal agency designated to carry out the federal single audit responsibilities.

Collateral—Term used in connection with deposits with financial institutions. Collateral is most often in the form of securities pledged by a financial institution to a governmental entity to cover its deposit in case the financial institution fails.

Combining financial statements—Financial statements that report separate columns for individual funds or component units. Combining financial statements normally are required in a comprehensive annual financial report (CAFR) to support each column in the basic financial statements that combines information from more than one fund or component unit.

Compensated absences—Absences such as vacation, illness, and holidays, for which it is expected employees will be paid.

Compliance auditing—Auditing for compliance with applicable laws and regulations. Compliance auditing should not be confused with the term “compliance testing,” which refers to testing for compliance with internal controls.

Compliance supplement—A publication of the U.S. Office of Management and Budget (OMB) outlining compliance requirements for federal award programs. It is designed to assist independent auditors performing single audits.

Component unit—Legally separate organization that the elected officials of the county are financially accountable for. In addition, a component unit can be another organization for which the nature and significance of its relationship with the county is such that its exclusion would cause the county’s financial statements to be misleading or incomplete.

Comprehensive annual financial report (CAFR)—A financial report that encompasses all funds and component units of the county. The CAFR should contain (a) the basic financial statements and required supplementary information, (b) combining statements to support columns in the basic financial statements that combine information from more than one fund or component unit, and (c) individual fund statements as needed. The CAFR is the county’s official annual report and also should contain introductory information, schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, and statistical data.

Condensed financial statements—Abbreviated financial statements sometimes required by GAAP to be presented within the notes to the financial statements in connection with component units, external investment pools, and segments. In addition, GAAP prescribe the presentation of condensed financial information for the current and prior fiscal years as part of management’s discussion and analysis.

Consumption method—The method under which inventories are recorded as expenditures or expenses when used.

Contingent liability—Potential obligation dependent on the outcome of one or more future events, such as a pending lawsuit, a judgment under appeal, accumulated unvested sick leave, or canceling a contract.

Control account—An account in the general ledger, such as accounts receivable or accounts payable, that is used to record the aggregate of debit and credit postings to a number of related accounts called subsidiary accounts. For example, taxes receivable is a control account supported by the aggregate of individual balances in individual property taxpayers' subsidiary accounts.

Control activities—The policies and procedures that help ensure that management directives are carried out.

Control environment—Sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure.

Credit memo—A notice to a purchaser that the seller has decreased an amount the purchaser owes, resulting in reducing a future invoice payment or refunding cash.

Current financial resources measurement focus—The measurement focus according to which the aim of a set of financial statements is to report the current inflows, outflows, and balances of expendable financial resources. This measurement focus is unique to accounting and financial reporting for state and local governments and is used solely for reporting the financial position and results of operations of governmental funds.

Cutoff date—The date selected for segregating transactions of one accounting period from those of the succeeding accounting period.

Database management system—A system of storing interrelated data in a centralized location that can be accessed by multiple users and used in one or more applications.

Debt service fund—Governmental fund type used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

Deed—A written, notarized instrument conveying an interest in real property.

Deferred revenue—Resource inflows that do not yet meet the criteria for revenue recognition. Unearned amounts are always reported as deferred revenue. In governmental funds, earned amounts also are reported as deferred revenue until they are available to liquidate liabilities of the current period.

Delinquent taxes—Taxes remaining unpaid on and after the date on which a penalty for nonpayment is attached.

Department—A functional county unit. Examples are the county assessor and the board of supervisors.

Depreciation—Expiration in the useful lives of capital assets, attributable to wear and tear, deterioration, environmental factors, inadequacy, and obsolescence. Also, the portion of a capital asset's cost, charged as an expense during a particular period. In accounting for depreciation, a capital asset's cost, less any salvage value, is prorated over the estimated useful life of such an asset, and each period is charged with a portion of such cost.

Designated unreserved fund balance—Management's intended use of available expendable financial resources in governmental funds reflecting actual plans approved by the county's board of supervisors. Expressed another way, designations reflect a county's self-imposed limitations on the use of otherwise available expendable financial resources in governmental funds.

Double entry—A system of accounting in which an entry made to the debit side of an account or accounts requires an entry for a corresponding amount to the credit side of another account or accounts. The underlying premise for this system is that every financial transaction affects at least two accounts. Double entry accounting requires the total of assets to equal the total of liabilities and equities.

Due from other funds—An asset account reflecting amounts owed to a particular fund by another fund for goods sold or services rendered. These amounts include only short-term obligations, not interfund loans.

Due to other funds—A liability account reflecting amounts owed by a particular fund to another fund for goods sold or services rendered. These amounts include only short-term obligations, not interfund loans.

Economic resources measurement focus—The measurement focus under which the aim of a set of financial statements is to report all inflows, outflows, and balances affecting net assets. This measurement focus is used for proprietary and fiduciary funds, as well as for government-wide financial reporting. It is also used by business enterprises and not-for-profit organizations in the private sector.

Electronic funds transfer—An alternative method of disbursing monies other than by a county warrant. Must be authorized by the board of supervisors. Arizona Revised Statutes (A.R.S.) §11-493(5)

Eligible depository—Any commercial or savings bank or savings and loan association having either an Arizona branch or its principal place of business in Arizona and insured by the Federal Deposit Insurance Corporation or its successor or any other insuring instrumentality of the United States according to the applicable federal law or credit union that is insured by the National Credit Union Administration or its successor.

Encumbrances—Commitments related to unperformed contracts for goods or services.

Enterprise fund—Proprietary fund type used to report an activity for which a fee is charged to external users for goods or services.

Entitlement—The amount of payment to which the county is entitled pursuant to an allocation formula contained in applicable statutes.

Equity accounts—Those accounts presenting the difference between assets and liabilities of a fund.

Estimated revenue—For budgetary purposes, the amount of revenue that a county expects to receive during a given accounting period.

Expenditure—Decrease in net financial resources under the current financial resources measurement focus. Expenditures are transactions that are not properly classified as other financing uses.

Expenditure limitation—A system mandated by the Arizona Constitution to control county expenditures and limit increases in spending to adjustments for inflation and population growth.

Expenses—Outflows or other uses of assets or incurrences of liabilities from delivering or producing goods, rendering services, or carrying out other activities that constitute the county's major or central operations. This term is only applicable to the government-wide and proprietary fund statements.

External investment pool—An arrangement that commingles, or pools, the monies of more than one legally separate entity and invests, on the participants' behalf, in an investment portfolio.

Fair value—The amount for which a financial instrument could be sold in a current transaction between willing parties other than in a forced or liquidation sale.

Fiduciary funds—Funds used to report assets held in a trustee or agency capacity for others and that cannot be used to support the county's own programs. The fiduciary fund category includes pension (and other employee benefit) trust funds, investment trust funds, private-purpose trust funds, and agency funds.

Final budget/final amended budget—The original budget adjusted by all reserves, transfers, allocations, supplemental appropriations, and other legally authorized legislative and executive changes applicable to the fiscal year, whenever signed into law or otherwise legally authorized.

Financial accountability—The level of accountability that exists if a county appoints a voting majority of an organization's governing board and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to or burdens on the county. A county may also be financially accountable for governmental organizations with a separately elected governing board, a governing board appointed by another government, or a jointly appointed board that is fiscally dependent on the county.

Financial audits—Audits designed to provide independent assurance of the fair presentation of financial information.

Financial reporting entity—A county, organizations for which the county is financially accountable, and other organizations for which the nature and significance of their relationship with the county are such that exclusion would cause the county's financial statements to be misleading or incomplete. The nucleus of a financial reporting entity usually is a primary government. However, another governmental organization, such as a component unit, a joint venture, a jointly governed organization, or other stand-alone government, serves as the nucleus for its own reporting entity when it issues separate financial statements.

Financial resources—Resources that are or will become available for spending. Financial resources include cash and resources ordinarily expected to be converted to cash. Financial resources also may include inventories and prepaids.

First-in, first-out (FIFO)—Cost flow assumption that assumes that inventory items are used in the same order they are purchased.

Fiscal accountability—The responsibility of governments to justify that their actions in the current period have complied with public decisions concerning the raising and spending of public monies in the short term (usually one budgetary cycle or 1 year). This term is used in contrast to operational accountability.

Fiscal year—Any period to which the annual operating budget applies and at the end of which a county determines its financial position and reports financial transactions. The fiscal year for Arizona counties is July 1 through June 30.

Fixed budgets—Budgets that embody estimates of specific dollar amounts. Term used in contrast with flexible budgets.

Flexible budgets—Budgets that embody dollar estimates that vary according to demand for the goods or services provided. Term used in contrast with fixed budgets.

Function—A group of related activities aimed at accomplishing a major service or regulatory program for which a government is responsible, such as public safety.

Fund—A fiscal and accounting entity with a self-balancing set of accounts in which cash and other financial resources, all related liabilities and residual equities, and changes therein, are recorded and segregated to carry on specific activities or attain certain objectives in accordance with special regulations, restrictions, or limitations.

Fund balance—The difference between fund assets and fund liabilities reported in a governmental fund.

Fund financial statements—Basic financial statements presented for the government's funds. Term used in contrast with government-wide financial statements.

Fund type—One of 11 classifications into which all individual funds can be categorized. Governmental fund types include the general fund, special revenue funds, capital projects funds, debt service funds, and permanent funds. Proprietary fund types include enterprise funds and internal service funds. Fiduciary fund types include pension (and other employee benefit) trust funds, investment trust funds, private-purpose trust funds, and agency funds.

General controls—Internal controls that apply to all electronic data processing activities. Such general controls are classified as organization and operation; systems development, modification, and documentation; hardware and system software; access; data and procedural controls; and contingency planning controls.

General fund—The general fund is one of five governmental fund types and typically serves as the chief operating fund of the county. The general fund is used to account for all county financial resources except those required to be accounted for in another fund.

General journal—A journal in which entries not entered in special journals are recorded. Such entries include adjusting entries, reversing entries, and year-end closing entries.

General ledger—A record containing the accounts needed to report the financial position and the results of a county's operations.

General long-term liabilities—Previously defined as general long-term debt, long-term liabilities are liabilities other than those reported as fund liabilities. General long-term liabilities should be reported in the governmental activities column in the government-wide statement of net assets. The government-wide statement of net assets should include all liabilities associated with governmental and business-type activities of the primary government and discretely presented component units.

General obligation bonds—Bonds for which the issuing body pledges its full faith and credit for repayment. General obligation bonds are payable from taxes and other general revenues.

Generally accepted accounting principles (GAAP)—The conventions, rules, and procedures that serve as the norm for the fair presentation of financial statements. The various sources of GAAP for counties are set forth by SAS No. 69, *The Meaning of "Present Fairly in Conformity with Generally Accepted Accounting Principles" in the Independent Auditor's Report.*

Generally accepted auditing standards (GAAS)—The rules and procedures that govern the conduct of a financial audit. There are ten basic standards, classified into three broad categories: general standards, standards of fieldwork, and standards of reporting. The Auditing Standards Board of the AICPA publishes *Statements on Auditing Standards* and related interpretations to comment and expand upon these basic standards.

Government auditing standards (GAS)—Standards promulgated by the Comptroller General of the United States in the publication *Government Auditing Standards* (the "Yellow Book") for the conduct and reporting of both financial and performance audits. GAS establish general standards applicable to both types of audits, and separate standards of fieldwork and reporting for financial and performance audits. The GAS standards of fieldwork and reporting for financial audits incorporate and build upon the AICPA's generally accepted auditing standards.

Governmental Accounting Standards Board (GASB)—The ultimate authoritative accounting and financial reporting standard-setting body for state and local governments. The GASB was established in June 1984 to replace the National Council on Governmental Accounting.

Governmental activities—Activities generally financed through taxes, intergovernmental revenues, and other nonexchange revenues. These activities are usually reported in governmental funds and internal service funds.

Governmental funds—Funds generally used to account for tax-supported activities. There are five different types of governmental funds: the general fund, special revenue funds, capital projects funds, debt service funds, and permanent funds.

Government-wide financial statements—Financial statements that incorporate all governmental and business-type activities, as well as its nonfiduciary component units. There are two basic government-wide financial statements: the statement of net assets and the statement of activities. These statements are presented using the economic resources measurement focus and the accrual basis of accounting.

Grant—A contribution or gift of cash or other assets from another government or private organization to be used or expended for a specified purpose, activity, or facility.

Grant anticipation notes—Short-term, interest-bearing notes issued by a government in anticipation of grants to be received at a later date. The notes are retired from proceeds of the grants to which they are related.

Improvement—An addition made to, or change made in, a capital asset, other than maintenance, to prolong its life or to increase its efficiency or capacity. The cost of the addition or change is added to the book value of the asset.

Independent auditors' report—The official written communication of the results of an audit. In a financial audit, the independent auditors' report typically will offer or disclaim an opinion on whether a set of financial statements is fairly presented in conformity with GAAP or some other comprehensive basis of accounting.

Indirect costs—Costs that are incurred for the common benefit of more than one county activity and are not specifically identifiable with a particular activity. Indirect costs may be allocated and charged to a state or federal project along with direct costs when an indirect cost rate has been approved.

Indirect expenses—Expenses that cannot be specifically associated with a given service, program, or department, and thus, cannot be clearly associated with a particular functional category.

Information and communication—The identification, capture, and exchange of information in a form and time frame that enable employees to carry out their responsibilities.

Infrastructure—Long-lived capital assets that normally are stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets. Examples of infrastructure assets include roads, bridges, tunnels, drainage systems, water and sewer systems, dams, and lighting systems.

Interest and penalties receivable on taxes—The uncollected portion of interest and penalties on taxes.

Interfund activity—Activity between funds of the county, including blended component units. Interfund activities are divided into two broad categories: reciprocal and nonreciprocal. Reciprocal interfund activity comprises interfund loans and interfund services provided and used. Nonreciprocal interfund activity comprises interfund transfers and interfund reimbursements.

Interfund loans—Amounts provided between funds and blended component units of the county with a requirement for repayment.

Interfund reimbursements—Repayments from the county's funds or blended component units responsible for particular expenditures or expenses to the county's funds or blended component units which initially paid for them.

Interfund services provided and used—Sales and purchases of goods and services between the county's funds and blended component units for a price approximating external exchange value.

Interfund transfers—Flow of assets, such as cash or goods, between the county's funds and blended component units without equivalent flows of assets in return and without a requirement for repayment.

Intergovernmental revenues—Revenues from other governments in the form of grants, entitlements, shared revenues, or payments in lieu of taxes.

Internal control—A set of policies and procedures established by the county's board of supervisors, management, and other personnel, and designed to provide reasonable assurance regarding the achievement of objectives for reliability of financial reporting; effectiveness and efficiency of operations;

and compliance with applicable laws and regulations. The five components of internal control are: control environment, risk assessment, control activities, information and communication, and monitoring.

Internal service fund—Proprietary fund type that may be used to report any activity that provides goods or services to other funds, departments, or agencies of the county and its component units, or to other governments, on a cost-reimbursement basis.

Invested in capital assets, net of related debt—One of three components of net assets that must be reported in both government-wide and proprietary fund financial statements. Related debt includes the outstanding balances of any bonds, certificates of participation, notes, or other borrowings that are attributable to acquiring, constructing, or improving the county's capital assets.

Investment income—Includes interest, dividends, and the net increase or decrease in the fair value of investments.

Investment trust funds—Fiduciary fund type used to report governmental external investment pools in separately issued reports and the external portion of these same pools when reported by the county.

Invoice—An itemized statement from a vendor for services or merchandise provided or sent to the county that shows quantities, prices, and total charges.

Journal—A book of original entry, used to provide a detailed record of financial transactions and to support balances in the general ledger.

Journal entry—The original record of an accounting transaction or adjustment for errors in amount or classification. It includes the date, account titles and numbers to be debited and credited, amounts, and an explanation of the entry.

Judgment/judgment payable—An amount to be paid or collected as the result of a court decision, including a condemnation award in payment for private property taken for public use.

Last-in, first-out (LIFO)—Cost flow assumption that assumes inventory items are issued in the reverse order they are purchased.

Leasehold improvements—Improvements made and attached to leased property that will revert to the lessor at the expiration of the lease.

Legal debt limit—The maximum amount of debt that a county is legally permitted to issue.

Levy—(verb) To impose taxes, special assessments, or service charges for the support of governmental activities. (noun) The total amount of taxes, special assessments, or service charges imposed by a governmental unit.

Lien—A claim or charge on property for payment of a debt, obligation, or duty.

Limited property value—A value determined by A.R.S. §42-13301 that is used as the basis for assessing, fixing, determining, and levying primary property taxes.

Local area networks (LANs)—LANs link computer equipment within a limited area to enable users to share application software, data, printers, and other hardware devices.

Major fund—A governmental fund or enterprise fund reported as a separate column in the basic fund financial statements. The general fund is always a major fund. Other major funds are funds whose revenues, expenditures or expenses, assets, or liabilities, excluding extraordinary items, are at least 10 percent of corresponding totals for all governmental or enterprise funds and at least 5 percent of corresponding totals for all governmental and enterprise funds. Any other governmental or enterprise fund may be reported as a major fund if county officials believe that fund is particularly important to financial statement users.

Major program—A federal program determined by an independent auditor to be a major program in accordance with criteria established in OMB Circular A-133 as part of performing a single audit. The auditor must render an opinion on whether the county complied with the laws, regulations, and provisions of contracts or grant agreements that could have a direct and material effect on each major federal award program.

Management's discussion and analysis (MD&A)—A component of required supplementary information used to introduce the basic financial statements and provide an analytical overview of the county's financial activities.

Material weakness—A significant deficiency of such magnitude that it could potentially result in a material misstatement of the financial statements.

Materiality—The magnitude of an omission or misstatement of accounting information that makes it probable that a reasonable person's judgment would have been changed or influenced by the omission or misstatement. The objective of accountability in governmental financial reporting adds another perspective to materiality. Specifically, accountability requires materiality to be judged not only in a quantitative manner, but also in a qualitative manner. That is, accountability involves such issues as legal and contractual compliance that may not have a material effect on the county's reported operating results and financial position but would influence or change a reasonable person's judgment about how the county has conducted its affairs during the period.

Measurement focus—The objective of a measurement in reporting the county's financial performance and position. A particular measurement focus is accomplished by considering not only which resources are measured, but also when the effects of transactions or events involving those resources are recognized. The measurement focus of government-wide financial statements, proprietary fund financial statements, and fiduciary fund financial statements is economic resources. The measurement focus of governmental fund financial statements is current financial resources.

Modified accrual basis of accounting—Basis of accounting according to which (a) revenues are recognized in the accounting period in which they become measurable and available and (b) expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt and certain similar accrued obligations, which should be recognized when due.

Modified approach—The election not to depreciate infrastructure assets that are part of a network or subsystem of a network that meet two specific requirements. First, the county manages the eligible infrastructure assets using an asset management system that has certain specified characteristics. Second, the county documents that the eligible infrastructure assets are being preserved approximately at or above a condition level established and disclosed by the government.

Monitoring—A process that assesses the quality of compliance with internal control policies and procedures.

National Council on Governmental Accounting (NCGA)—The immediate predecessor of the GASB as the authoritative accounting and financial reporting standard-setting body for state and local governments. The NCGA issued 7 statements and 11 interpretations prior to its dissolution in June 1984. These statements and interpretations remain effective unless superseded by a subsequent GASB pronouncement.

Noncapital financing activity—Term used in connection with cash flows reporting. Noncapital financing activities include borrowing money for purposes other than to acquire, construct, or improve capital assets and repaying those amounts borrowed, including interest. This category includes proceeds from all borrowing, such as tax anticipation notes, not clearly attributable to acquiring, constructing, or improving capital assets, regardless of the form of the borrowing. Also included are certain other interfund and intergovernmental receipts and payments.

Nonoperating revenues and expenses—Revenues and expenses not qualifying as operating items, which typically include interest revenue and expense, taxes, and grants that are not equivalent to contracts for services. This is a term used in connection with the proprietary fund statement of revenues, expenses, and changes in net assets.

Nonreciprocal interfund activity—The internal counterpart to nonexchange transactions. This category includes both interfund transfers and interfund reimbursements.

Notes to financial statements—The summary of significant accounting policies and other disclosures required for a fair presentation of the county's financial statements in conformity with GAAP and not included on the financial statements themselves. However, the notes to the financial statements are an integral part of the financial statements.

Number of funds principle—The principle that only the minimum number of funds consistent with legal and operating requirements should be established since unnecessary funds result in inflexibility, undue complexity, and inefficient financial administration.

Object code—The part of an account code that identifies specific types of revenue, expenditure, or balance sheet accounts.

Operating activities—Term used in connection with cash flows reporting. Operating activities generally result from providing services and producing and delivering goods, and include all transactions and other events that are not defined as capital and related financing, noncapital financing, or investing activities.

Operating lease—A lease agreement that does not meet the criteria for capitalization set forth in Statement of Financial Accounting Standards No. 13. In substance, the periodic payments made by the lessee are simply rent for the use of the lessor's property.

Operating revenues and expenses—Term used in connection with the proprietary fund statement of revenues, expenses, and changes in net assets. The term is not defined as such in the authoritative accounting and financial reporting standards, although financial statement preparers are advised to consider the definition of operating activities for cash flows reporting in establishing their own definition.

Original budget—The first complete appropriated budget. The original budget may be adjusted by reserves, transfers, allocations, supplemental appropriations, and other legally authorized legislative and executive changes before the beginning of the fiscal year.

Other financing source—An increase in current financial resources that is reported separately from revenues to avoid distorting revenue trends. The use of the other financing sources category is limited to items so classified by GAAP.

Other financing use—A decrease in current financial resources that is reported separately from expenditures to avoid distorting expenditure trends. The use of the other financing uses category is limited to items so classified by GAAP.

Oversight agency—The federal awarding agency that provides the predominant amount of direct funding to the county if the county has not been assigned a cognizant agency for audit. When there is no direct funding, the federal agency with the predominant indirect funding assumes the oversight responsibilities.

Pension (and other employee benefit) trust funds—A fiduciary fund type used to report resources that are required to be held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution plans, other postemployment benefit plans, or other employee benefit plans.

Per diem—As specified by the county, a daily amount covering the costs for meals, lodging, and other incidental expenses related to travel, except for transportation, registration fees, and communication expenses.

Periodic inventory system—An inventory system in which a physical inventory is taken at the end of an accounting period to determine the amount of inventory on hand. The cost of goods used or sold is determined by adding purchases for the period to the beginning inventory and subtracting the ending inventory.

Permanent funds—A governmental fund type used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the county's programs.

Perpetual inventory system—An inventory system in which receipts and issues of supply items are recorded in the inventory records as the transactions occur. When this inventory system is used, the quantity and value of inventory may be determined at any time from the inventory records.

Petty cash—A sum of money set aside on an imprest basis to pay small obligations for which the issuance of a formal voucher and warrant would be too expensive and time-consuming. Petty cash accounts are sometimes referred to as petty cash funds; however, they are not "funds" in the accounting sense. Examples of petty cash expenditures include postage, freight, and small purchases of office supplies.

Pooled investment—Monies of various funds commingled for investment purposes. Monies may be pooled to obtain a higher yield on investments and to allow for improved investment management.

Prepaid items—Amounts paid in advance for a benefit not yet received, such as prepaid rent and unexpired insurance premiums.

Primary property taxes—Ad valorem taxes that are based on value and levied against real property and improvements, except for secondary property taxes; used to fund the county's general operating expenditures.

Private-purpose trust funds—A fiduciary trust fund type used to report all trust arrangements, other than those properly reported in pension trust funds or investment trust funds, under which principal and income benefit individuals, private organizations, or other governments.

Project grants—Grants for which the awarding agency agrees to pay for providing specific services or completing a specific project.

Proprietary funds—Funds that focus on the determination of operating income, changes in net assets or cost recovery, financial position, and cash flows. There are two different types of proprietary funds: enterprise funds and internal service funds.

Public monies—Includes bonds, evidence of indebtedness, and money belonging to, received by, or held by, state, county, district, city, or town officers in their official capacity.

Purchase order—A document, preferably prenumbered and numerically controlled, to authorize and control expenditures that requests specified merchandise be delivered or certain services be performed and payment for the merchandise or services.

Purchases method—The method for recording inventories as expenditures when acquired.

Reciprocal interfund activity—The interfund counterpart to exchange and exchange-like transactions. This category includes both interfund loans and interfund services provided and used.

Reconciliation—The determination of the items necessary to bring the balance of two or more related accounts into agreement, such as the book and bank balance of cash held in bank accounts. Differences should be identified and corrected.

Records management—The Arizona State Library, Archives and Public Records is authorized by A.R.S. §41-1345 to establish standards, procedures, and techniques for the effective management of public records, and its Records Management Division publishes the *Records Retention and Disposition for Arizona Counties* manual and general records retention schedules applicable for counties.

Refunded bonds—Bonds for which payment at a specified future date(s) has been provided for by issuing refunding bonds.

Refunding bonds—Bonds issued to retire bonds already outstanding. The refunding bonds may be used to provide the resources for redeeming outstanding bonds, or the refunding bonds may be exchanged with the holders of the outstanding bonds. Cash received is usually invested in securities in an irrevocable trust with an escrow agent to provide for all future debt service payments of the refunded bonds.

Registered warrant—A warrant that is registered by the county treasurer for future payment because of a lack of funds and which is to be paid in the order of its registration. A.R.S. §11-635 Warrants may be registered when issued or when presented to the county treasurer by the holders.

Regular serial bonds—Serial bonds in which all periodic installments of principal repayment are equal in amount.

Remittance—Money sent or paid.

Remittance advice—A printed form accompanying a remittance, indicating what debt it is meant to cover and describing any adjustments, corrections, or deductions.

Replacement cost—The cost, as of a certain date, of a capital asset that can render similar service but need not be of the same structural form as the capital asset to be replaced.

Reporting entity—The oversight unit and all of its component units, if any, that are combined in the comprehensive annual financial report or basic financial statements.

Repurchase agreement—A transaction in which the county transfers cash to a broker-dealer or financial institution; the broker-dealer or financial institution transfers securities to the county and promises to repay the cash plus interest in exchange for the return of the same securities.

Required supplementary information—Statements, schedules, statistical data, or other information that the GASB has determined to be necessary to supplement, although not required to be a part of, the basic financial statements.

Requisition—A written request from a county department to the purchasing department for specified goods or services.

Reserved fund balance—The portion of a governmental fund's net assets that is not available for appropriation.

Restricted net assets—A component of net assets calculated by reducing the carrying amount of restricted assets by any related debt outstanding.

Revenue anticipation note—Short-term, interest-bearing notes issued by a government in anticipation of revenues to be received at a later date. The note is retired from the revenues to which it is related.

Revenue bonds—These bonds are generally used to finance the construction or acquisition of capital assets of revenue-producing projects and proprietary funds. The bonds are secured through project revenues or the assets purchased.

Revenues—Increases in the net current assets of a governmental fund type from other than expenditure refunds, interfund transfers, and debt issue proceeds. Also, increases in the net total assets of the government-wide financial statements and for a proprietary fund type from other than expense refunds, capital contributions, and interfund transfers.

Reversing entry—An adjusting journal entry recorded to reverse entries previously recorded, in most instances to establish the accounts on the modified or full accrual basis for financial reporting purposes.

Revolving fund—An imprest basis fund established to provide travel advances, establish petty cash or change funds, or for other minor disbursements.

Revolving line of credit—A line of credit established by the county board of supervisors with a financial institution to allow the county treasurer to redeem warrants when funds are insufficient to pay the warrants. A.R.S. §11-604.01

Risk assessment—The county's identification and analysis of relevant risks to achievement of its objectives, forming a basis for determining how the risks should be managed.

Secondary property taxes—Ad valorem taxes used to pay the principal, interest, and redemption charges on bonded indebtedness or other lawful long-term obligations issued or incurred for a specific capital purpose. Includes amounts assessed under a county levy limit override.

Securities—Bonds, notes, mortgages, or other forms of negotiable or nonnegotiable instruments.

Separation of responsibilities—Term used in connection with the evaluation of internal control. The principle that no single employee should be placed in a position that allows that employee both to commit and conceal an irregularity in the ordinary course of the employee's responsibilities.

Serial bonds—Bonds whose principal is repaid in periodic installments over the life of the issue.

Servicing bank—An eligible depository selected by the board of supervisors to perform the duties and services required by the treasurer. The servicing bank may or may not provide all banking services within the county.

Shared revenues—Revenues levied by one government but shared on a predetermined basis, often in proportion to the amount collected at the local level, with another government or class of governments.

Single audit—An audit performed in accordance with the Single Audit Act Amendments of 1996 and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.*

Source documents—Documents used to initiate accounting transactions which should be retained to support each entry recorded in the accounting records. Source documents for expenditures include requisitions, purchase orders, receiving reports, and vendor invoices. Source documents for revenues include prenumbered receipts, register tapes, validated deposit slips, and treasurer's receipts.

Special district—An independent unit of the county organized to perform a single function or a restricted number of related functions. Special districts usually have the power to incur debt and levy taxes. However, certain types of special districts are entirely dependent upon enterprise earnings and cannot impose taxes. Examples of special districts are water districts, drainage districts, flood control districts, hospital districts, fire protection districts, transit authorities, and electric power authorities.

Special revenue fund—A governmental fund type used to account for the proceeds of specific revenue sources, other than for major capital projects, that are legally restricted to expenditures for specified purposes.

Subsidiary ledger—A group of individual accounts in which the sum of the balances should equal the balance of the related control account in the general ledger.

Substitute check—A paper reproduction of the front and back of an original check created from an electronic image of that check that bears a magnetic ink character recognition line containing all of the information in the magnetic ink character recognition line of the original check, and conforms in paper stock, dimension, and otherwise generally applicable industry standards for substitute checks, and is suitable for automated processing in the same manner as the original check.

Surety bonds—A written promise to pay damages or to indemnify against losses caused by the party or parties named in the document through nonperformance or through defalcation. An example is a surety bond given by a contractor or by an official handling cash or securities.

Tax anticipation notes (TANs)—Notes issued in anticipation of the collection of taxes. Principal and interest on such notes must be paid solely from the taxes estimated to be received for the current fiscal year and from the proceeds of the sale of such notes. A.R.S. §35-465.01

Tax liens—Claims that governments have on properties until taxes levied against them have been paid.

Tax notice—The treasurer's written notification to the taxpayer of the amount of taxes due, the dates payable, and delinquency dates.

Tax roll—The official list showing the amount of taxes levied against each taxpayer or property. Frequently, the tax roll and the assessment roll are combined, but even in these cases the two are distinguishable.

Taxes—Compulsory charges levied by a government to finance services performed for the common benefit.

Taxes receivable–current—The uncollected portion of taxes a county has levied that is due but has no penalty for nonpayment attached.

Taxes receivable–delinquent—Taxes remaining unpaid on and after the date on which a penalty for nonpayment attaches. Delinquent taxes receivable may be paid, abated, cancelled, or converted into tax liens.

Telecommunications—Electronic transmission of voice, data, video, or facsimile information by the means of radio, wire, fiber optics, microwave, or laser.

Trade discount—An allowance off the list price of goods or services usually based on the volume of transactions. The term should not be confused with a cash discount that is based on when an account is paid.

Treasurer's receipt—A receipt prepared in a standard format, consecutively prenumbered, and issued in numeric sequence by the county treasurer for monies received.

Trial balance—A list of account balances in a general ledger, prepared for each fund at the end of the reporting period to ensure that the general ledger is in balance and to facilitate preparing the financial statements.

Unrestricted net assets—The portion of net assets that is neither restricted nor invested in capital assets, net of related debt.

Vested rights—An irrevocable right to benefits given by the county based on services already performed by a county employee, such as vacation and pension benefits.

Voucher—A written document that documents transactions and usually indicates the accounts in which they are to be recorded.

Warrant—An order drawn by the county directing the county treasurer to pay a specified amount to a designated payee. May also mean an electronic image of an original warrant from which a substitute warrant may be created.

The Arizona State Library, Archives, and Public Records is authorized by Arizona Revised Statutes §41-1345 to establish standards, procedures, and techniques for the effective management of public records. The Arizona State Library, Archives, and Public Records' Records Management Division publishes the *Records Retention and Disposition for Arizona Counties* manual and various general retention schedules for counties, which the county should refer to for proper record retention and disposition.

County employees can get materials, forms, and assistance from the Arizona State Library, Archives, and Public Records' Records Management Division to help them comply with the requirements of the records management manuals. The county may contact the Records Management Division at 1919 West Jefferson, Phoenix, Arizona 85009, or by calling (602) 926-3815. Information may also be obtained from the Records Management Divisions' Web site at www.azlibrary.gov/records/.