

**Gila County, Arizona**  
**Single Audit Reporting Package**  
**June 30, 2002**

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### Independent Auditors' Report

The Auditor General of the State of Arizona

The Board of Supervisors of  
Gila County, Arizona

We have audited the accompanying general purpose financial statements of Gila County as of and for the year ended June 30, 2002, as listed in the table of contents. These general purpose financial statements are the responsibility of the County's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

Except as explained in the third and fourth paragraphs, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The County did not maintain adequate accounting records to support the amounts posted during the year to the interfund receivable and payable balances. Accordingly, an adjustment of \$176,381 was recorded in the County's general fund resulting in an increase in miscellaneous revenue in order to reconcile current year activity that related to all fund types. We were unable to examine sufficient evidence in support of the adjustment and therefore, we were unable satisfy ourselves by other means as to its accuracy of the interfund receivable and payable and miscellaneous revenue accounts.

The records of the General Fixed Assets Account Group were incomplete as to cost. As a result, we were unable to satisfy ourselves as to the stated cost of the assets reported in the General Fixed Assets Account Group.

In our opinion, except for the effects, if any, of the matters set forth in the third and fourth paragraphs, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of Gila County as of June 30, 2002, and the results of its operations, and the net assets and changes in net assets of its investment trust fund for the year then ended in conformity with U.S. generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements of Gila County taken as a whole. The accompanying schedule of expenditures of federal awards listed in the table of contents is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 25, 2003 on our consideration of the County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

*Walker & Armstrong LLP*

Phoenix, Arizona  
July 25, 2003

**Gila County**  
**Combined Balance Sheet - All Fund Types and Account Groups**  
**June 30, 2002**

	Governmental Fund Types			Fiduciary	Account Groups	
	General	Special Revenue	Debt Service	Trust and Agency	General Fixed Assets	General Long-Term Debt
<b>Assets and Other Debits</b>						
Cash and cash equivalents	\$ 5,346,988	\$ 5,757,343	\$ -	\$ 50,957,152	\$ -	\$ -
Investments held by trustee	1,801,892	-	325,086	-	-	-
Receivables:						
Property taxes	500,089	25,861	-	-	-	-
Other	610,189	164,792	-	-	-	-
Due from:						
Other funds	1,507,639	1,578,334	-	-	-	-
Other governments	527,222	1,284,853	-	-	-	-
Fixed assets:						
Land	-	-	-	-	653,377	-
Buildings and improvements	-	-	-	-	7,054,566	-
Machinery and equipment	-	-	-	-	15,649,300	-
Construction in progress	-	-	-	-	1,268,418	-
Amount available in debt service fund	-	-	-	-	-	325,086
Amount to be provided for retirement of general long-term debt	-	-	-	-	-	8,855,958
<b>Total assets</b>	<b>\$ 10,294,019</b>	<b>\$ 8,811,183</b>	<b>\$ 325,086</b>	<b>\$ 50,957,152</b>	<b>\$ 24,625,661</b>	<b>\$ 9,181,044</b>

The accompanying notes are an integral part of these financial statements.

**Gila County**  
**Combined Balance Sheet - All Fund Types and Account Groups - Continued**  
**June 30, 2002**

	Governmental Fund Types			Fiduciary	Account Groups	
	General	Special Revenue	Debt Service	Trust and Agency	General Fixed Assets	General Long-Term Debt
<b>Liabilities, Fund Equity and Other Credits</b>						
Liabilities:						
Accounts payable	\$ 1,114,006	\$ 1,420,581	\$ -	\$ -	\$ -	\$ -
Accrued payroll and employee benefits	508,766	266,220	-	-	-	858,283
Due to:						
Other funds	701,468	2,384,505	-	-	-	-
Other governments	-	-	-	137,167	-	-
Deposits held for others	257,393	27,239	-	110,450	-	-
Obligations under capital leases	-	-	-	-	-	3,106,463
Landfill closure and postclosure costs	-	-	-	-	-	2,476,298
Certificates of participation payable	-	-	-	-	-	2,740,000
Deferred revenues	354,901	16,996	-	-	-	-
<b>Total liabilities</b>	<b>2,936,534</b>	<b>4,115,541</b>	<b>-</b>	<b>247,617</b>	<b>-</b>	<b>9,181,044</b>
Fund equity and other credits:						
Investment in general fixed assets	-	-	-	-	24,625,661	-
Fund balances:						
Reserved for investment trust participants	-	-	-	50,709,535	-	-
Unreserved	7,357,485	4,695,642	325,086	-	-	-
<b>Total fund equity and other credits</b>	<b>7,357,485</b>	<b>4,695,642</b>	<b>325,086</b>	<b>50,709,535</b>	<b>24,625,661</b>	<b>-</b>
<b>Total liabilities, fund equity, and other credits</b>	<b>\$ 10,294,019</b>	<b>\$ 8,811,183</b>	<b>\$ 325,086</b>	<b>\$ 50,957,152</b>	<b>\$ 24,625,661</b>	<b>\$ 9,181,044</b>

The accompanying notes are an integral part of these financial statements.

**Gila County**  
**Combined Statement of Revenues, Expenditures, and Changes in Fund Balances -**  
**All Governmental Fund Types**  
**Year Ended June 30, 2002**

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>
<b>Revenues:</b>			
Taxes	\$ 21,947,802	\$ 4,261,680	\$ -
Licenses and permits	478,585	274,491	-
Intergovernmental	4,469,198	12,102,644	-
Charges for services	3,633,198	383,147	-
Fines and forfeits	789,047	415,282	-
Investment income	253,295	222,086	5,909
Miscellaneous	467,209	736,177	-
Total revenues	<u>32,038,334</u>	<u>18,395,507</u>	<u>5,909</u>
<b>Expenditures:</b>			
Current:			
General government	5,592,504	505,994	-
Public safety	6,905,619	1,621,579	-
Judicial services	4,886,688	2,271,141	-
Health, welfare, and sanitation	7,794,253	6,642,212	-
Education and recreation	1,394,245	896,370	-
Highways and streets	-	5,850,133	-
Capital outlay	527,397	1,351,477	-
Debt service:			
Principal retirement	1,507,329	344,800	150,000
Interest and fiscal charges	171,816	41,963	182,560
Total expenditures	<u>28,779,851</u>	<u>19,525,669</u>	<u>332,560</u>
Excess (deficiency) of revenues over expenditures	3,258,483	(1,130,162)	(326,651)
<b>Other financing sources (uses):</b>			
Operating transfers in	398	2,200,934	325,377
Operating transfers out	(1,963,597)	(562,714)	(398)
Net other financing sources (uses)	<u>(1,963,199)</u>	<u>1,638,220</u>	<u>324,979</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other uses	1,295,284	508,058	(1,672)
Fund balances, beginning of year, as restated	<u>6,062,201</u>	<u>4,187,584</u>	<u>326,758</u>
Fund balances, end of year	<u>\$ 7,357,485</u>	<u>\$ 4,695,642</u>	<u>\$ 325,086</u>

The accompanying notes are an integral part of these financial statements.

**Gila County**  
**Combined Statement of Revenues, Expenditures, and Changes in Fund Balances -**  
**Budget and Actual - All Governmental Fund Types**  
**Year Ended June 30, 2002**

	General Fund			Special Revenue Funds			Debt Service Fund		
	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance
<b>Revenues:</b>									
Taxes	\$ 21,176,638	\$ 21,947,802	\$ 771,164	\$ 3,235,817	\$ 4,261,680	\$ 1,025,863	\$ -	\$ -	\$ -
Licenses and permits	373,500	478,585	105,085	369,054	274,491	(94,563)	-	-	-
Intergovernmental	3,713,360	4,469,198	755,838	13,430,182	12,102,644	(1,327,538)	-	-	-
Charges for services	3,426,097	3,633,198	207,101	228,200	383,147	154,947	-	-	-
Fines and forfeits	675,000	789,047	114,047	230,000	415,282	185,282	-	-	-
Investment income	125,000	253,295	128,295	35,000	222,086	187,086	-	5,909	5,909
Miscellaneous	235,000	467,209	232,209	340,129	736,177	396,048	-	-	-
Total revenues	29,724,595	32,038,334	2,313,739	17,868,382	18,395,507	527,125	-	5,909	5,909
<b>Expenditures:</b>									
Current:									
General government									
Administrative services	502,630	83,485	419,145	-	-	-	-	-	-
Assessor	659,511	624,631	34,880	-	-	-	-	-	-
Auctions	-	118,358	(118,358)	-	-	-	-	-	-
Board of Supervisors	430,155	528,118	(97,963)	-	-	-	-	-	-
Community agencies	208,150	147,400	60,750	-	-	-	-	-	-
Elections	166,289	142,069	24,220	-	-	-	-	-	-
Finance	460,383	425,825	34,558	-	77,973	(77,973)	-	-	-
General administration	517,741	664,569	(146,828)	-	-	-	-	-	-
Payroll costs	280,000	226,320	53,680	-	-	-	-	-	-
Personnel	143,464	133,833	9,631	-	-	-	-	-	-
Professional services	426,000	375,903	50,097	-	-	-	-	-	-
Purchasing	54,541	52,605	1,936	-	-	-	-	-	-
Recorder	394,159	363,698	30,461	215,000	212,298	2,702	-	-	-
Treasurer	365,801	372,680	(6,879)	21,500	8,668	12,832	-	-	-
Computer services	507,919	602,447	(94,528)	-	-	-	-	-	-
Facilities management	998,840	728,636	270,204	-	-	-	-	-	-
Multi-information systems	-	1,927	(1,927)	212,903	207,055	5,848	-	-	-
Total general government	6,115,583	5,592,504	523,079	449,403	505,994	(56,591)	-	-	-
Public safety									
County attorney	1,805,882	1,564,259	241,623	603,550	228,231	375,319	-	-	-
County attorney - child support	104,281	78,697	25,584	755,000	460,889	294,111	-	-	-
Constable - Globe	47,645	42,690	4,955	-	-	-	-	-	-
Constable - Payson	75,059	71,062	3,997	-	-	-	-	-	-
County sheriff	4,543,202	4,901,136	(357,934)	995,816	932,459	63,357	-	-	-
County sheriff - jail maintenace	195,597	247,775	(52,178)	-	-	-	-	-	-
Total public safety	6,771,666	6,905,619	(133,953)	2,354,366	1,621,579	732,787	-	-	-

The accompanying notes are an integral part of these financial statements.



**Gila County**  
**Combined Statement of Revenues, Expenditures, and Changes in Fund Balances -**  
**Budget and Actual - All Governmental Fund Types - Continued**  
**Year Ended June 30, 2002**

	General Fund			Special Revenue Funds			Debt Service Fund		
	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance
Judicial services									
Clerk of the Superior Court	\$ 799,055	\$ 776,336	\$ 22,719	\$ 157,998	\$ 67,716	\$ 90,282	\$ -	\$ -	\$ -
Indigent legal	979,507	903,998	75,509	67,224	18,137	49,087	-	-	-
Justice Court - Globe	447,683	439,101	8,582	50,000	-	50,000	-	-	-
Justice Court - Payson	371,518	370,558	960	95,000	3,721	91,279	-	-	-
Juvenile detention	883,113	817,061	66,052	-	-	-	-	-	-
Probation	702,348	707,387	(5,039)	2,199,000	1,802,621	396,379	-	-	-
Superior Court - division I	174,460	165,220	9,240	-	-	-	-	-	-
Superior Court - division II	167,160	155,731	11,429	-	-	-	-	-	-
Superior Court - general	594,321	551,296	43,025	171,498	119,732	51,766	-	-	-
Conciliation Court/ADR - Subsidy	-	-	-	74,149	76,366	(2,217)	-	-	-
Payson Court Commissioner	-	-	-	90,687	79,601	11,086	-	-	-
Law library	-	-	-	100,005	103,247	(3,242)	-	-	-
Total judicial services	5,119,165	4,886,688	232,477	3,005,561	2,271,141	734,420	-	-	-
Health, welfare, and sanitation									
9-1-1 installation	284,258	280,775	3,483	-	-	-	-	-	-
Community development	790,521	625,077	165,444	5,721,385	5,112,363	609,022	-	-	-
Emergency services	181,823	170,923	10,900	-	-	-	-	-	-
Flood plain management	26,304	23,269	3,035	-	-	-	-	-	-
Indigent health	434,488	599,533	(165,045)	-	-	-	-	-	-
Public fiduciary	191,247	196,853	(5,606)	-	-	-	-	-	-
Rural addressing/GIS	60,092	45,516	14,576	-	734	(734)	-	-	-
AHCCCS	4,240,458	4,240,458	-	-	-	-	-	-	-
Health services	-	-	-	1,780,803	1,443,396	337,407	-	-	-
Solid waste	2,804,000	1,611,849	1,192,151	150,000	85,719	64,281	-	-	-
Total health, welfare, and sanitation	9,013,191	7,794,253	1,218,938	7,652,188	6,642,212	1,009,976	-	-	-
Education and recreation									
Community college development	980,172	1,066,786	(86,614)	-	-	-	-	-	-
Library district	-	-	-	692,817	711,305	(18,488)	-	-	-
Fairgrounds	111,696	111,949	(253)	-	-	-	-	-	-
School superintendent	214,405	215,510	(1,105)	135,486	169,869	(34,383)	-	-	-
School reserve - subsidy	-	-	-	15,000	15,196	(196)	-	-	-
Total education and recreation	1,306,273	1,394,245	(87,972)	843,303	896,370	(53,067)	-	-	-

The accompanying notes are an integral part of these financial statements.

**Gila County**  
**Combined Statement of Revenues, Expenditures, and Changes in Fund Balances -**  
**Budget and Actual - All Governmental Fund Types - Continued**  
**Year Ended June 30, 2002**

	General Fund			Special Revenue Funds			Debt Service Fund		
	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance
Highways and streets									
Engineering services	\$ -	\$ -	\$ -	\$ 1,886,866	\$ 906,964	\$ 979,902	\$ -	\$ -	\$ -
Road fund	-	-	-	6,507,728	4,926,014	1,581,714	-	-	-
Street light improvement districts	-	-	-	10,300	17,155	(6,855)	-	-	-
Total highways and streets	-	-	-	8,404,894	5,850,133	2,554,761	-	-	-
Contingency	900,000	-	900,000	-	-	-	-	-	-
Capital outlay	222,187	527,397	(305,210)	87,749	1,351,477	(1,263,728)	-	-	-
Debt service									
Principal retirement	-	1,507,329	(1,507,329)	-	344,800	(344,800)	-	150,000	(150,000)
Interest and fiscal charges	-	171,816	(171,816)	-	41,963	(41,963)	-	182,560	(182,560)
Total debt service	-	1,679,145	(1,679,145)	-	386,763	(386,763)	-	332,560	(332,560)
Total expenditures	29,448,065	28,779,851	668,214	22,797,464	19,525,669	3,271,795	-	332,560	(332,560)
<b>Excess (deficiency)</b>									
<b>  of revenues over expenditures</b>	276,530	3,258,483	2,981,953	(4,929,082)	(1,130,162)	3,798,920	-	(326,651)	(326,651)
<b>Other financing sources (uses)</b>									
Operating transfers in	70,000	398	(69,602)	-	2,200,934	2,200,934	-	325,377	325,377
Operating transfers out	(3,277,629)	(1,963,597)	1,314,032	-	(562,714)	(562,714)	-	(398)	(398)
Net other financing sources (uses)	(3,207,629)	(1,963,199)	1,244,430	-	1,638,220	1,638,220	-	324,979	324,979
Excess (deficiency) of revenues and other financing sources over expenditures and other uses	(2,931,099)	1,295,284	4,226,383	(4,929,082)	508,058	5,437,140	-	(1,672)	(1,672)
Fund balances, beginning of year, as restated	2,931,099	6,062,201	3,131,102	4,929,082	4,187,584	(741,498)	-	326,758	326,758
Fund balances, end of year	\$ -	\$ 7,357,485	\$ 7,357,485	\$ -	\$ 4,695,642	\$ 4,695,642	\$ -	\$ 325,086	\$ 325,086

The accompanying notes are an integral part of these financial statements.

**Gila County**  
**Statement of Net Assets**  
**Investment Trust Fund**  
**Year Ended June 30, 2002**

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**Assets**

Cash and cash equivalents	<u>\$ 50,709,535</u>
Total assets	50,709,535
Total liabilities	<u>-</u>
Net assets held in trust	<u><u>\$ 50,709,535</u></u>

The accompanying notes are an integral part of these financial statements.

**Gila County**  
**Statement of Changes in Net Assets**  
**Investment Trust Fund**  
**Year Ended June 30, 2002**

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**Additions:**

Contributions from participants	\$ 78,125,735
Net investment income	<u>2,447,779</u>
Total additions	80,573,514

**Deductions:**

Distributions to participants	<u>79,894,409</u>
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Net increase in net assets 679,105

**Net assets held in trust**

July 1, 2001 50,030,430

June 30, 2002 \$ 50,709,535

The accompanying notes are an integral part of these financial statements.

**Gila County**  
**Notes to Financial Statements**  
**June 30, 2002**

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**Note 1 – Summary of Significant Accounting Policies**

The accounting policies of Gila County conform to U.S. generally accepted accounting principles applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB). A summary of the County's more significant accounting policies follows.

The County's major operations include general government, public safety, judicial services, highway and street maintenance and construction, health, welfare, and sanitation, education and recreation.

***Reporting Entity***

The County is a general purpose local government that is governed by a separately elected board of three county supervisors. These general purpose financial statements present all the fund types and account groups of the County (a primary government) and its component units.

Component units are legally separate entities for which the County is considered to be financially accountable. Blended component units, although legally separate entities, are in substance part of the County's operations. Therefore, data from these units is combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the combined financial statements to emphasize they are legally separate from the County. The blended component unit discussed below has a June 30 year-end. The County has no discretely presented component units.

**Blended Component Unit** – The Gila County Municipal Property Corporation is a nonprofit organization established under Arizona law for the purpose of acquiring property and building improvements for the County. The County Board of Supervisors appoints the Corporation's Board of Directors and, therefore, the Corporation's transactions have been accounted for within the County's governmental fund types and account groups.

Separate financial statements of the Gila County Municipal Property Corporation are not prepared.

***Fund Accounting***

The County's accounts are maintained in accordance with the principles of fund accounting to ensure that limitations and restrictions on the County's available resources are observed. The principles of fund accounting require that resources be classified for accounting and reporting purposes into funds or account groups in accordance with the activities or objectives specified for those resources. Each fund is considered a separate accounting entity, and its operations are accounted for in a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Account groups are reporting devices to account for certain assets and liabilities of the governmental funds not recorded directly in those funds.

## Notes to Financial Statements – Continued

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### **Note 1 – Summary of Significant Accounting Policies – Continued**

#### ***Fund Accounting – Continued***

Accounts are separately maintained for each fund and account group; however, in the accompanying financial statements, funds that have similar characteristics have been combined into generic fund types that are further classified into broad fund categories. A description of the County's fund categories, types, and account groups follows.

**Governmental Funds** account for the County's general government activities using the flow of current financial resources measurement focus and include the following fund types.

The *General Fund* is the County's primary operating fund. It accounts for all financial resources of the County, except those required to be accounted for in other funds.

The *Special Revenue Funds* account for specific revenue sources that are legally restricted to expenditures for specified purposes.

The *Debt Service Fund* accounts for resources accumulated and used for the payment of general long-term debt principal, interest, and related costs.

**Fiduciary Funds** account for assets the County holds on behalf of others, and include the following fund types.

The *Investment Trust Fund* accounts for investments made by the County on behalf of other governmental entities using the economic resources measurement focus.

The *Agency Fund* is custodial in nature and does not present results of operations or have a measurement focus. This fund is used to account for assets that the government holds for others in an agency capacity.

**Account Groups** are used to establish control and accountability for certain County assets and liabilities that are not recorded in the funds and include the following two groups.

The *General Fixed Assets Account Group* accounts for all of the County's fixed assets.

The *General Long-Term Debt Account Group* accounts for all of the County's long-term obligations.

#### ***Basis of Accounting***

The financial statements of the Governmental Funds are presented on the modified accrual basis of accounting. Revenues are recognized when they become measurable and available to finance current-period expenditures. Expenditures are recognized when the related fund liability is incurred, except for principal and interest on general long-term debt that are recognized when due.

## Notes to Financial Statements – Continued

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### **Note 1 – Summary of Significant Accounting Policies – Continued**

#### ***Basis of Accounting – Continued***

Revenues susceptible to accrual are property taxes; 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 and miscellaneous revenues are not susceptible to accrual because generally they are not measurable until received in cash.

The financial statements of the Investment Trust Fund are presented on the accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

#### ***Budgeting and Budgetary Control***

Arizona Revised Statutes (A.R.S.) require the County to prepare and adopt a balanced budget annually for each separate fund. The Board of Supervisors must approve such operating budgets on or before the third Monday in July to allow sufficient time for the legal announcements and hearings required for the adoption of the property tax levy on the third Monday in August. A.R.S. prohibit expenditures or liabilities in excess of the amounts budgeted.

Essentially, the County prepares its budget on the same modified accrual basis of accounting used to record actual revenues and expenditures.

The County has adopted budgets in accordance with the A.R.S. requirements for the General, Special Revenue, and Debt Service Funds.

Expenditures may not legally exceed appropriations at the department level. In certain instances, transfers of appropriations between departments or from the contingency account to a department may be made upon approval of the Board of Supervisors.

Encumbrance accounting, under which purchase orders, contracts, and other commitments to expend monies are recorded to reserve that portion of the applicable fund balance, is employed as an extension of formal budgetary control. Encumbrances outstanding at year-end for goods or services that were not received before fiscal year-end are canceled. However, the County may draw warrants against encumbered amounts for goods or services received but unpaid at June 30 for 60 days immediately following the close of the fiscal year. After 60 days the remaining encumbered balances lapse.

#### ***Cash and Investments***

All investments are stated at fair value.

## Notes to Financial Statements – Continued

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### **Note 1 – Summary of Significant Accounting Policies – Continued**

#### ***Inventories***

Purchases of inventory items are recorded at the time of purchase as expenditures in the funds from which the purchases were made; and because the amounts on hand at June 30, 2002, were immaterial, they are not included in the balance sheet.

#### ***Fixed Assets***

Purchased fixed assets capitalized in the General Fixed Assets Account Group are recorded at the time of purchase as expenditures in the funds from which the expenditures were made. Such assets are capitalized at cost. Donated fixed assets are capitalized at their estimated fair market value at the time received.

Depreciation on general fixed assets is not recorded, and interest incurred during construction is not capitalized. Also, public domain (infrastructure) general fixed assets consisting of certain improvements other than buildings, such as roads, bridges, curbs and gutters, streets and sidewalks, and drainage and lighting systems, are not capitalized.

#### ***Compensated Absences***

Compensated absences consist of vacation leave and a calculated amount of sick leave earned by employees based on services already rendered.

Employees may accumulate up to 240 hours of vacation depending on years of service, but any vacation hours in excess of the maximum amount that are unused at year-end are forfeited. Upon termination of employment, all unused and unforfeited vacation benefits are paid to employees. Accordingly, vacation benefits are accrued as a liability in the financial statements.

Employees may accumulate an unlimited number of sick leave hours. Generally, sick leave benefits provide for ordinary sick pay and are cumulative but do not vest with employees and therefore, are not accrued. However upon retirement, employees who have accumulated at least 1,000 hours of sick leave receive a \$3,000 bonus.

The liability for vested compensated absences of the Governmental Funds is recorded in the General Long-Term Debt Account Group since the amount expected to be paid from current financial resources is not significant.

#### ***Investment Income***

Investment income is composed of interest, dividends, and net changes in the fair value of applicable investments.



## Notes to Financial Statements – Continued

### **Note 1 – Summary of Significant Accounting Policies – Continued**

#### ***Property Taxes***

Property taxes are recognized as revenues in the fiscal year they are levied and collected or if they are collected within 60 days subsequent to fiscal year-end. Property taxes not collected within 60 days subsequent to fiscal year-end or collected in advance of the fiscal year for which they are levied are reported as deferred revenues.

#### ***Intergovernmental Grants and Aid***

Grants and assistance awards made on the basis of entitlement periods are recorded as intergovernmental receivables and revenues when entitlement occurs. Reimbursement grants are recorded as intergovernmental receivables and revenues when the related expenditures are incurred. Reimbursements not received within 60 days subsequent to fiscal year-end are reported as deferred revenues.

#### ***Reclassifications***

During 2002, certain changes were made to expenditure classifications in the general and special revenue funds to conform to the classifications used in the County's adopted budget.

### **Note 2 – Excess of Expenditures over Appropriations**

Seven General Fund departments and twelve Special Revenue Funds had an excess of actual expenditures over appropriations as reported on the Combined Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual-All Governmental Fund Types. Generally, the excesses were the result of unbudgeted expenditures in those departments during the year.

### **Note 3 – Individual Fund Deficits**

The following Special Revenue Funds had fund deficits in excess of \$1,000 as of June 30, 2002:

<b>Fund</b>	<b>Deficit</b>
Drug Enforcement – Superior Court	\$ 11,081
Case Processing Fund	5,842
Criminal History Improvement	10,508
Health Department	87,134
Central Purchasing	16,993
Fuel Management	1,444
Risk Management	5,067
Video Conference	295,479
Administration Building	48,156
Fairgrounds MPC	2,935

## Notes to Financial Statements – Continued

### **Note 3 – Individual Fund Deficits - Continued**

Workforce Investment Act	1,802
CPAF Drug Court	22,028
Health Services Fund	433,821
Adult Intensive Probation Services	54,224
Community Punishment Program	4,726
Diversion – Consequences	20,605
Juvenile Drug Court	6,537
State Aid Enhancement	76,403
Detention Health Services	177,377
Education SVC Prov. College	4,464
Summer Youth Employment 01 / 02	1,369
Preventative Maintenance District 3	1,867
District 2 - Equipment	4,759
Major Maintenance District 3	33,510
U.S. Department of Justice – Equipment	22,220
Folic Acid	3,481
Nutrition	1,499
Play	7,591
Commodity Supplement Food Program	13,614
Narcotics Task Force/Sheriff	17,678
Central Heights SLID	1,035
Juvenile Victim’s Rights	7,688
Drug Prosecution Program Fund	68,400
Crime Victim Compensation Fund	26,320

These fund deficits resulted either from operations or a carryover deficit from prior years, but are expected to be corrected through normal operations or through General Fund operating transfers in future years.

### **Note 4 – Deposits and Investments**

Arizona Revised Statutes authorize the County to invest public monies in the State Treasurer's investment pool; U.S. Treasury obligations; specified state and local government bonds; and interest-earning investments such as savings accounts, certificates of deposit, and repurchase agreements in eligible depositories. The statutes require collateral for demand deposits, certificates of deposit, and repurchase agreements at 101 percent of all deposits not covered by federal depository insurance.

***County Treasurer's Investment Pool*** – Arizona Revised Statutes require community colleges, school districts, and other local governments to deposit certain public monies with the County Treasurer (see Note 14). Those monies are pooled with County monies for investment purposes.

## Notes to Financial Statements – Continued

### **Note 4 – Deposits and Investments – Continued**

**Deposits** – At June 30, 2002, the investment pool had cash on hand of \$6,000. The carrying amount of the investment pool's total cash in bank was \$717,810, and the bank balance was \$753,340. Of the bank balance, \$169,537 was covered by federal depository insurance and \$583,803 was covered by collateral held by the pledging financial institution's trust department or agent in the County's name.

**Investments** – At June 30, 2002, the investments in the County Treasurer's investment pool consisted of U.S. government securities with a fair value of \$55,935,867 and money market funds invested in U.S. government securities with a fair value of \$4,545,317. The County's investments in U.S. government securities were uninsured and unregistered with the securities held by the counterparty, but not in the County's name. The County's investments in the money market funds represents a proportionate interest in that fund's portfolio; however, the County's portion is not identified with specific investments and, therefore, not subject to custodial credit risk.

**Other Deposits**-At June 30, 2002, the carrying amount of the County's total nonpooled cash on hand was \$1,425. The carrying amount of the County's total nonpooled cash in bank was \$855,064, and the bank balance was \$987,629. Of the bank balance, \$273,678 was covered by federal depository insurance; and \$713,951 was covered by collateral held by the pledging financial institution's trust department or agent in the County's name.

**Investments held by trustee** – The \$2,126,978 of investments held by the trustee, consisting of U.S. government securities, were uninsured and unregistered with the securities held by the counterparty, but not in the County's name.

A reconciliation of cash and investments to amounts shown on the combined balance sheet follows.

	County Treasurer's Investment Pool	Other	Total
<b>Cash and investments:</b>			
Cash on hand	\$ 6,000	\$ 1,425	\$ 7,425
Carrying amount of deposits	717,810	855,064	1,572,874
Reported amount of investments	60,481,184	2,126,978	62,608,162
Total cash and investments	\$ 61,204,994	\$ 2,983,467	\$ 64,188,461
<b>Combined Balance Sheet:</b>			
Cash and cash equivalents			\$ 62,061,483
Investments held by trustee			2,126,978
Total			\$ 64,188,461

## Notes to Financial Statements – Continued

### **Note 5 – Property Taxes Receivable**

The County levies real property taxes on or before the third Monday in August that become due and payable in two equal installments. The first installment is due on the first day of October and becomes delinquent after the first business day of November. The second installment is due on the first day of March of the next year and becomes delinquent after the first business day of May.

During the year, the County also levies various personal property taxes that are due the second Monday of the month following receipt of the tax notice and become delinquent 30 days later.

A lien assessed against real and personal property attaches on the first day of January proceeding assessment and levy.

Property taxes receivable consist of uncollected property taxes as determined from the records of the County Treasurer's Office, and at June 30, 2002, were as follows:

<u>Fiscal Year</u>	<u>General Fund</u>	<u>Special Revenue Fund</u>
2001-2002	\$ 454,144	\$ 22,322
Prior	45,945	3,539
Total	<u>\$ 500,089</u>	<u>\$ 25,861</u>

That portion of property taxes receivable not collected within 60 days after June 30, 2002, has been deferred and, consequently, is not included in current-year revenues.

### **Note 6 – Due from Other Governments**

Amounts due from other governments at June 30, 2002, in the General Fund include \$230,904 in county excise taxes; \$88,160 in sales taxes from the State of Arizona; \$115,339 in vehicle license taxes from the State of Arizona and \$92,819 from various other grants.

Amounts due from other governments in the Special Revenue Funds include \$283,332 in state-shared revenue from highway user taxes and \$80,042 in vehicle license tax. The remaining balance of \$921,479 consists of grants from the state and federal governments.

### **Note 7 - Revolving Line of Credit**

The County maintains a revolving line of credit with a \$1,500,000 limit and interest payable at the same time as principal, which is contingent on the County's receipt of "non-restricted operating revenues" as defined by ARS §11-604.01. The credit line is secured by non-operating revenue received by the County Treasurer. Any unpaid principal and interest becomes due on the maturity date of June 30, 2005. The interest rate is at the bank's prime rate less 3.35% for fiscal year 2002. As of June 30, 2002, the County did not have an outstanding balance on this credit line.

**Notes to Financial Statements – Continued**

**Note 8 – Certificates of Participation Payable**

During the year ended June 30, 2000, the County issued \$3,245,000 in certificates of participation with an interest rate of 6.4 percent to finance renovation costs for a newly-acquired county administration building and several other County buildings, and to refund the outstanding 1991 Series A certificates of participation. The certificates are generally noncallable, with interest payable semiannually.

Principal and interest requirements at June 30, 2002, were as follows:

<u>Description</u>	<u>Interest Rates</u>	<u>Maturities</u>	<u>Outstanding Principal July 1, 2001</u>	<u>Issues</u>	<u>Retirements</u>	<u>Outstanding Principal June 30, 2002</u>
Series 1999	6.4%	11/24/00-5/24/14	\$ 2,890,000	\$ -	\$ 150,000	\$ 2,740,000

Certificates of participation debt service requirements to maturity, including \$1,226,560 of interest, are as follows:

Year ending June 30,	
2003	\$ 327,960
2004	332,720
2005	331,680
2006	330,000
2007	332,520
Thereafter	<u>2,311,680</u>
Total	<u><u>\$ 3,966,560</u></u>

**Note 9 – Obligations Under Capital Leases**

The County has acquired machinery and equipment under the provisions of various long-term lease agreements classified as capital leases for accounting purposes because they provide for a bargain purchase option or a transfer of ownership by the end of the lease term. Accordingly, such assets totaling \$6,237,088 at June 30, 2002, are capitalized in the General Fixed Assets Account Group.

## Notes to Financial Statements – Continued

### **Note 9 – Obligations Under Capital Leases - Continued**

The future minimum lease payments under the capital leases, together with the present value of the net minimum lease payments at June 30, 2002, were as follows:

	General Long-Term Debt Account Group
Year ending June 30,	
2003	\$ 1,033,319
2004	742,854
2005	445,695
2006	396,305
2007	396,305
Thereafter	594,539
Total minimum lease payments	<u>3,609,017</u>
Less amount representing interest	<u>502,554</u>
Present value of net minimum lease payments	<u>\$ 3,106,463</u>

### **Note 10 – Landfill Closure and Postclosure Care Costs**

State and federal laws and regulations require the County to place a final cover on its six landfill sites when they stop accepting waste and to perform certain maintenance and monitoring functions at the sites for 30 years after closure. Although closure and postclosure care costs will not be paid until near or after the date that the landfills stop accepting waste, the County reports a portion of these closure and postclosure care costs as an addition to the General Long-Term Debt Account Group in each period based on landfill capacity used as of each balance sheet date. The \$2,476,298 reported as landfill closure and postclosure care liability at June 30, 2002, represents the cumulative amount reported to date based on the approximate use of 52 percent of the estimated capacity of the Buckhead Mesa Landfill and 40 percent of the Russell Gulch Landfill. The County will recognize the remaining estimated cost of closure and postclosure care of \$2,205,988 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in fiscal year 2002. The County has closed four of its landfills as of June 30, 1996, and expects to close the two remaining landfills in 2010 and 2017. In July 2002, one of the County's landfills was significantly expanded which will result in a greater future closure and postclosure care liability. The actual costs may also be higher due to inflation, changes in technology, or changes in regulations.

## Notes to Financial Statements – Continued

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### **Note 10 – Landfill Closure and Postclosure Care Costs - Continued**

In order to comply with state and federal laws and regulations, the County obtained a letter of credit on September 22, 1999, to ensure the costs of landfill closure, postclosure, and possible corrective action can be met. As part of the agreement for the line of credit, the County established a mandatory sinking fund with an escrow agent. The sinking fund balance will equal the estimated landfill closure and postclosure care costs when the landfills are expected to close. The County's annual payments to comply with this agreement total \$313,556. The County entered this agreement as an alternative to complying with the local government financial test requirements.

### **Note 11 – Risk Management**

The County is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters; but was unable to obtain insurance at a cost it considered to be economically justifiable. Therefore, the County joined and is covered by three public entity risk pools: the Arizona Counties Property and Casualty Pool, the Arizona Counties Workers' Compensation Pool, and the Arizona Local Government Employee Benefit Trust which are described below.

The Arizona Counties Property and Casualty Pool is a public entity risk pool currently composed of 11 member counties. The pool provides member counties catastrophic loss coverage for risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters; and provides risk management services. Such coverage includes all defense costs as well as the amount of any judgment or settlement. The County is responsible for paying a premium, based on its exposure in relation to the exposure of the other participants, and a deductible of \$25,000 for each occurrence. The County is also responsible for any payments in excess of the maximum coverage of \$100 million per occurrence for property claims and \$15 million per occurrence for liability claims. A county must participate in the pool at least three years after becoming a member; however, it may withdraw after the initial three-year period. If the pool were to become insolvent, the County would be assessed an additional contribution.

The Arizona Counties Workers' Compensation Pool is a public entity risk pool currently composed of 11 member counties. The pool provides member counties with workers' compensation coverage, as required by law, and risk management services. The County is responsible for paying a premium, based on an experience rating formula that allocates pool expenditures and liabilities among the members.

The Arizona Counties Property and Casualty Pool and the Arizona Counties Workers' Compensation Pool receive independent audits annually and an audit by the Arizona Department of Insurance triennially. Both pools accrue liabilities for losses that have been incurred but not reported. These liabilities are determined annually based on an independent actuarial valuation.

## Notes to Financial Statements – Continued

### **Note 11 – Risk Management - Continued**

The County provides life, health, and disability benefits to its employees and their dependents through the Arizona Local Government Employee Benefit Trust currently composed of six member counties. The Trust provides the benefits through a self-funding agreement with its participants and administers the program. The County is responsible for paying the premium and may require its employees to contribute a portion of that premium. If it withdraws from the Trust, the County is responsible for any claims run-out costs, including claims reported but not settled, claims incurred but not reported, and administrative costs. If the Trust were to terminate, the County would be responsible for its proportional share of any Trust deficit.

### **Note 12 – Changes in Long-Term Liabilities**

A summary of changes in the liabilities reported in the General Long-Term Debt Account Group follows.

	Balance July 1, 2001 as restated	Additions	Reductions	Balance June 30, 2002
Accrued payroll and employee benefits	\$ 793,570	\$ 64,713	\$ -	\$ 858,283
Obligations under capital leases	4,958,593	-	1,852,130	3,106,463
Landfill closure and postclosure care costs payable	2,126,148	350,150	-	2,476,298
Certificates of participation payable	2,890,000	-	150,000	2,740,000
Total	\$ 10,768,311	\$ 414,863	\$ 2,002,130	\$ 9,181,044

The beginning balance of the General Long-Term Debt has been restated to reflect the following changes:

General Long-Term Debt, as previously reported	\$	10,338,068
Accrued payroll and employee benefits were overstated in 2001 due to incorrectly including sick pay time in the liability report.	(	321,361)
Obligations under capital leases were understated due to an incorrect reduction of the liability in the prior year that should have been recorded in the current year.		878,710
Obligations under capital leases were overstated due to errors made in recording capital lease activity based on inaccurate lease amortization schedules.	(	127,106)
Beginning balance of General Long-Term Debt, as restated	\$	10,768,311



## Notes to Financial Statements – Continued

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### **Note 13 – Retirement Plans**

#### ***Plan Descriptions***

The County contributes to the three plans described below. Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits.

The *Arizona State Retirement System (ASRS)* administers a cost-sharing multiple-employer defined benefit pension plan that covers general employees of the County. The ASRS is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

The *Public Safety Personnel Retirement System (PSPRS)* is an agent multiple-employer defined benefit pension plan that covers public safety personnel who are regularly assigned hazardous duty as employees of the State of Arizona or one of its political subdivisions. The PSPRS, acting as a common investment and administrative agent, is governed by a five-member board, known as The Fund Manager, and 189 local boards according to the provisions of A.R.S. Title 38, Chapter 5, Article 4.

The *Elected Officials Retirement Plan (EORP)* is a cost-sharing multiple-employer defined benefit pension plan that covers elected officials and judges of certain state and local governments. The EORP is governed by The Fund Manager of PSPRS according to the provisions of A.R.S. Title 38, Chapter 5, Article 3.

Each plan issues a publicly available financial report that includes its financial statements and required supplementary information. A report may be obtained by writing or calling the applicable plan.

ASRS  
3300 N. Central Ave.  
P.O. Box 33910  
Phoenix, AZ 85067-3910

PSPRS and EORP  
1020 E. Missouri Avenue  
Phoenix, AZ 85014

(602) 240-2000 or (800) 621-3778

(602) 255-5575

#### ***Funding Policy***

The Arizona State Legislature establishes and may amend active plan members' and the County's contribution rates.

## Notes to Financial Statements – Continued

### **Note 13 – Retirement Plans - Continued**

*Cost-sharing plans* – For the year ended June 30, 2002, active ASRS members and the County were each required by statute to contribute at the actuarially determined rate of 2.49 percent (2.00 percent retirement and 0.49 percent long-term disability) of the members' annual covered payroll. The County's contributions to ASRS for the years ended June 30, 2002, 2001 and 2000 were \$367,478 \$356,392 and \$358,344, respectively, which were equal to the required contributions for the year.

In addition, active EORP members were required by statute to contribute 7 percent of the members' annual covered payroll. The County was required to remit a designated portion of court docket fees plus additional contributions of 0 percent of the member's annual covered payroll, as determined by actuarial valuation. The County's contributions to EORP for the years ended June 30, 2002, 2001, and 2000 were \$0, \$6,013 and \$6,947 respectively, which were equal to the required contributions for the year.

*Agent plan*-For the year ended June 30, 2002, active PSPRS members were required by statute to contribute 7.65 percent of the members' annual covered payroll, and the County was required to contribute at the actuarially determined rate of 7.33 percent.

**Annual Pension Cost** – The County's pension cost for the PSPRS for the year ended June 30, 2002, and related information follow.

	<u>PSPRS</u>
Contribution rates:	
County	7.33%
Plan members	7.65%
Annual pension costs	\$103,449
Contributions made	\$191,875

The current-year annual required contribution for the PSPRS was determined as apart of their June 30, 2000, actuarial valuation using the entry-age actuarial cost method. The actuarial assumptions included (a) 9 percent investment rate of return and (b) projected salary increases ranging from 6.5 percent to 9.5 percent per year. Both (a) and (b) included an inflation component of 5.5 percent. The assumptions did not include cost-of-living adjustments. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a four year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at June 30, 2002, was 20 years.

**Notes to Financial Statements – Continued**

**Note 13 – Retirement Plans - Continued**

**Trend Information** – Annual pension cost information for the current and two preceding years follows for the PSPRS plan.

<u>Plan</u>	<u>Year Ended June 30</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
PSPRS	2002	\$ 103,449	100%	\$ -
	2001	112,694	100	-
	2000	75,174	100	-

**Analysis of Funding Progress** – The following information was obtained from the three most recent actuarial valuations of the PSPRS plan.

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Plan Assets (a)</u>	<u>Actuarial Accrued Liability (b)</u>	<u>Funding (Liability) Excess (a-b)</u>	<u>Funded Ratio (a/b)</u>	<u>Annual Covered Payroll (c)</u>	<u>Unfunded Liability as Percentage of Covered Payroll ([a-b]/c)</u>
6/30/02	5,702,845	5,244,701	458,144	108.7%	1,364,567	-
6/30/01	5,588,847	4,612,648	976,199	121.2%	1,128,987	-
6/30/00	5,015,760	4,424,431	591,329	113.4%	1,341,317	-

**Note 14 – County Treasurer's Investment Pool**

Arizona Revised Statutes require community colleges, school districts, and other local governments to deposit certain public monies with the County Treasurer. The Treasurer has a fiduciary responsibility to administer those and the County monies under her stewardship. The Treasurer invests, on a pool basis, all idle monies not specifically invested for a fund or program. In addition, the Treasurer determines the fair value of those pooled investments annually at June 30.

The County Treasurer's investment pool is not registered with the Securities and Exchange Commission as an investment company and there is no regulatory oversight of its operations. The pool's structure does not provide for shares and the County has not provided or obtained any legally binding guarantees to support the value of the participants' investments.

Details of each investment classification follow:

<u>Investment Type</u>	<u>Principal</u>	<u>Interest Rates</u>	<u>Maturities</u>	<u>Fair Value</u>
U.S. government securities	\$ 55,399,577	2.22-6.27%	11/15/02-11/17/05	\$ 55,935,867
U.S. government securities money market	4,545,317	None stated	None stated	4,545,317

## Notes to Financial Statements – Continued

### **Note 14 – County Treasurer's Investment Pool - Continued**

A condensed statement of the investment pool's net assets and changes in net assets follows:

<b>Statement of Net Assets</b>	
Assets	\$ 61,204,944
Liabilities	-
Net assets	<u>\$ 61,204,994</u>
Net assets held in trust for:	
Internal participants	\$ 10,495,459
External participants	50,709,535
Total net assets held in trust	<u>\$ 61,204,994</u>
<b>Statement of Changes in Net Assets</b>	
Total additions	\$ 137,064,623
Total deductions	<u>133,576,261</u>
Net increase	3,488,362
Net assets held in trust	
July 1, 2001	<u>57,716,632</u>
June 30, 2002	<u>\$ 61,204,994</u>

### **Note 15 – Reimbursement of Misused Public Fiduciary Funds**

During the prior fiscal year, the County General Fund paid \$1,012,303 to the County Public Fiduciary's Office to replace the monies of various wards of the County that had been embezzled and misused over the past several years by the former Public Fiduciary. In September 2000, the County received a \$300,000 reimbursement from the Arizona Counties Property and Casualty Pool, but it also is seeking reimbursement from an independent insurance carrier of the \$712,303 unreimbursed balance.

### **Note 16 – Implementation of GASB No. 34**

Beginning with fiscal year 2003, the County will prepare its external financial reports following the requirements of GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. Implementing this standard will significantly change the accounting principles and reporting format used by the County in future financial reports.

**Notes to Financial Statements – Continued**

**Note 17 – Prior Period Adjustments**

The following is a description of adjustments to restate the beginning fund balances as of July 1, 2001.

	<b>General Fund</b>	<b>Special Revenue Fund</b>
Fund balances as originally reported.	\$ 5,708,126	\$ 4,291,201
Corrections to the due to/from other funds balances as of July 1, 2001 resulting from a lack of reconciliation of interfund activity in prior years.	625,244	-
Corrections to the cash balances as of July 1, 2001 to reflect expenditures incurred in prior years by departments that were not previously recorded by the County.	<u>( 271,169)</u>	<u>( 103,617)</u>
Fund balances as restated	<u>\$ 6,062,201</u>	<u>\$ 4,187,584</u>

## **Supplementary Information**

**Gila County**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2002**

<b>Federal Grantor/Pass-Through Grantor/Program Title</b>	<b>CFDA Number</b>	<b>Pass-Through Grantor's Number</b>	<b>Expenditures</b>
<b>U.S. Department of Agriculture</b>			
<i>Passed through the Arizona Department of Health Services</i>			
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	261055	\$ 119,537
Commodity Supplemental Food Program	10.565	261068	5,096
<i>Passed through the Arizona State Treasurer</i>			
Schools and Roads-Grants to States	10.665	None	<u>30,886</u>
<i>Total U.S. Department of Agriculture</i>			155,519
<b>U.S. Department of Housing and Urban Development</b>			
<i>Passed through the Arizona Department of Commerce</i>			
Community Development Block Grants/State's Program	14.228	114-00, 032-01, 030-02H	28,922
<i>Passed through the Arizona Department of Economic Security</i>			
Community Shelters Grant Program	14.231	E6301005	<u>23,370</u>
<i>Total U.S. Department of Housing and Urban Development</i>			52,292
<b>U.S. Department of the Interior</b>			
Payments in Lieu of Taxes	15.226		3,072,611
<b>U.S. Department of Justice</b>			
Drug Court Discretionary Grant Program	16.585	1999-DC-VX-0058	35,908
<i>Passed through the Arizona Criminal Justice Commission</i>			
Crime Victim Compensation Program	16.576	VC-02-052	857
Byrne Formula Grant Program	16.579	PC-080-02	7,283
Byrne Formula Grant Program	16.579	AC-110-02	<u>317,677</u>
<i>Total U.S. Department of Justice</i>			361,725

See the accompanying notes to schedule.

**Gila County**  
**Schedule of Expenditures of Federal Awards - Continued**  
**Year Ended June 30, 2002**

<b>Federal Grantor/Pass-Through Grantor/Program Title</b>	<b>CFDA Number</b>	<b>Pass-Through Grantor's Number</b>	<b>Expenditures</b>
<b>U.S. Department of Labor</b>			
<i>Passed through the Arizona Department of Economic Security</i>			
Workforce Investment Act	17.255	E5701001 E5702004	\$ 602,464
Workforce Investment Act-Adult	17.258	E5701001 E5702004	671,591
Workforce Investment Act-Youth	17.259	E5701001 E5702004	644,707
Workforce Investment Act-Dislocated Worker	17.260	E5701001 E5702004 E5701035 E5702035	<u>1,602,787</u>
<i>Total U.S. Department of Labor</i>			3,521,549
<b>U.S. Federal Emergency Management Agency</b>			
Emergency Food and Shelter National Board Program	83.523		5,215
<b>U.S. Department of Education</b>			
<i>Passed through the Arizona Department of Economic Security</i>			
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	E5311526 E5319040 E5319042	89,438
Supported Employment Services for Individuals with Severe Disabilities	84.187	E2509006	<u>87,883</u>
<i>Total U.S. Department of Education</i>			177,321
<b>U.S. Department of Health and Human Services</b>			
Immunizations	93.268	152040	29,193

See the accompanying notes to schedule.



**Gila County**  
**Schedule of Expenditures of Federal Awards - Continued**  
**Year Ended June 30, 2002**

<b>Federal Grantor/Pass-Through Grantor/Program Title</b>	<b>CFDA Number</b>	<b>Pass-Through Grantor's Number</b>	<b>Expenditures</b>
<b>U.S. Department of Health and Human Services - Continued</b>			
<i>Passed through the Arizona Department of Economic Security</i>			
Temporary Assistance for Needy Families	93.558	E5900009	\$ 133,201
Child Support Enforcement	93.563	E7203007	548,769
Low-Income Home Energy Assistance	93.568	E6309031 E6301005	24,011
Community Services Block Grant	93.569	E6301005	88,299
Youth Council Grant	93.623	E4370232	8,445
Social Services Block Grant	93.667	E6301005	16,991
<i>Passed through the Arizona Dept of Health Services, Bureau of Epidemiology &amp; Disease Control</i>			
Preparedness and Response for Bio-Terrorism	93.283	252042	436
<i>Passed through the Arizona Department of Health Services</i>			
HIV Prevention Activities - Health Department Based	93.940	152012	3,863
Preventive Health and Health Services Block Grant	93.991	952016	50,869
Maternal and Child Health Services Block Grant to the States	93.994	96-1123	4,141
Health Start Grant	93.XXX	61037	29,874
Tuberculosis Prevention & Control	93.XXX	852055	19,041
County Prenatal Block Grant	93.XXX	96-1087	<u>21,874</u>
<i>Total U.S. Department of Health and Human Services</i>			<u>979,007</u>
<b><i>Total Expenditures of Federal Awards</i></b>			<b><u><u>\$ 8,325,239</u></u></b>

See the accompanying notes to schedule.

**Gila County**  
**Supplementary Information**  
**Notes to Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2002**

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**Note 1 - Basis of Accounting**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Gila County and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

**Note 2 - Catalog of Federal Domestic Assistance (CFDA) Numbers**

The program titles and CFDA numbers were obtained from the 2002 *Catalog of Federal Domestic Assistance*.

**Note 3 - Subrecipients**

The County paid amounts to its subrecipient during the year ended June 30, 2002 as follows:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Paid to Subrecipient</u>
Workforce Investment Act - Adult and Youth Programs	17.258 & 17.259	\$ 1,181,672

## **Reports on Compliance and Internal Control**



**Independent Auditors' Report on Compliance and on Internal Control over  
Financial Reporting Based on an Audit of General Purpose Financial Statements  
Performed in Accordance with Government Auditing Standards**

The Auditor General of the State of Arizona

The Board of Supervisors of Gila County, Arizona

We have audited the general purpose financial statements of Gila County, Arizona as of and for the year ended June 30, 2002, and have issued our report thereon dated July 25, 2003 which was qualified as to interfund receivables and payables and the General Fixed Assets Account Group. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

***Compliance***

As part of obtaining reasonable assurance about whether the County's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of general purpose financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we will report to the County's management in a separate letter.

***Internal Control over Financial Reporting***

In planning and performing our audit, we considered the County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on internal control over financial reporting. However, we noted certain matters involving internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over financial reporting that, in our judgment, could adversely affect the County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 02-01, 02-02, 02-03, 02-04 and 02-05.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control over financial reporting would not necessarily disclose all such internal control matters that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 02-01, 02-02, 02-04 and 02-05 to be material weaknesses. We also noted other matters involving internal control over financial reporting that we will report to the County's management in a separate letter.

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

*Walker & Armstrong LLP*

Phoenix, Arizona  
July 25, 2003



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

The Auditor General of the State of Arizona

The Board of Supervisors of Gila County, Arizona

***Compliance***

We have audited the compliance of Gila County, Arizona with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2002. The County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the County's compliance with those requirements.

In our opinion, the County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 02-09 and 02-11.

### *Internal Control over Compliance*

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

We noted certain matters involving internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design and operation of the internal control over compliance that, in our judgment, could adversely affect the County's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 02-06, 02-07, 02-08 and 02-10.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all such internal control matters that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

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

*Walker + Armstrong LLP*

Phoenix, Arizona  
July 25, 2003

**Gila County**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2002**

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**Summary of Auditors' Results**

***Financial Statements***

Type of auditors report issued:	Qualified	
	Yes	No
Material weaknesses identified in internal control over financial reporting?	X	_____
Reportable conditions identified not considered to be material weaknesses?	X	_____
Noncompliance material to the financial statements noted?	_____	X

***Federal Awards***

Material weaknesses identified in internal control over major programs?	_____	X
Reportable conditions identified not considered to be material weaknesses?	X	_____
Type of auditors report issued on compliance for major programs:	Unqualified	
Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (section .510[a])?	X	_____

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
16.579	Byrne Formula Grant Program
17.255	Workforce Investment Act
17.258	Workforce Investment Act-Adult
17.259	Workforce Investment Act-Youth
17.260	Workforce Investment Act-Dislocated Workers
93.563	Child Support Enforcement

Dollar threshold to distinguish between Type A and Type B programs:	\$	300,000
Auditee qualified as a low risk auditee?	_____	X
Auditee's Summary Schedule of Prior Audit Findings required to be reported in accordance with Circular A-133 (section .315[b])?	_____	X



**Gila County**  
**Schedule of Findings and Questioned Costs – Continued**  
**Year Ended June 30, 2002**

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**Financial Statement Findings**

**02-01 The County's General Fixed Assets System of Accountability Is Inadequate**

As reported in prior years, the County's general fixed assets system of accountability was inadequate, as evidenced by the following weaknesses in internal control policies and procedures. As a result of these weaknesses, we were unable to determine the propriety of the assets' costs recorded in the County's General Fixed Assets Account Group.

- Documentation supporting the historical costs of such assets was not maintained.
- Although a listing of general fixed assets was provided, a reconciliation of the beginning balances could not be performed.
- The County did not prepare an annual reconciliation of capital outlay expenditures to capitalized additions.
- The County did not have adequate policies and procedures to differentiate between repair and maintenance expenditures and fixed asset betterment.

To help ensure that fixed assets are accounted for in compliance with the *Uniform Accounting Manual for Arizona Counties*, section VI-E, adequately safeguarded, and reported in accordance with U.S. generally accepted accounting principles, the County should maintain a complete and accurate listing of capitalized land, buildings, improvements, and machinery and equipment and related costs excluding expenditures for repair and maintenance. In addition, documentation supporting the recorded costs of such assets should be retained for three years after the asset's disposal date. Also, the County should reconcile its fixed assets listing to the general ledger, the prior year balances to the current year balances, and capital outlay expenditures to capitalized additions annually.

**02-02 Interfund Receivables and Payables**

The County cannot reconcile interfund receivables and payables between individual funds. Also, during the fiscal year, errors were made in recording interfund receivable and payables. The County changed its method of recording activity between funds and posted adjusting journal entries to balance the beginning balance difference totaling \$625,244. Current year interfund transactions were also analyzed and corrected, however, a difference of \$176,381 could not be specifically identified to the correct funds. Accordingly, an entry was posted in the general fund for \$176,381 to balance the current year interfund activity.

The County should continue to research the interfund balances being carried forward from the prior years and funds with outstanding payables should reimburse those with the related receivables. The County should also continue enforcing its procedures of recording interfund activity necessary to keep the interfund accounts in balance. The County's finance department should also monitor and reconcile these accounts at least on a quarterly basis.

**Gila County**  
**Schedule of Findings and Questioned Costs – Continued**  
**Year Ended June 30, 2002**

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**Financial Statement Findings - Continued**

**02-03 Internal Controls over Cash Receipts and Account Receivables**

As reported in prior years, the County finance department has changed the control procedures over cash receipts, although the County has not prepared written policies and procedures. Various departments outside of the finance department have yet to ensure effective control over and accountability for cash receipts and accounts receivable.

*Cash Receipt Procedures* — County departments were not provided with guidelines to properly safeguard and account for cash receipts, which increased the susceptibility of these monies to potential abuse. The County needs to improve controls over the consistent preparation of cash receipt forms and the restrictive endorsement immediately upon receipt of checks received. Furthermore, detailed accounting records should be maintained for cash receipts. In addition, cash receipts need to be adequately safeguarded prior to deposit and deposited in a timely manner. Some cash receipts are not transferred from the departments' bank accounts to the County Treasurer's Office in a timely manner and many departments still maintain significant balances after the transfers are made. Such deficiencies were noted in following departments: Assessor's Office, Community Development, Globe Constable's Office, Sheriffs Office, and Solid Waste.

*Accounting for Receivables* — The finance department has not prepared policies and procedures to request accounts receivable information from the various departments, as recommended in the prior years. Also, there are no guidelines to help ensure that receivables are analyzed and adjusted for uncollectible accounts at year-end.

In order to properly account for and safeguard cash, County management should establish policies and procedures to control cash receipts, record accounts receivable, and adjust accounts receivable for uncollectible accounts. Furthermore, County management should enforce and monitor department compliance with the policies and procedures established.

**02-04 Chart of Account Structure**

The County's current chart of account structure is inadequate for its current operating environment. The chart of accounts contains many object codes (natural account classifications) that are not necessary and is missing many object codes that it should use. Also, the fund structure is not logically organized in a manner that allows for the efficient preparation of budgets or financial reports. As a result, there were numerous account miscodings during the year requiring many year-end adjustments to the accounting records. Furthermore, because of the weaknesses in the County's accounting system, many County departments maintain their own accounting systems resulting in duplication of efforts and inefficiencies. This also results in internal financial reports that are not useful to management, the board of supervisors and grantor agencies and significantly impedes the audit process resulting in audited financial statements that are not submitted timely.

**Gila County**  
**Schedule of Findings and Questioned Costs – Continued**  
**Year Ended June 30, 2002**

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**Financial Statement Findings - Continued**

**02-04 Chart of Account Structure - Continued**

We recommend that the County restructure its chart of accounts in a manner that allows for timely and accurate financial reporting. This requires cooperation from all departments involved and may require additional County resources. However, doing so will result in the proper reporting of transaction activity and account balances, provide greater efficiencies and potentially, lower future costs. Restructuring the chart of accounts will also be necessary to conform to the new reporting requirements of Governmental Accounting Standards Board Statement 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, which is effective for the County's fiscal year ended June 30, 2003.

**02-05 Account Analysis and Reconciliation**

The County's account analysis and reconciliation procedures do not include the analysis of many balance sheet accounts such as cash held by other departments, investments, receivables, accrued liabilities, fixed assets, long-term debt and fund balance. As a result, a significant number of audit adjustments were necessary in order to correct these balance sheet accounts based upon the County's underlying documentation.

We recommend that the County develop and implement policies and procedures for the timely reconciliation of all balance sheet accounts. These policies and procedures should specify the responsible personnel and timing of the reconciliations. Furthermore, additional qualified accounting personnel may be necessary to accomplish this objective. Developing and enforcing these procedures will provide more useful, accurate and timely information to users of the County's financial data, may reduce the risk of errors and fraud that may be material to the financial statements and otherwise be undetected, and will allow for more timely completion and issuance of the audited financial statements.

**Federal Award Findings**

<b>02-06</b>	<b>U.S. Department of Justice</b> <i>Passed through the Arizona Criminal Justice Commission</i> <b>Byrne Formula Grant Program</b> Contract No. AC-110-02 CFDA No. 16.579 Grant Period: July 1, 2001 - June 30, 2002 Questioned Costs: None	<b>U.S. Department of Labor</b> <i>Passed through the Arizona Department of Economic Security</i> <b>Workforce Investment Act</b> Contract No. Various CFDA No. 17.255, 17.258, 17.259 and 17.260 Grant Period: Various Questioned Costs: None
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**Gila County**  
**Schedule of Findings and Questioned Costs – Continued**  
**Year Ended June 30, 2002**

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**Federal Award Findings - Continued**

**U.S. Department of Health and Human Services**

*Passed through the Arizona Department of  
Economic Security*

**Child Support Enforcement**

Contract Number E7203007

CFDA No. 93.563

Grant Period: July 1, 2001 – June 30, 2002

Questioned Costs: None

**Condition:** Program employees were not consistently signing timesheets as verification of the hours worked and the correct account coding.

**Criteria, Cause and Effect:** The OMB Common Rule requires that grantees and subgrantees maintain effective internal controls to adequately account for and safeguard the expenditures of federal awards. Such safeguards include the use of timecards that are signed by both the employee and supervisor. The cause is a lack of proper review and enforcement of the County's timekeeping policy. The effect is increased risk of improper time reporting and lack of accountability for time incurred by County employees.

**Recommendation:** We recommend that all employees and their immediate supervisor sign the timesheets to signify that both have reviewed and agree with the number and type of hours worked by the employee.

**02-07 U.S. Department of Justice**  
*Passed through the Arizona Criminal  
Justice Commission*

**Byrne Formula Grant Program**

Contract No. AC-110-02

CFDA No. 16.579

Grant Period: July 1, 2001 - June 30, 2002

Questioned Costs: None

**U.S. Department of Labor**

*Passed through the Arizona Department of  
Economic Security*

**Workforce Investment Act**

Contract No. Various

CFDA No. 17.255, 17.258, 17.259 and 17.260

Grant Period: Various

Questioned Costs: None

**U.S. Department of Health and Human Services**

*Passed through the Arizona Department of  
Economic Security*

**Child Support Enforcement**

Contract Number E7203007

CFDA No. 93.563

Grant Period: July 1, 2001 - June 30, 2002

Questioned Costs: None

**Gila County**  
**Schedule of Findings and Questioned Costs – Continued**  
**Year Ended June 30, 2002**

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**Federal Award Findings - Continued**

**Condition:** While auditing expenditures, we noted several instances where incorrect object codes were used in the County's accounting system. Although the County's expenditure reports were not used as a basis for reporting to the grantor agencies, significant additional time is necessary to prepare these reports from separate accounting systems resulting in an increase risk of error and duplication of efforts.

**Criteria, Cause and Effect:** The accounting records of grantees and subgrantees must be sufficient to prepare complete and accurate reports that are submitted to funding agencies. For the sake of accuracy and efficiency, one accounting system should be used that provides support for the reports submitted to funding agencies. The cause is a chart of account structure that is inadequate to meet the requirements necessary for the proper administration of federal and state grants and contracts and lack of training and follow-up by program personnel regarding proper account coding. The effect is an accounting system that cannot produce accurate and timely financial information necessary for the preparation of financial reports for submission to the funding agencies.

**Recommendation:** We recommend that the County restructure its chart of accounts in a manner that allows for accurate and timely reporting of expenditures and financial status of its federal and state programs using data that is generated from one accounting system. We also recommend that program personnel review the general ledger account coding as recorded by the County and inform finance department personnel of necessary corrections.

**02-08 U.S. Department of Health and Human Services**  
***Passed through the Arizona Department of***  
***Economic Security***  
**Child Support Enforcement**  
Contract Number E7203007  
CFDA No. 93.563  
Grant Period: July 1, 2001 – June 30, 2002  
Questioned Costs: None

**Condition:** Transactions of this program are not recorded within a fund designated specifically for this program. Furthermore miscodings of expenditures were made during the year that were not communicated to the finance department and accordingly, were not corrected. Also, the draw down of indirect costs allocated to the program was not recorded in the general ledger.

**Criteria, Cause and Effect:** The OMB Common Rule requires grantees to maintain records that adequately identify the source and application of funds provided for financially assisted activities. This requirement includes developing a fund structure necessary to adequately segregate restricted grant funding from other forms of funding, recording all transactions related to the program and excluding expenditures not related to the program. The cause is an inadequate chart of account structure and a lack of communication between the program's management and the finance department.

**Gila County**  
**Schedule of Findings and Questioned Costs – Continued**  
**Year Ended June 30, 2002**

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**Federal Award Findings - Continued**

The effect is the increased risk that transactions and account balances not relating to the program are commingled with that of the program and expenditure reports submitted to the funding agency which did not agree to the underlying accounting records.

**Recommendation:** We recommend that the County restructure its chart of accounts and as part of this restructuring, identify programs that are externally funded and record transactions of those programs in their own separate funds. We also recommend that the program's management and finance department improve their communication sufficient to correct any noted errors.

**02-09 U.S. Department of Health and Human Services**

*Passed through the Arizona Department of  
Economic Security*

**Child Support Enforcement**

Contract Number E7203007

CFDA No. 93.563

Grant Period: July 1, 2001 – June 30, 2002

Questioned Costs: None

**Condition:** 1 of 40 case files tested did not have documentation supporting adequate health insurance coverage other than Medicaid for the custodial parent. For another case file tested, the custodial parent did not have adequate health insurance coverage and the court or administrative authority was not petitioned for health insurance coverage.

**Criteria, Cause and Effect:** The criteria of the grant requires that grantees and subgrantees must determine whether the custodial parent and child have satisfactory health insurance, other than Medicaid. If not, the agency must petition the court or administrative authority to include medical support in the form of health insurance coverage in all new or modified orders for support. The cause is unknown. The effect is custodial parents or children may not have adequate health insurance coverage.

**Recommendation:** We recommend that the program strengthen its internal control procedures, which include regular review, and follow-up of case files in which evidence of or petitions for adequate health coverage have not been obtained.

**02-10 U.S. Department of Justice**

*Passed through the Arizona Criminal  
Justice Commission*

**Byrne Formula Grant Program**

Contract No. AC-110-02

CFDA No. 16.579

Grant Period: July 1, 2001 - June 30, 2002

Questioned Costs: None

**Gila County**  
**Schedule of Findings and Questioned Costs – Continued**  
**Year Ended June 30, 2002**

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**Federal Award Findings - Continued**

**Condition:** \$1,034 was spent on car repairs for a vehicle used by the drug enforcement task force through the use of the County Sheriff's office credit card without prior documented approval.

**Criteria, Cause and Effect:** Effective internal controls must be maintained by grantees and subgrantees to reduce the risk that expenditures are incurred that were not authorized by program management and conform to the activities allowed and allowable cost principles as stated in the grant or contract. The cause is a lack of internal control procedures over the procurement process by program management. The effect is the incurrence of expenditures prior to obtaining proper documented management approval.

**Recommendation:** We recommend that the program's management review and approve all expenditures prior to their incurrence. Consideration should exist as to whether the expenditure is consistent with the amount budgeted and allowable under the terms of the grant.

**02-11 U.S. Department of Justice**  
***Passed through the Arizona Criminal***  
***Justice Commission***  
**Byrne Formula Grant Program**  
Contract No. AC-110-02  
CFDA No. 16.579  
Grant Period: July 1, 2001 - June 30, 2002  
Questioned Costs: None

**Condition:** Financial reports were not submitted by the required deadlines for 5 of the 12 months during the fiscal year. Also, amounts expended in excess of the total award amount and other reimbursements were not offset by transfers in from the general fund, which is contributing to the deficit fund balance in the Byrne Formula Grant's fund. Furthermore, not all grant receivables were recorded for expenditures incurred but not yet drawn down.

**Criteria, Cause and Effect:** The grant terms require that the reports be submitted within twenty-days following the end of each month. Also, to properly monitor the financial status of the program, grantees should record transfers for amounts expended in excess of the amount received from funding agencies and receivables for expenditures incurred that have not yet been draw down. The cause of the noncompliance is unknown. The effect is lack of timely reporting to the grantor agency and inaccurate reports of the program activity and account balances.

**Recommendation:** We recommend that the reports be prepared and submitted to the funding agency in a timely manner. We also recommend maintaining the program's accounting on a current basis to include all receivables, payables and applicable transfers. The program's director should work closely with the finance department to determine that all necessary accounting entries are being made.

## **County Responses**



**Ronald (Ron) Christensen, District I**  
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(928) 474-2029  
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**José M. Sanchez, District II**  
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**Cruz Salas, District III**  
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(928) 425-3231, Ext. 8753  
sempinoza@co gila.az.us



**GILA COUNTY**  
**BOARD OF SUPERVISORS**  
1400 East Ash  
Globe, Arizona 85501-1414

**John F. Nelson, County Manager**  
Clerk of the Board of Supervisors  
1400 E Ash Street, Globe 85501  
(928) 425-3231 Ext 8754  
jnelson@co gila.az.us

October 31, 2003

Ms. Debbie Davenport  
Auditor General  
2910 North 44<sup>th</sup> Street, Suite 410  
Phoenix, Arizona 85018

Dear Ms. Davenport:

The accompanying corrective action plan for the year ended June 30, 2002 has been prepared as required by U.S. Office of Management and Budget Circular A-133. Specifically, we are providing you with the names of the contact persons responsible for each audit finding included in the current year's schedule of findings and questioned costs.

Sincerely,

John F. Nelson  
County Manager/Administrator

**Gila County  
Corrective Action Plan  
June 30, 2002**

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**Financial Statement Findings**

**Finding No. 02-01**

**The County's General Fixed Assets System of Accountability Is Inadequate**

**Contact Person: Don White, Manager Purchasing**

**Phone Number: 928-473-7659**

**Anticipated Completion Date: Completed May 7, 2002**

On May 7, 2002, Procurement Policy and Procedures were adopted by Gila County's Board of Supervisors. The adopted Procurement Policy and Procedures consists of Article 1.0 Purchasing Procedures and Article 2.0 Material Management Procedures. These procedures became effective July 1, 2002.

Article 2.0, Material Management Procedures, addresses the issues stated above effective July 1, 2002. Gila County will maintain a complete and accurate listing of capitalized land, buildings, improvements, and machinery and equipment and related costs excluding expenditures for repair and maintenance. In addition, documentation supporting the recorded costs of such assets will be retained for three years after the asset's disposal date. Also, the County will reconcile its fixed assets listing to the general ledger, prior year balances, and current year balances, and capital outlay expenditures to capitalized additions, annually.

**Finding No. 02-02**

**Interfund Receivables and Payables**

**Contact Person: David Patterson, Finance Director**

**Phone Number: 928-425-3231 ext 8777**

**Anticipated Completion Date: December 31, 2003**

We are in the process of identifying those funds that have available cash to payback their interfund payables. The goal is to remove chronic outstanding Interfund Receivables and Payables that seem to carry over from year to year by December 31, 2003.

**Finding No. 02-03**

**Internal Controls over Cash Receipts and Account Receivables**

**Contact Person: David Patterson, Finance Director**

**Phone Number: 928-425-3231 ext 8777**

**Anticipated Completion Date: March 31, 2004**

*Cash Receipt Procedures* — Those departments identified as having Cash Receipt Procedure deficiencies are to be interviewed to determine how cash is received, handled, deposited, and transferred. Based on this information, a Cash Receipt Procedure will be documented, distributed, and discussed with those departments that receive cash. This endeavor should be completed by March 31, 2004.

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**Finding No. 02-03 – Continued**

*Accounting for Receivables* — Gila County uses the modified accrual basis of accounting, which recognizes increases and decreases in financial resources only to the extent that they reflect near-term inflows or outflows of cash. Under the modified accrual basis of accounting, amounts are recognized as revenue when earned, only so long as they are collectible within the period or soon enough afterwards to be used to pay liabilities of the current period. Revenues are only recognized under modified accrual accounting to the degree that they are available to finance expenditures of the fiscal period.

Gila County implements an accrual process whereby revenues received within 60 days after June 30 that can be identified to the year just ended are recognized as a receivable in the year just ended. This receivable is necessary as the Treasurer's books are closed the end of June so deposits made after June 30 can only be recognized as a receivable. This receivable is in name only as the monies are received prior to a receivable being recognized. This is in accordance with the modified accrual basis of accounting whereby revenue is recognized as earned, only so long as they are collectible soon enough after the year just ended. Gila County records receivables for the recognition of revenue at year-end only when monies have actually been collected within 60 days of the year-end. Since the recording of a receivable is after monies have been received, receivables do not need to be analyzed and adjusted for uncollectible amounts at year-end.

*Account for and Safeguard Cash* — See the responses above to *Cash Receipt Procedures* and *Accounting for Receivables*.

**Finding No. 02-04**

**Chart of Account Structure**

**Contact Person: David Patterson, Finance Director**

**Phone Number: 928-425-3231 ext 8777**

**Anticipated Completion Date: When Funding/Resources Becomes Available**

Changing the Chart of Account structure is a priority. However, this priority is overshadowed by the lack of available resources to effectively implement this recommended change. Be assured that when resources become available to address issues other than the basic necessities required by County Governments, the Chart of Accounts will be restructured as recommended.

To implement this recommendation would require cooperation from all departments involved and require additional County resources. Over the past 20 years, the three major industries in Gila County, Copper, Timber, and Cattle, have been reduced to a fraction of what was generated in revenue to Gila County. This reduction was manifested primarily from environmental consideration and to a lesser extent the impact of a World Economy. Due to the lack of resources available to Gila County through the reduction of the three major industries, departments have been tasked to provide basic County Governmental services with less. Departments' having a lack of adequate resources to provide just the basic services has become the norm not the exception.

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**Finding No. 02-05**

**Account Analysis and Reconciliation**

**Contact Person: David Patterson, Finance Director**

**Phone Number: 928-425-3231 ext 8777**

**Anticipated Completion Date: Partially Completed with Full Completion June 30, 2004**

We have been performing account analysis and reconciliations on a monthly basis for the following balance sheet accounts: Cash on Deposit with Treasurer, Outstanding Expense Warrants and Outstanding Payroll Warrants.

The recommendation of timely reconciliation of all balance sheet accounts will be tempered by Gila County's lack of available resources. We will perform account analyses and reconciliations of all balance sheet accounts a minimum of twice during the fiscal year.

**Federal Award Findings**

**I. U.S. Department of Justice**

*Passed through the Arizona Criminal Justice Commission*

**Byrne Formula Grant Program**

Contract No. AC-110-02

CFDA No. 16.579

Grant Period: July 1, 2001 – June 30, 2002

Questioned Costs: None

**II. U.S. Department of Labor**

*Passed through the Arizona Department of Economic Security*

**Workforce Investment Act**

Contract No. Various

CFDA No. 17.255, 17.258, 17.259 and 17.260

Grant Period: Various

Questioned Costs: None

**III. U.S. Department of Health and Human Services**

*Passed through the Arizona Department of Economic Security*

**Child Support Enforcement**

Contract No. E7203007

CFDA No. 93.563

Grant Period: July 1, 2001 – June 30, 2002

Questioned Costs: None

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**Finding No. 02-06**

**Federal Awards: Byrne Formula Grant Program, Workforce Investment Act, and  
Child Support Enforcement**

**Timesheets not being Verified by Signature for Hours Worked**

**Contact Person: David Patterson, Finance Director**

**Phone Number: 928-425-3231 ext 8777**

**Anticipated Completion Date: October 31, 2003**

After speaking with Payroll and Personnel employees regarding processing and filing of completed timesheets and reviewing a number of completed timesheets, I was not able to substantiate this finding.

However, we will inform all Gila County employees and immediate supervisors of the continued need to consistently sign timesheets.

**Finding No. 02-07**

**Federal Awards: Byrne Formula Grant Program, Workforce Investment Act, and  
Child Support Enforcement**

**Restructure Chart of Accounts and Use of One Accounting System**

**Contact Person: David Patterson, Finance Director**

**Phone Number: 928-425-3231 ext 8777**

**Anticipated Completion Date: Ongoing and When Resources Become Available.**

*Restructure Chart of Accounts* — see response to Finding No. 02-04 Chart of Account Structure.

*Use of One Accounting System* — We have provided on numerous occasions guidance, instructions and support to grant program personnel on using financial information from the County's accounting system to complete monthly reports to funding agencies. The County's accounting system is the Official Financial Records from which reports to funding agencies should be based upon.

The departments' use of off-the-shelf accounting software is to be strictly supplemental to provide financial information on a daily basis pertaining to their grants. The reason many if not all departments within Gila County have implemented off-the-shelf accounting software (FoxPro, Quicken, Peachtree, etc.) is for day to day tracking of monies and expenditures. Even though the County's accounting system is the official book of record, day to day financial information is not available. The County's accounting system is outdated (installed in 1986) and unable to provide real-time financial information. The accounting system is functional pertaining to financial information as of a point in time; month end. The Treasurer's transactions are imported into the accounting system once the Treasurer's has closed the books for the month. This import occurs one to two days after month end. Then we process our month end. This occurs approximately three days after month end. An actual fund balance along with all transactions is only available once the month end has been

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**Finding No. 02-07 - Continued**

closed. This results in the accounting system not being functional regarding real-time financial data. Therefore, departments have implemented off-the-shelf accounting software to provide day to day financial information on which to make decisions as this information is not available with the County's current accounting system.

Purchasing and implementing a state of the art accounting system that could provide real-time access for all departments (read only of course) to see up to the minute financial information when resources are limited would not be considered a prudent use of taxpayers' monies at this time.

We will continue to provide guidance, instructions and support to grant program personnel on using financial information from the County's accounting system to complete monthly reports to funding agencies.

**Finding No. 02-08**

**Federal Award: Child Support Enforcement**  
**Restructure Chart of Accounts and Improved Communications**  
**Contact Person: David Patterson, Finance Director**  
**Phone Number: 928-425-3231 ext 8777**  
**Anticipated Completion Date: Ongoing and When Resources Become Available**

*Restructure Chart of Accounts* — see response to Finding No. 02-04 Chart of Account Structure.

The finance department's personnel will continue to foster an atmosphere of cooperation and keep open the lines of communication with the respective program's management.

**Finding No. 02-09**

**Federal Award: Child Support Enforcement**  
**Internal Control Procedures to Determine Adequate Health Insurance Coverage**  
**Contact Person: David Patterson, Finance Director**  
**Phone Number: 928-425-3231 ext 8777**  
**Anticipated Completion Date: Ongoing**

The personnel who manage this program are responsible for complying with the requirements of the grant. The Finance Department will perform periodic reviews of child support case files for compliance with the grant's requirements for adequate health insurance coverage for the custodial parent and child and when necessary to follow-up on those child support cases determined to be in noncompliance for corrections to bring those case into compliance.

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**Finding No. 02-10**

**Federal Award: Byrne Formula Grant Program  
Management Review and Approval of All Expenditures Prior to Incurrence  
Contact Person: David Patterson, Finance Director  
Phone Number: 928-425-3231 ext 8777  
Anticipated Completion Date: Ongoing**

The personnel who manage this program are responsible for complying with the requirements of the grant. The Finance Department will perform periodic reviews for compliance with the requirements of the grant for allowable expenditures.

**Finding No. 02-11**

**Federal Award: Byrne Formula Grant Program  
Submit Timely Reports to Funding Agency  
Contact Person: David Patterson, Finance Director  
Phone Number: 928-425-3231 ext 8777  
Anticipated Completion Date: Ongoing**

We will continue to provide guidance, instructions and support to grant program personnel on using financial information from the County's accounting system to complete monthly reports to the funding agency in a timely manner.