



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Management Letter

La Paz County

Year Ended June 30, 2001



Debra K. Davenport
Auditor General

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**STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL**

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

August 23, 2002

Board of Supervisors
La Paz County
1108 South Joshua Avenue
Parker, AZ 85344

Members of the Board:

In planning and conducting our single audit of La Paz County for the year ended June 30, 2001, we performed the following as required by *Government Auditing Standards* (GAS) and Office of Management and Budget (OMB) Circular A-133:

- Considered the County's internal controls over financial reporting,
- Tested its internal controls over major federal programs, and
- Tested its compliance with laws and regulations that could have a direct and material effect on its financial statements and major federal programs.

All audit findings that are required to be reported by GAS and OMB Circular A-133 have been included in the County's Single Audit Reporting Package for the year ended June 30, 2001. In addition, our audit disclosed internal control weaknesses and instances of noncompliance with laws and regulations that do not meet the reporting criteria. Management should correct these deficiencies to ensure that it fulfills its responsibility to establish and maintain adequate internal controls and comply with laws and regulations. Our recommendations are described in the accompanying summary.

This letter is intended solely for the information of the La Paz County Board of Supervisors and is not intended to be and should not be used by anyone other than the specified party. However, this letter is a matter of public record, and its distribution is not limited.

Should you have any questions concerning its contents, please let us know.

Sincerely,

Dennis L. Mattheisen, CPA
Financial Audit Director

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The Finance Department should promptly reconcile cash balances to the County Treasurer's records

An effective cash management system helps ensure that cash is available to pay for goods and services when due and cash is accurately reported and promptly reconciled. However, the Finance Department did not prepare monthly reconciliations of the County's general ledger cash on deposit balances to the County Treasurer's records. As a result, cash in certain funds was materially misstated in the County's June 30, 2001, general ledger. Although the County's financial statements were adjusted to correct significant errors, detecting and correcting the errors required significant effort by the auditors and County employees.

To help ensure that cash balances are accurate, the Finance Department should:

- Reconcile cash on deposit for each County fund from the County's general ledger to the County Treasurer's records monthly.
- Obtain copies of the County Treasurer's detailed records in order to identify any differences.
- Promptly notify the County Treasurer of errors in the County Treasurer's records discovered during the reconciliation process.
- Ensure that completed reconciliations are reviewed and approved by appropriate supervisory personnel not involved in the reconciliation process.

The County should verify the accuracy of federal indirect cost rates

When the County uses a third-party contractor to prepare its cost allocation plan, the County should verify that the indirect cost rates are accurate. However, the indirect cost rate calculated by the third-party contractor for the Child Support Enforcement program was incorrect and caused the County to receive \$9,010 in excess reimbursements.

To help ensure that the indirect cost rates and federal reimbursements are correct, the County should review its cost allocation plan for mathematical accuracy and completeness.

The County should ensure its capital assets listing contains accurate information

The County's capital assets represent a major investment of taxpayer monies and equipment items are particularly susceptible to theft or loss. Therefore, an updated capital assets listing is essential to provide control and accountability over these assets. However, the capital assets listing was inaccurate since auditors could not locate some equipment items on the listing. Also, the capital assets listing did not include some items and had incorrect tag numbers or serial numbers for other items.

To help ensure control and accountability over capital assets the County should compare the physical inventory to its capital assets listing and make sure that all assets are on its listing and that all tag and serial numbers are accurate.

The County should properly classify its financial transactions

A uniform chart of accounts provides the basic framework for classifying the County's financial transactions. Further, correctly classifying activity using the chart of accounts ensures that all County financial transactions are properly reflected in the accounting records and reported consistently to management and external parties. However, the County has not developed policies and procedures that will ensure accuracy and integrity of the County's financial information. As a result, the County incorrectly classified approximately \$1.4 million of intergovernmental revenues as miscellaneous revenues, and \$1.3 million of highways and streets expenditures as general government expenditures. The financial statements were adjusted to report the correct amounts and classifications.

Each department should accurately identify and classify transactions using the County's uniform chart of accounts and the Finance Department should review and approve the classifications before recording the transactions in the accounting system. These procedures will help ensure that consistent and reliable financial information is available to management for decision-making purposes.

The County should separate personnel and payroll responsibilities

Salaries, wages, and related expenditures represent a significant portion of the County's expenditures and, therefore, it is important that the County establish strong internal controls over these expenditures. However, the County assigned all personnel and payroll responsibilities to one employee. This employee prepared all documents for new employees, terminating employees, promotions, and increases in salaries or wages; recorded all such changes in the payroll system; maintained the personnel files; and processed the biweekly payroll. The County did not assign any other employee the responsibility of reviewing and approving personnel changes and payroll transactions. Therefore, errors or unauthorized changes in personnel and payroll data may occur and may not be detected by the County.

The County should assign the responsibilities for preparing personnel change documents and maintaining the personnel files to a second employee. No one employee should have unrestricted and unmonitored access to personnel data and the payroll system. If this is not possible, a supervisor should review and approve all personnel change documents, make sure all changes are recorded accurately in the payroll system, and review and approve the biweekly payroll.



La Paz County Finance

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August 15, 2002

Debra K. Davenport, CPA
Auditor General
2910 N. 44th Street, Suite 410
Phoenix, AZ 85018

Re: Management Letter for the Year Ended June 30, 2001

Dear Ms Davenport:

Following is our response to your findings and related recommendations as described in your management letter. We commend the professionalism of your audit staff and appreciate their assistance in identifying areas of concern. Please call me if you have any questions.

Sincerely,

Ava Alcaida
Finance Director

La Paz County
Management Letter Response
Year Ended June 30, 2001

<u>Finding</u>	<u>Response</u>	<u>Recommendation</u>	<u>Action Taken/Planned</u>
<p>The Finance Department did not perform monthly reconciliations of the County's general ledger cash on deposit balances to the County Treasurer's records.</p>	<p>The Finance Director concurs. In January 2001 the County's accounting software lost data after a server crash. This data loss and size of staff contributed to the delinquency of cash reconciliations. The Finance Department has completed timely reconciliations since all lost data has been identified and reentered.</p>	<p>The Finance Department should reconcile cash on deposit for each County Fund from the County's general ledger to the County Treasurer's records monthly, obtain copies of the County Treasurer's detailed records in order to identify any difference, promptly notify the County Treasurer of errors discovered during the reconciliation process, and ensure that completed reconciliations are reviewed and approved by appropriate supervisory personnel not involved in the reconciliation process.</p>	<p>The Finance Department will continue to complete timely cash reconciliations.</p>
<p>The indirect cost rate calculated by a third-party contractor for the Child Support Enforcement program was incorrect.</p>	<p>The Finance Director concurs. The error was undetected even though the Finance Director reviews the Cost Allocation Plan for accuracy and completeness.</p>	<p>The County should review its Cost Allocation Plan for mathematical accuracy and completeness.</p>	<p>The Finance Director will continue to review the Cost Allocation Plan for accuracy and completeness.</p>
<p>A complete physical inventory of capital assets had not been taken by the County within the past three years. As a result, the capital assets listing was inaccurate.</p>	<p>The Finance Director concurs that there are inaccuracies in the fixed asset listing.</p>	<p>The County should perform a physical inventory of all capital assets, and then compare the physical inventory to its capital assets listing. The County should make sure a complete physical inventory is conducted at least every 3 years.</p>	<p>The Finance Director will ensure that a physical inventory of fixed assets is performed in August 2002 and that any fixed asset listing discrepancies are corrected.</p>

La Paz County
Management Letter Response
Year Ended June 30, 2001

<u>Finding</u>	<u>Response</u>	<u>Recommendation</u>	<u>Action Taken/Planned</u>
The County incorrectly classified \$1.4 million of intergovernmental revenues as miscellaneous revenues, and \$1.3 million of highways and streets expenditures as general government expenditures.	The Finance Director does not concur that revenue was misclassified. It is the practice of La Paz county to code Special Revenues to Miscellaneous during the year and reclassify those Special Revenues at year end. La Paz County Finance Staff brought this issue to the auditor's attention and that we are going to reclassify this account at year end.	Each department should accurately identify and classify transactions and the Finance Department should review and approve transactions prior to posting onto their accounting system.	The Finance Department will review miscellaneous revenue <u>monthly</u> and reclass as appropriate. The Finance Director will review additions to the chart of accounts for accuracy.
The County assigned all personnel and payroll responsibilities to one employee.	The Finance Director concurs. The size of our county does not allow a large enough staff to completely separate those duties. Finance Director reviews and approves all time sheets. The check signature is password protected.	The County should assign the responsibilities for preparing personnel change documents and maintaining the personnel files to a second employee. If this is not possible, a supervisor should review and approve all personnel change documents, make sure all changes are recorded accurately in the payroll system, and review and approve the biweekly payroll.	The Finance Director will continue to review and approve all timesheets. The Finance Director will review and approve an exception/change report and ascertain that the payroll properly reflects the approved timesheets before providing the check signature password. Some Personnel duties will be reassigned.