A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Management Letter

La Paz County

Year Ended June 30, 2003

State of Arizona
Office of the
Auditor General

Debra K. Davenport
Auditor General

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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

January 14, 2005

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, 2003, 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, 2003. 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.

In addition, as required by Arizona Revised Statutes §41-1279.21(A)(1), we reviewed the County's financial records to evaluate whether the County used Highway User Revenue Fund monies and any other dedicated state transportation monies solely for authorized transportation purposes. However, we have requested an opinion from the Arizona Attorney General about whether certain types of county transportation department expenditures are for transportation purposes authorized by the Constitution and state laws, but have not yet received a response to our request. Once we receive the opinion, we will complete our review and report any instances of noncompliance in a separate letter.

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 County should improve controls over golf course cash receipts

Because cash is highly susceptible to potential theft or misuse, the County should establish and enforce effective internal controls to safeguard cash receipts. However, the County did not have adequate internal controls over its golf course cash receipts. Specifically, the cash registers were outdated since receipts were not printed and issued to customers. Also, several employees and volunteers used the same cash drawer. Further, several employees had incompatible responsibilities, such as collecting, depositing, and reconciling golf course cash receipts.

To properly account for and safeguard golf course cash receipts, the County should establish policies and procedures for collecting, reconciling, and depositing cash receipts and periodically monitor that those procedures have been placed in operation and are operating effectively. These procedures should include the following:

- Assign a limited number of employees to receive cash and prohibit volunteers from receiving cash.
- Update the cash registers to include locked-in totals, visible amounts of sales, print receipts for customers, and require passwords for different users.
- Encourage customers to expect to receive a cash receipt by posting signs at each register.
- Assign the responsibility for reconciling cash receipts and making deposits to an employee who does not receive cash. An employee should not be responsible for both cash-handling and recordkeeping activities.
- If, because of small staff size, one employee has many responsibilities, a supervisor should review and approve nonroutine transactions and daily cash reconciliations.
- Review, investigate, and resolve cash overages and shortages. Further the County should provide annual ongoing training to employees with cash-handling responsibilities.

The County’s controls over its golf course inventories need to be strengthened

Since inventory is highly susceptible to theft or misuse, the County should establish and maintain effective internal controls to safeguard inventory items at the golf course, which includes separating incompatible responsibilities, and storing inventory items in secure locations. However, only one employee was responsible for ordering and approving inventory purchases. Further, detailed records were not maintained to monitor purchases and sales of inventory items. Also, inventory items were stored in an unlocked room accessible to customers, employees, and volunteers.

The County should establish written policies and procedures over its golf course inventories and periodically monitor that these procedures have been placed in operation and are operating effectively. These policies should ensure that responsibilities are properly separated so that no one person orders, authorizes purchases, and receives the items. In addition, employees should prepare receiving reports for all items received, indicating the date and quantities received, the item’s condition, and the signature of the employee receiving the items. The County should also maintain detailed records of purchases and sales, reconcile purchases and sales to physical counts, and investigate all differences. Further the County should take steps to ensure that inventory is physically secured to prevent theft.

The County should improve its controls over purchasing

Strong internal controls over purchasing facilitate efficient use of financial resources and promote accountability for county expenditures and ensure that procurement policies are consistent with legal requirements and sound business practices. However, the County departments did not always follow its purchasing policies and procedures. Specifically, the County purchased vehicles totaling $176,000 from a local vendor believed to be authorized under a state contract; however, the vendor was not authorized under state contract. Additionally, the County purchased specialized equipment totaling $46,000, but did not document the written determination for the sole source procurement until 21 months after the purchase when auditors requested the documentation. Furthermore, the County did not retain supporting documentation for written quotations for computer equipment costing $5,800.

To help ensure County purchasing policies and procedures are followed, the County should provide ongoing training to all county employees with purchasing responsibilities. Also, the County should monitor departments purchases to ensure adherence with established procedures.

The County should ensure the accuracy of its accounting records

The County's Governing Board and management depend on accurate information to fulfill their oversight responsibilities and to report accurate information to the public and agencies from which it receives funding. To achieve this objective, management should ensure its accounting records and financial statements are accurate and complete. However, the County's accounting records and draft financial statements were not always accurate. Specifically, the County incorrectly recorded $315,000 of intergovernmental revenue as capital outlay expenditures and recorded $382,000 of indirect costs as revenues instead of expenditures on its financial statements. Also, the County's capital asset schedules included various errors totaling more than $2.4 million. Further, the County overstated accrued payroll and employee benefits liabilities by $80,000 and overstated accounts receivable by $47,000. The financial statements were adjusted to report the correct amounts.

To help ensure that the County records and reports accurate financial information, each department should accurately identify and classify transactions using the County's uniform chart of accounts. In addition, the Finance Department should review and approve the classifications before recording the transactions in the accounting system. Further, a second employee of the Finance Department should verify that amounts reported on the financial statements are appropriately classified and agree to the accounting records.

The County needs to implement previously reported recommendations

We have reported to the County detailed recommendations to correct deficiencies in internal controls and instances of noncompliance with laws and regulations in our Management Letters for the years ended June 30, 2001, and 2002. However, the County has not implemented all of the recommendations for capital assets, federal expenditures, and an information system disaster recovery plan listed below. County management should implement the recommendations provided to help ensure it fulfills its responsibility to establish and maintain adequate internal controls and comply with laws and regulations.

Property control—The County's capital assets represent a major investment of taxpayer monies and should be adequately accounted for and controlled. Although the County is in the process of establishing policies and procedures to physically control and maintain an accurate capital assets listing similar deficiencies noted in previous years' audits such as untagged capital assets, capital assets that could not be located, and additions and deletions of capital assets not properly accounted for on the capital assets listing were also noted during the current year's audit. In addition, the property records did not include any federal participation in the property's cost. Recommendations to perform a physical inventory of all capital assets, include all required information on the capital assets listing, and perform monitoring procedures to ensure that internal controls are in place and being followed have been reported to the County in prior years. It is important that the County implement these recommendations to help safeguard its capital assets and comply with federal requirements.

Federal expenditures—The County is required by the Office of Management and Budget (OMB) Circular A-133 to annually prepare a Schedule of Expenditures of Federal Awards (SEFA). However, the County did not identify all federal awards received, accurately report program titles and identification numbers, or accurately record federal expenditures in the accounting records resulting in an understatement of federal expenditures totaling $40,000 on the SEFA. Recommendations for the County to implement procedures to help ensure the accuracy and completeness of the SEFA and to ensure that the County complies with the reporting requirements of OMB Circular A-133 have been provided to the County. It is important that the County implement these recommendations to help ensure the completeness and accuracy of the SEFA.

Disaster recovery plan—The County has an information system that provides general ledger, accounts payable, payroll, personnel, and capital assets subsystems for the Finance Department, and general ledger and property tax management subsystems for the County Treasurer. These systems are critical to the County's continued operations. However, the County has not established a disaster recovery plan or written backup agreements for its computer information systems. Such a plan will help ensure that proper procedures are in place to provide for the continuity of operations and that electronic data files are not lost in the event of a disaster or other interruption. Recommendations to establish a disaster recovery plan and obtain written backup agreements have been suggested to the County in prior years. It is important that the County complete its disaster recovery plan as soon as possible to help maintain system integrity and security.

La Paz County Finance

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January 14, 2005

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

Re: Management Letter for the Year Ended June 30, 2003

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, 2003

Finding	Response	Recommendation	Action Taken/Planned
The County did not have adequate internal controls over its golf course cash receipts.	The Finance Director concurs in part. The County has established written cash handling procedures, but did not adequately monitor their application.	The County should improve controls over cash receipts for the golf course.	The County will review and update current cash handling procedures, with emphasis on improved monitoring.
Golf course staff did not maintain detailed records of the purchase and sales of inventory. Inventory items were stored in an unlocked room.	The Finance Director concurs.	The County needs to improve its inventory control procedures at the golf course.	The County will establish inventory control procedures for the golf course.
County departments did not always follow its purchasing policies and procedures.	The Finance Director concurs.	The County should improve its controls over purchasing.	The Finance Director has informed departments of the proper way to purchase under state contract. Finance staff will not pay for purchases without proper quote or bid documentation.
Accounting records and draft financial statements were not always accurate.	The Finance Director concurs. Errors related to fixed assets were related to implementation of GASB 34. Indirect cost recovery was handled as it has been in the past. The error in accrued payroll was due to a spreadsheet error.	The County should ensure the accuracy of its accounting records.	The County will change how it records indirect cost recovery. GASB 34 related errors should decrease since Finance staff worked with the Auditor General's staff.
The County has not implemented all of the recommendations for capital assets, federal expenditures, and an information system disaster recovery plan.	The Finance Director concurs in part. The County did implement new Fixed Asset control procedures. The procedures provide for a complete fixed asset inventory over a three year period, therefore discrepancies should decrease over this same time period. Finance staff did change procedures used to prepare the SEFA.	The County needs to implement previously reported recommendations.	The County will continue with the Fixed Asset control procedures already in place. The County's single audit corrective action plan includes the development of a grants management policy and procedure manual, which should promote an accurate SEFA. The Finance department will develop an information system disaster recovery plan.