



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Management Letter

Maricopa County Medical Center

Year Ended June 30, 2003



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 9, 2004

Board of Supervisors
Maricopa County
County Administration Building
301 West Jefferson Street, 10th Floor
Phoenix, AZ 85003

Members of the Board:

In planning and conducting our audit of the Maricopa County Medical Center for the year ended June 30, 2003, we performed the following as required by U.S. generally accepted auditing standards:

- Considered the Medical Center's internal controls over financial reporting and
- Tested the Medical Center's compliance with laws and regulations that could have a direct and material effect on its financial statements.

We noted no internal control weaknesses or instances of noncompliance that we consider to be material to the financial statements. However, our audit disclosed an internal control weakness that management should correct to ensure that it fulfills its responsibility to establish and maintain adequate internal controls. This internal control weakness was reported in prior years. Our recommendation is described below.

**The Medical Center needs to safeguard
and account for its capital assets**

Capital assets comprise more than half of the Medical Center's total assets. Therefore, it is essential that the Medical Center accurately reports these assets to its lenders, the public, and other interested parties. To accomplish this, it must maintain a reliable capital assets system and follow its procedures to accurately identify, accumulate, and reconcile capital assets and related depreciation costs. However, the Medical Center did not always follow its established internal control policies and procedures to ensure its capital assets were accurately reported. For example, the Medical Center lacked a complete and accurate capital assets listing. Specifically, the listing included assets disposed of during the past 5 years; did not list property control tag numbers, serial numbers, and locations; and included inaccurate acquisition costs for some assets.

Further, the Medical Center had not taken a physical inventory of its machinery and equipment in the past 10 years.

Because capital assets constitute a significant portion of its total assets, the Medical Center should follow its established policies and procedures. Doing so will help safeguard those assets against theft and misuse as well as help ensure that the assets are properly reported in its financial statements. Management personnel should:

- Ensure that a complete physical inventory is performed to provide an accurate listing that includes tag numbers, serial numbers, and locations.
- Calculate assets' acquisition costs by allocating freight charges to and deducting cash discounts from unit costs of assets.
- Inform employees of the Medical Center's asset control policies and procedures and emphasize the importance of following them.
- Perform periodic checks to ensure that employees are following the Medical Center's policies and procedures.

This letter is intended solely for the information of the Maricopa 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



**MARICOPA
INTEGRATED
HEALTH SYSTEM**

Count on us to care.

FINANCE MANAGEMENT

2444 E. University Drive, Suite 10
Phoenix, AZ 85038
(602) 389-4500

Pat Walz, Vice President, Chief Financial Officer

December 22, 2003

Debra K. Davenport
Auditor General
2910 North 44th Street, Suite 410
Phoenix, Arizona 85018

Dear Ms. Davenport:

The following is Maricopa Integrated Health System's (MIHS') response to the Management Letter findings for fiscal year 02-03.

Capital Asset Safeguards and Accounting

Finding:

Because capital assets constitute a significant portion of its total assets, the Medical Center should follow its established policies and procedures. Doing so will help safeguard those assets against theft and misuse as well as help ensure that the assets are properly reported in its financial statements. Management personnel should:

- Ensure that a complete physical inventory is performed to provide an accurate listing that includes tag numbers, serial numbers, and locations.
- Calculate assets' acquisition costs by allocating freight charges to and deducting cash discounts from unit costs of assets.
- Inform employees of the Medical Center's asset control policies and procedures and emphasize the importance of following them.
- Perform periodic checks to ensure that employees are following the Medical Center's policies and procedures.

MIHS concurs with the audit findings related to safeguarding and accounting for capital assets. The following are being implemented to address these findings.

- Managers have been provided with an asset listing from the FAS Encore system to verify the accuracy of the fixed assets within their departments. 75% of the listings have been reviewed and returned. The remaining 25% is due by the end of this month. Once all listings have been received, the finance department will begin analyzing the information and make necessary corrections/entries to the FAS Encore system.
- A team will be convened consisting of representatives from the Finance Department, Materials Management and Health Information Systems to develop an action plan for ensuring that all MIHS managers understand the importance of the fixed asset policies and procedures. The MIHS Finance Department will develop an action plan for random audits.
- The finance transition team for the new hospital district is exploring bringing in an outside firm to perform a physical inventory of MIHS' machinery and equipment.

Sincerely,

Pat Walz
Vice President, CFO