A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Report on Internal Control and Compliance

Maricopa County

Year Ended June 30, 2011

Debra K. Davenport
Auditor General

The **Auditor General** is appointed by the Joint Legislative Audit Committee, a bipartisan committee composed of five senators and five representatives. Her mission is to provide independent and impartial information and specific recommendations to improve the operations of state and local government entities. To this end, she provides financial audits and accounting services to the State and political subdivisions, investigates possible misuse of public monies, and conducts performance audits of school districts, state agencies, and the programs they administer.

Copies of the Auditor General's reports are free.
You may request them by contacting us at:

Office of the Auditor General
2910 N. 44th Street, Suite 410 • Phoenix, AZ 85018 • (602) 553-0333

Additionally, many of our reports can be found in electronic format at:

www.azauditor.gov

Maricopa County
Report on Internal Control and Compliance
Year Ended June 30, 2011

Table of Contents

Report Issued Separately

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

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

Members of the Arizona State Legislature

The Board of Supervisors of
Maricopa County, Arizona

We have audited the financial statements of the governmental activities, each major fund, and aggregate remaining fund information of Maricopa County as of and for the year ended June 30, 2011, which collectively comprise the County's basic financial statements, and have issued our report thereon dated December 19, 2011. Our report was modified to include a reference to our reliance on other auditors and as to consistency because of the implementation of Governmental Accounting Standards Board Statement No. 54. 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. Other auditors audited the financial statements of the Stadium District, Risk Management, and Employee Benefits Trust, as described in our report on the County's financial statements. This report includes our consideration of the results of the other auditors' testing of internal control over financial reporting and compliance and other matters that are reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors.

Internal Control over Financial Reporting

The County's management is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the County's basic financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We and the other auditors did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Recommendations as items 11-01, that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards*, and which is described in the accompanying Schedule of Findings and Recommendations as item 11-01.

Maricopa County's responses to the findings identified in our audit are presented on pages 4 through 5. We did not audit the County's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the members of the Arizona State Legislature, the Board of Supervisors, management, others within the County, 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.

Jay Zsorey, CPA
Financial Audit Director

December 19, 2011

11-01

The County should establish effective policies and procedures over personnel costs

Criteria: The Sheriff's Office should have effective policies and procedures in place to charge personnel costs to the appropriate fund based on accurate and complete supporting documentation. In addition, Arizona Revised Statutes (A.R.S.) §42-6109.01 requires that jail tax monies collected pursuant to this statute be disbursed to maintain and operate adult and juvenile jail facilities. Further, A.R.S. §31-121(I) requires the sheriff to hold in trust all special services fund monies to be disbursed for the inmates' benefit and welfare.

Condition and context: Between fiscal years 2004 and 2011, county management determined that some of the Sheriff's Office's employees were paid from the Detention Operations Fund even though they were not always performing responsibilities to maintain and operate adult and juvenile jail facilities. Further, some employees were also paid from the Inmate Services Fund even though they were not always performing services for inmates' benefit and welfare. The County performed an analysis and estimated total misspending of $99.5 million over the 7-year time period.

Effect: During fiscal years 2004 through 2011, the Sheriff's Office inappropriately charged $99.5 million in payroll costs to the Detention Operations and Inmate Services Funds in violation of A.R.S. §§42-6109.01 and 31-121(I). In addition, expenditures reported in the County's financial statements for this period in the Detention Operations Fund and Inmate Services Fund were overstated by an estimated $84.8 million and $14.7 million, respectively, and expenditures in the General Fund were understated by an estimated $99.5 million. This finding is a significant deficiency in internal control over financial reporting and an instance of noncompliance.

Cause: Employees within the Sheriff's Office were allegedly transferred between law enforcement and detention or inmate services assignments; however, the Sheriff's Office did not have adequate policies or procedures or accounting records to properly account for these costs.

Recommendation: The Sheriff's Office should develop and follow procedures to ensure that payroll expenditures are charged to the correct funding source to help ensure it complies with A.R.S. §§42-6109.01 and 31-121(I). In addition, the County should monitor that the Sheriff's Office followed its policies and procedures and verify that the employees' work assignments correspond to the funding source being charged.

This finding is similar to a prior-year finding.

Maricopa County
Department of Finance

Shelby L. Scharbach
CPA, CGFM
Chief Financial Officer
301 West Jefferson St
Suite 960
Phx, AZ 85003-2148
Phone: 602-506-3561
Fax: 602-506-4451
www.maricopa.gov

December 20, 2011

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

Dear Ms. Davenport,

The accompanying Corrective Action Plan has been prepared as required by Governmental Auditing Standards. Specifically, we are providing you with the name of the contact person responsible for the corrective action, the corrective action planned, and the anticipated completion date for the finding included in the Report on Internal Control and Compliance.

Sincerely,

Shelby L. Scharbach
Chief Financial Officer

11-01
The County should establish effective policies and procedures over personnel costs
Contact person: LeeAnn Bohn, Deputy Budget Director, Office of Management and Budget, (602) 506-1916
Anticipated Completion Date: June 30, 2012

Concur. On September 22, 2010, the Maricopa County Board of Supervisors adopted a resolution to review the Sheriff's Office financial transactions regarding misspending of Detention Operations Fund monies. As a result of the resolution, the County implemented a Financial Review Committee (FRC) to determine the amount of misspending. Based on the financial information gathered by the FRC, in Fiscal Year 2011-12, Maricopa County has budgeted operating transfers to the appropriate funds for the misspending.

Maricopa County has been working closely with the Sheriff's Office to ensure that employees are appropriately paid from the correct fund. In response, the Sheriff's Office issued internal policies and procedures that identify and account for how all internal transfers, particularly those that move staff between funding sources, are to be handled. Sheriff's Office staff has been assigned to oversee this process, and transfers outside of this process are not allowed. County Administration established a retroactive review process of the Sheriff's Office payroll to ensure staff is paid out of appropriate funds. This review will cover 100% of the payroll records in the Court Security and Inmate Transportation units and a random but representative sample of all remaining units.

Maricopa County

Report on Internal Control and Compliance

Year Ended June 30, 2011

State of Arizona

Office of the Auditor General