A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Management Letter

Maricopa County

Year Ended June 30, 2004

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

June 8, 2006

Board of Supervisors
Maricopa County
301 West Jefferson, Suite 1020
Phoenix, AZ 85003

Members of the Board:

In planning and conducting our single audit of Maricopa County for the year ended June 30, 2004, 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, 2004. 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 for the years ended June 30, 2003 and 2004. Our review identified certain instances of noncompliance, which are described in the accompanying summary as Recommendation 3.

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

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The County should maintain effective controls and oversight over its professional services contracts

During fiscal year 2004, the County expended approximately $100 million for contracted professional services. Due to the significance and specialized nature of these contracts, it is essential that the County have effective controls to ensure professional service contracts are clear and complete, monitor the work performed to ensure the desired outcomes are achieved, and review invoices to ensure that all charges are in accordance with contract terms and conditions. Auditors tested two professional services contracts totaling $11 million and found that the County lacked effective internal controls over these contracts. One of the professional services contracts (MIHS contract), totaling $5.8 million, was awarded to a consulting firm to assist in managing, improving, and transferring the Maricopa Integrated Health System (MIHS) to the newly formed Special Health Care District. The other contract (consulting services contract), totaling $5.2 million, was awarded to another firm to provide various consulting services to MIHS, as well as other county departments. Specifically, auditors noted the following deficiencies related to these contacts:

- For the MIHS contract, the task orders were unclear as to specific measurable outcomes, performance objectives to be delivered, and the benchmark dates objectives were to be achieved. Consequently, the County did not adequately monitor contractual compliance to assess whether the contractor's performance objectives were being met prior to paying for contractual services. The County's Materials Management Department performed a review of this contract for a 1-month period and documented questionable costs similar to those that auditors noted in a review of 2 additional months, as described below. County officials did not investigate or resolve the issues noted in the Materials Management review.

- For the consulting services contract, there was no written documentation to indicate that objectives specified on the contractor's statement of work were achieved. In addition, detailed billings were not provided to the County, but instead the Health Care Mandates Department could request support at any time. Health Care Mandates' informal policy was to review at least 2 months detailed billing records each fiscal year to ensure amounts invoiced for professional fees and travel expenses were proper. Health Care Mandates reviewed only 1 month's billings for fiscal year 2004. For the month reviewed, the consultant adjusted the monthly billings by $5,700 for errors noted. Subsequent to the adjusted billings, auditors reviewed that month's billings and noted an additional $5,200 of questionable travel costs.

- For the MIHS contract, the County did not have effective controls for reimbursing professional fees and subcontractor costs. For the 2 months of billings tested, the County paid expenditures totaling $42,800 for professional services and $126,700 for subcontractors' costs that were not authorized. In addition, $226,700 of subcontractors' expenditures were not supported by vendor invoices or other documentation.

- For both contracts, the County did not properly define allowable travel costs, specify the dollar amount for travel reimbursement rates, and ensure that travel reimbursements were properly authorized. For the months reviewed, auditors noted excessive, unallowable, and unauthorized travel expenditures totaling $15,400. Of this amount, $2,400 was not supported by vendor invoices. In addition, there was no daily limit on meal reimbursements and no itemized receipts were required. Consequently, there were numerous instances noted for both contracts in which meal reimbursements appeared excessive. Further, for the MIHS contract, unallowable costs such as nonfood items and liquor were reimbursed.

Due to the significance and specialized nature of professional service contracts, it is essential that the County maintain effective controls and oversight over these contractual services. Specifically, the County should implement procedures that include the following:

- Ensure contracts and task orders include specific and clear language defining the detailed deliverables to be provided that are based on measurable performance criteria and objectives. The contracts should specify the costs that are allowable for reimbursement, as well as require sufficient documentation to support the professional fees and travel expenses charged to the County.

- Review billing invoices to ensure that amounts charged for professional services and travel expenses are proper and in accordance with applicable laws, the contract's specific terms and conditions, and county policies. If detailed billing invoices are not provided to the County, policies should be established to require the County to review supporting documentation to help ensure compliance with the contract.

- Provide appropriate oversight over the contracts, such as assessing and monitoring contractual compliance and the results of the work performed to ensure that the desired outcomes and other deliverables are attained.

- Investigate and resolve promptly any significant issues arising as a result of contract monitoring. Such matters should be documented and referred to the appropriate and responsible county department for investigation and resolution, including the recovery of any amounts improperly paid and any current or planned corrective action. In addition, the County's corrective action and final resolution related to such matters should be adequately documented and retained.

- Evaluate the effects of any contractual noncompliance or other issues noted as a result of monitoring procedures performed before continuing payments to or renewing the contract with the applicable vendor.

The County should ensure that departments adhere to established procurement card policies

Procurement card (p-card) expenditures totaled $21.1 million in fiscal year 2004 and were approximately 5.6 percent of total county nonpayroll expenditures. There are 3 different types of p-cards; purchasing, fuel, and travel. There are specific restrictions as to the types and expenditure amounts that can be made from each p-card type. As p-card purchases are susceptible to potential misuse, county management should ensure that all departments are following established p-card policies. However, the county policies were not always followed. P-card transactions from fiscal years 2004 and 2005 were selected from 13 departments. Auditors noted the following:

- P-card logs were not always reconciled to vendor invoices and bank statements.

- Expenditures in p-card logs were not always approved or approval was subsequent to p-card payment.

- Expenditures recorded in several p-card logs were not classified to the appropriate account code or were not classified.

- Fuel purchases were not always recorded in a p-card log.

- Comparative quotes were not retained for one p-card transaction, and for another transaction, comparative quotes were obtained instead of using an existing contract as required by county guidelines.

- A p-card was not cancelled after a cardholder terminated employment with the County.

In addition, auditors noted p-card purchases made by the Office of the Contract Counsel for gift cards given as employee incentives. All office employees received a gift incentive, including the p-card holder and the director. These expenditures were approved by the director, including his own gift incentive. Employee incentives are allowable under the County's Employee Compensation Plan; however, the County lacked written policies and procedures providing guidance for implementation of departmental incentive programs.

To help strengthen controls over p-card expenditures, it is essential that the County maintain effective controls and monitor that all departments are adhering to its established policies and procedures. For departments that use p-cards, the County should:

- Monitor p-card expenditure logs on an ongoing basis to determine accuracy and completeness, and ensure that p-card logs are reconciled at least monthly to invoices and bank statements.

- Verify that expenditures on the p-card expenditure logs are properly classified in accordance with the County's chart of accounts and approved by authorized personnel prior to p-card payment.

- Ensure that p-card purchases adhere to the County's Certified Agency Procurement Aids (CAPA) guidelines established for p-card expenditure limits.

- Prepare termination reports at least monthly to make certain that p-cards are cancelled for terminated employees.

In addition, the County should establish written procedures for departments to follow when giving employee incentives. These procedures should address specific eligibility guidelines, allowable incentives, incentive limits, and required approvals.

The County should spend highway user and vehicle license tax monies in accordance with state laws

Each year, the State distributes Highway User Revenue Fund (HURF) monies and a portion of the vehicle license tax (VLT) monies to the County, and has mandated that the County use these monies solely for highway and street purposes, as specified in Article IX, §14 of the Arizona Constitution and Arizona Revised Statutes (A.R.S.) §§28-5801(B)(1)(c) and (2)(c) and 28-5808(A)(2)(b) and (B)(2)(b). The County received $183 million in HURF and VLT monies in fiscal years 2003 and 2004. The County's Transportation Department operates primarily from these monies. Based on the Constitution, laws, Attorney General Opinion No. I05-003, auditors noted the following expenditures that appeared to be unallowable charges:

Description	Fiscal Year 2003	Fiscal Year 2004
General and automobile liability premiums	$1,233,456	$1,165,320
Promotional products	7,387	9,949
School safety programs	Undeterminable	9,554
Gift cards	7,800	N/A
Maricopa County Region Trail System	N/A	7,723
Fitness equipment	2,579	1,680
Supplies for improvement districts	Undeterminable	3,600
Unsupported	2,811	72
Parade lights	180	989
Retirement plaques	628	429
Catered food	N/A	660
Canopy for events	N/A	126

Liability premiums represent 98 percent of the questionable expenditures. The Attorney General opinion specifically states that HURF monies may not be used to pay premiums related to personal injury judgments. County officials have indicated that they do not agree with this opinion. However, our determination in this matter is based on the Attorney General opinion.

The County should develop written policies and procedures to ensure that HURF and restricted VLT monies are spent in accordance with the Arizona Constitution and A.R.S., and ensure that its transportation department follows these policies and procedures. These policies should include a written description of the types of expenditures that are allowable and unallowable. In addition, management should review and approve expenditures to ensure that all expenditures charged to HURF and restricted VLT monies are only for allowable charges. Finally, the County should allocate local revenues for highway and street purposes to replenish the monies it spent inappropriately during fiscal years 2003 and 2004.

The County should improve departmental controls over cash receipts

Because cash is highly susceptible to potential theft or misuse, county management should establish, monitor, and enforce effective controls to safeguard cash receipts at the various departments. However, the County lacked detailed written policies and procedures to provide guidance to the departments for collecting, recording, reconciling, and depositing cash receipts. Furthermore, the County did not monitor the receipt procedures being followed at the individual departments. As a result, the County Attorney's Office did not have a system in place to properly account for assessment fees or control restitution fees, and checks received for restitution fees were not restrictively endorsed when received. In addition, the Planning and Development Department did not restrict access to its safe. Furthermore, at the Office of the Medical Examiner, one employee had incompatible responsibilities, such as collecting and recording fees for report copies, and the Office did not reconcile report copies sold to monies collected.

To help strengthen controls over departmental cash receipts, the County should establish written procedures for collecting, recording, reconciling, and depositing cash receipts and periodically monitor that departments are following them. These procedures should include the following:

- Establish accountability for cash receipts when collected by assigning a unique transaction number to an individual receipt. The transaction numbers should be sequentially controlled for proper accountability.

- Maintain an accounts receivable system, when necessary, to properly account for monies such as assessment fees.

- Restrictively endorse all checks for deposit immediately upon receipt.

- Reconcile the totals from the sequence of receipts collected to the monies recorded and deposited. This reconciliation should be performed daily, and any differences should be investigated and resolved.

- Restrict access to the safe to employees whose job duties require it.

- Separate responsibilities between employees so that the employee with access to cash receipts is not responsible for recording and depositing the receipts. In addition, a supervisor should review the daily reconciliations. If responsibilities cannot be adequately separated because of small staff size, then a supervisor should review and approve transactions and related reconciliations.

A similar recommendation was provided to the County in the prior year Management Letter dated July 9, 2004.

The County should properly administer and report federal financial assistance

The County received over $100 million in federal financial assistance during fiscal year 2004. Consequently, the County needs to ensure that departments administer federal programs in accordance with federal laws and regulations to make certain that these monies are only used for their intended purposes so that the County does not lose some of its federal funding or have to repay the federal government for unallowable costs. However, several departments did not comply with federal laws and regulations, as follows:

Allowable costs/cost principles—The Workforce Investment Act (WIA) program cluster expenditures were not properly allocated to the WIA Adult Program (CFDA No. 17.258) and the WIA Dislocated Workers (CFDA No. 17.260) program. Participant enrollment percentages recorded on the Virtual One Stop (VOS) system were used by the Maricopa County Human Services Department to allocate expenditures to both programs within the WIA program cluster. However, auditors noted errors in participant enrollments recorded on the VOS system that resulted in an incorrect expenditure allocation between these programs. In addition, the calculated program percentages based on the VOS system were not applied properly to each program as these percentages were reversed when allocating expenditures to the programs. Furthermore, expenditures that should have been charged directly to only one program were allocated to both programs based on the VOS participant enrollment percentages. Based on how the expenditures were recorded in the County's financial system, auditors were unable to determine the amount of direct expenditures that were allocated to both programs.The combination of these errors resulted in a misclassification of expenditures between these programs, but did not result in a misstatement of total expenditures for the WIA cluster.

The Maricopa Integrated Health System (MIHS) did not correctly allocate the salary for one of three employees authorized to work on the Coordinated Services and Access to Research for Women, Infants, Children, and Youth (CFDA No. 93.153) program. MIHS was authorized to charge 25 percent of this employee's salary to the program, including the employee's vacation, sick, and holiday leave. Auditors verified that the employee's regular time was correctly allocated; however, the employee's overtime, vacation, sick, and holiday leave was charged 100 percent to the program. This resulted in overcharges of approximately $3,800 to the program for the fiscal year.

Eligibility—MIHS did not have adequate controls to ensure that services provided to patients under the Coordinated Services and Access to Research for Women, Infants, Children, and Youth (CFDA No. 93.153) program were eligible to receive the services. Specifically, MIHS did not notify its clinics or other county departments of the eligibility requirements, and did not specify the requirements in its contracts with subrecipients. Auditors were able to determine that subrecipients serving a majority of the program's patients were properly following all program eligibility requirements. However, MIHS clinics and the Maricopa County Department of Public Health (MCDPH) did not have a policy to verify that services were provided only to Maricopa County residents. Auditors noted that 3 of 19 patients tested from either an MIHS clinic or at the MCDPH were not Maricopa County residents. Based on records maintained at the MIHS clinics and the MCDPH, expenses charged to the program for serving non-Maricopa County residents totaled $4,196.

Subrecipient monitoring—MIHS passed through over 73 percent or $502 thousand of the Coordinated Services and Access to Research for Women, Infants, Children, and Youth (CFDA No. 93.153) program monies to subrecipients. MIHS performed monitoring and on-site reviews of its subrecipients and documented all findings. However, the monitoring reports did not include sufficient detail, such as whether the noted findings were significant to the program, whether corrective action plans were required from the subrecipients, and whether follow-up procedures were required to be performed by MIHS. Additionally, auditors noted that follow-up procedures were not performed by MIHS.

Schedule of Expenditures of Federal Awards (SEFA) reporting—OMB Circular A-133 requires the County to prepare a SEFA each year showing the federal programs administered by the County and the corresponding expenditures along with any related pass-through grantors and contract numbers. However, the County incorrectly reported program titles, federal and pass-through grantor names, pass-through grantor contract numbers, and pass-through amounts to subrecipients. Also, the County incorrectly reported expenditures on the SEFA for 17 programs, reported expenditures for 5 programs under the wrong CFDA number, and did not accurately identify a program cluster. In addition, the County did not correctly identify in the SEFA notes all the programs that reported expenditures in the fiscal year grant monies were received (i.e., cash basis). The SEFA was adjusted for these errors, which would have caused expenditures to be overstated by approximately $1 million. Furthermore, ten departments responsible for administering programs had to make manual adjustments to expenditures recorded on the County's financial accounting system in order to properly report expenditures on the SEFA. A similar deficiency was noted in the prior year Management Letter.

The County should establish the necessary procedures to ensure that it administers federal programs and that it reports federal expenditures in accordance with federal laws and regulations. These procedures should ensure that expenditures are properly allocated to federal programs, that services are provided to eligible recipients, and that program subrecipients are being effectively monitored. In addition, the County should monitor all departments administering federal programs to ensure that program expenditures are properly recorded on the financial accounting system. Furthermore, the Finance Department should properly support and confirm program information reported on the SEFA with the department responsible for administering each program, reconcile SEFA expenditures to the financial accounting system, and review the information for completeness and accuracy.

The County needs to implement previously reported recommendations

We have reported to the County certain deficiencies noted during our previous audits that should be corrected to improve county operations. However, the County has not implemented the recommendations designed to correct these deficiencies. Our Office reported the following deficiencies and the related recommendations in our prior years' Management Letters.

Related party transactions—Financial accounting standards require that financial statements include disclosures of material related party transactions. Maricopa County's procurement policies require anyone with a potential conflict of interest to inform appropriate county management. Although the County's policy is consistent with Arizona Revised Statutes §38-503 regarding conflicts of interest, it does not provide procedures to identify and account for related party transactions. Specifically, the County did not require all public officers and employees having purchasing, spending, or investing authority to file conflict-of-interest statements, and it did not review conflict-of-interest and financial disclosure statements that were filed by county employees and elected officials to identify potential related parties. Due to these specific weaknesses, the County's policies are not adequate to ensure that all transactions are arms-length and that material related party transactions are identified and reported. A recommendation to correct this deficiency has been suggested to the County since fiscal year 1994.

Information systems disaster recovery and user access—The County has not established disaster recovery plans and written backup agreements for its PeopleSoft and Treasurer's Information systems critical to the County's operations. Without such plans or agreements, financial transactions might not be adequately processed or successfully recovered if a disaster occurred. In addition, the County has several users with a high level of access to the Advantage Financial system, which would allow them to both initiate and approve financial transactions. Furthermore, there was no documentation as to whether management reviewed reports that summarized changes in user access. Recommendations to implement disaster recovery plans, including written backup agreements, and to restrict user access have been suggested to the County since fiscal years 1995 and 2000, respectively. It is important that the County implement these recommendations to help maintain system integrity and security.

During the current year auditors noted that the County did not have written policies for all of its computerized accounting systems to prevent unauthorized access. In addition, there were several departments with access to the PeopleSoft system that did not have account lock-out features. Furthermore, the County's PeopleSoft system did not identify or track access attempts. The County should develop written policies for all its computerized systems to prevent unauthorized access, and all computerized systems should be equipped with the necessary controls to prevent unauthorized access. The controls should include features for account lock-out and identification of unauthorized users.

Maricopa County

Department of Finance

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May 23, 2006

Debbie Davenport
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Dear Ms. Davenport:

The management of Maricopa County is responsible for establishing and maintaining a system of internal controls. Internal accounting controls are designed to provide reasonable, but not absolute assurance regarding: 1) the safeguarding of assets against loss from unauthorized use or disposition; and 2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that: 1) the cost of a control should not exceed the benefits likely to be derived; and 2) the evaluation of costs and benefits requires estimates and judgments by management.

County management takes the issues addressed in the Management Letter very seriously. It is the intention of Maricopa County management to review the areas included in the Management Letter, determine, and implement the corrective action(s) necessary. The following addressed the issues as discussed in the Management Letter.

<u>Recommendation I:</u>

The County should maintain effective controls and oversight over its professional services contracts.

> <u>County Response</u> - County management will review its policies and procedures relating to professional services contracts. The contracts mentioned (MIHS contract and the Consulting Services Contract) are no longer used by the County.

<u>Recommendation II:</u>

The County should ensure that departments adhere to established procurement card policies.

1. <u>County Response</u> – Materials Management concurs. Limited p-card monitoring is occurring according to the standardized p-card policy and procedure established. Materials Management Contract Monitor does an independent audit/contract/CAPA review of a comprehensive volume of transactions for random cardholders. For the Fiscal Year 2007, Materials Management has requested two additional full-time positions to supplement the current staff and focus on increasing the number of p-card users monitored.

2. County Response – Materials Management concurs. P-cards are assigned default accounting strings that permit transactions to be processed within contractual time limits. P-card holders have the ability to reallocate their transactions to more applicable accounting strings they determine accurately reflect the appropriate expenditure type using the online p-card application. However, historically the departments have not updated the expenditure type. During Fiscal Year 2007, the Department of Finance and the Office of Management and Budget will be implementing presence control budgeting that will preclude departments from expending in unbudgeted expenditure lines. In addition, departments will provide commentary to management for budget to actual positive and negative variances.

3. County Response - Materials Management concurs. Procedural changes have already been implemented to insure non-CAPA limits are not utilized for CAPA purchases.

4. County Response - Materials Management concurs. Currently card cancellation notification is mandated by policy as a responsibility of the cardholder's department management. Controls are in place to prevent use of the card after the cardholder has left county service. Additional cooperation with the County Human Resources Department will be investigated as necessary to identify these employees if departments are unresponsive to this responsibility.

5. County Response – Human Resources concurs. The performance incentive program is intended to foster an environment that encourages exceptional performance. Annually, Human Resources receives Board of Supervisor approval and provides departmental guidelines for the use of the performance incentive program. For calendar year 2006, Human Resources had provided further instructions that departments who provide other incentive type programs would require Board of Supervisor approval.

Recommendation III:

The County should spend highway user and vehicle license tax monies in accordance with state laws.

County Response - The Department of Transportation does not concur with the general and automobile liability premiums. Risk Management charges are ordinary and necessary expenditures to operate and maintain a County road system. The Maricopa County Attorney's Office advises that these charges are within the scope of expenditures allowed by Article IX, §14 of the Arizona Constitution for the maintenance of County highways.

County Response - The Department of Transportation concurs. While the department may continue with these purchases (promotional products, school safety programs, employee safety awards, retirement plaques, parade lights, catered food, canopy, etc.) they will be funded with non-HURF revenue.

The Department of Transportation has identified non-HURF funding sources for items identified in the audit with the noted exceptions. Written policies and procedures will be developed to ensure that HURF and restricted VLT monies are spent in accordance with State laws. The department receives non-HURF revenue and considers that sufficient to replenish HURF for findings in which we concur.

In addition, the Department of Transportation feels that catered food associated with public meetings that are directly related to the operation, maintenance, or construction of the roadway system and canopy rental for road dedication and groundbreaking ceremonies are an appropriate use of HURF funds. The expenditures directly related to this activity will be funded through HURF funds.

Recommendation IV:

The County should improve departmental controls over cash receipts.

County Response – The Department of Finance concurs. The County is in the process of hiring a senior cash analyst who will facilitate the development of policies and procedures to provide guidance to departments for collecting, recording, reconciling and depositing cash. In addition, the County currently provides training for cash handling that includes internal controls over cash, control techniques for receipting, depositing, accounting for, and reconciling cash.

Recommendation V:

The County should properly administer and report federal financial assistance.

1. County Response - The Human Services Department concurs with the Virtual One Stop (VOS) system finding. Many of the errors recorded in the VOS system were due to several data conversions from the other systems to the VOS system over the past few years. The Arizona Department of Economic Security (DES), the pass-through agency for WIA funding, is aware of these problems and is addressing them with us and other sub-recipient agencies throughout the state that utilize their system.

   The Human Services Department concurs with the cost allocation finding. We have made improvements to insure that direct costs are identified and charged directly to the appropriate grant program at the time of payment; and that common costs are pooled and later systematically and consistently allocated to the appropriate grant by utilizing the approved allocation methodologies and appropriate grant accounting strings. These improvements include ensuring that requisition requests are properly coded at the time of ordering; the Chief Accountant will review and approve all documents for correct accounting strings prior to processing; and that all WIA staff will utilize the new time activity time card.

2. County Response – MIHS concurs that salary costs were allocated incorrectly to the grant and MIHS has implemented a corrective action plan. MIHS has hired a full-time Grants Accountant to solely focus on grant activities, which include properly recording and reporting payroll expenditures.

3. County Response - MIHS concurs with these findings and has implemented a corrective action plan. MIHS continues to educate subrecipients and MIHS registration and billing staff that this program only serves Maricopa residents and not Pinal County residents. In addition, MIHS offered to refund HRSA for these monies. HRSA instead authorized us to carry-over these funds to the next year.

4. County Response - MIHS concurs with this finding and will implement a plan of correction. MIHS will provide sufficient detail in the report to the subrecipients and clearly state that the findings are point of discussions rather than material findings. In addition, any needed follow-up with the subrecipient will be addressed in the report.

5. County Response – The Department of Finance concurs. The department has implemented a new Grant Compliance Unit that will consist of four analysts whose main focus is to reduce the County's grant risk by monitoring the management and compliance of the County grant programs. In addition, this Unit will ensure that the SEFA is properly prepared and all required information is accurate and complete.

Recommendation VI:

The County needs to implement previously reported recommendations.

1. County Response – The County believes that the current procedures associated with related party transactions are adequate to ensure arms-length transactions.

2. County Response - The Office of the Chief Information Officer (OCIO) submitted a budget request for the upcoming FY2006-07 year to establish a disaster recovery "hot site", not just a disaster recovery plan for *PeopleSoft HCM* system. The OCIO has proposed that Disaster Recovery planning be a topic of discussion at the upcoming Maricopa County IT Governance meetings. The IT Governance meetings are held every other week. The first disaster recovery discussion is scheduled for June 7, 2006. The Office of the CIO will be facilitating these discussions; however, each county agency IT department is responsible for developing their specific disaster recovery plans.

   As previously mentioned, the OCIO will be facilitating IT Governance meetings that include Disaster Recovery planning for the Treasurer's Information System. In conjunction with these meetings, the Treasurer IT department will be developing their specific disaster recovery plan.

3. County Response – The Department of Finance reviewed Super User Access and removed one Super User profile. The two remaining Super Users (one (1) primary and one (1) alternate) in the Department of Finance are a necessary means of performing routine maintenance to the Advantage Financial System tables. The Department also utilizes the weekly Audit Trail Report which documents Super User activities. This report is reviewed and signed by a Finance Department manager after the review is complete. These changes were implemented in August 2005.

4. County Response - The OCIO has a project in progress to develop and publish security guidelines and procedures for the PeopleSoft HCM system. As of May 11, 2006, this project was 51% completed, with an anticipated completion date of July 2006. The PeopleSoft HCM system does not support lock-out features or tracking access attempts in the current HCM Rel. 8.8 product. The OCIO will review other opportunities and provide an update or recommendation by December, 2006. Implementation will be subject to the availability of a viable solution and the availability of funding.

If you have any questions or comments, please contact me at (602) 506-1367.

Shelby L. Scharbach
Deputy Finance Director