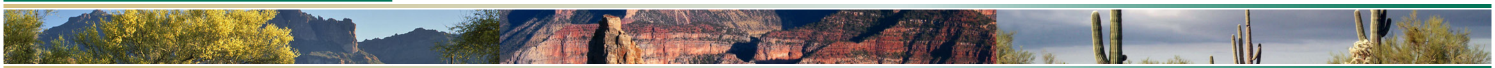
STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL
INTEGRITY • ACCOUNTABILITY • MAKING A DIFFERENCE

Maricopa County



REPORT HIGHLIGHTS
FINANCIAL STATEMENT AND SINGLE AUDITS

Condensed financial information

Our Conclusion

Maricopa County is responsible for preparing annual financial statements and a schedule of expenditures of federal awards, maintaining effective internal controls, and being accountable for its use of public monies. Our Office is responsible for auditing the County's financial statements, schedule, and major federal programs annually. A summary of those financial statements and schedule of expenditures of federal awards is presented to the right.

Based on our audits, we issued reports that included our opinions on the County's financial statements and its schedule of expenditures of federal awards and reports on its internal control and compliance over financial reporting and major federal programs. The information in the County's fiscal year 2012 financial statements and schedule of federal awards is reliable. Our reports identified internal control deficiencies and instances of noncompliance over major programs. These findings are summarized on the next page.

2012

Year Ended June 30, 2012

Statement of net assets—This statement reports all of Maricopa County's assets, liabilities, and net assets. Net assets, the difference between assets and liabilities, are reported in three major categories:

- **Invested in capital assets, net of related debt**—shows the equity in land, buildings, equipment, and infrastructure.
- **Restricted**—shows the resources that must be used for restricted purposes as specified by donors and external entities, such as the federal government.
- **Unrestricted**—shows the resources available for general operations.

Statement of activities—This statement reports all revenues, expenses, and the year's change in net assets. Revenues include program revenues—those generated by or dedicated to a specific program—and general revenues, such as taxes raised for general purposes. During fiscal year 2012, net assets increased by $63 million, or 1.4 percent, as compared to an increase of $167 million, or 3.9 percent, in fiscal year 2011.

Schedule of expenditures of federal awards—During fiscal year 2012, the County expended $157 million in federal awards. The County's federal award expenditures were nearly unchanged compared to fiscal year 2011.

Condensed statement of net assets
Governmental activities
As of June 30, 2012
(In millions)

Assets	
Current and other assets	$1,773
Capital assets, net	3,381
Total assets	5,154
Liabilities	
Current	265
Noncurrent liabilities	327
Total liabilities	592
Net assets	
Invested in capital assets, net of related debt	3,239
Restricted	625
Unrestricted	698
Total net assets	$4,562

Condensed statement of activities
Governmental Activities
For the year ended June 30, 2012
(In millions)

Program revenues	
Charges for services	$ 262
Operating grants and contributions	290
Capital grants and contributions	8
Total program revenues	560
General revenues	
Property taxes	590
Sales tax	637
Other	38
Total general revenues	1,265
Total revenues	1,825
Expenses	1,762
Increase in net assets	63
Net assets—beginning, as restated	4,499
Net assets—ending	$4,562

Condensed schedule of expenditures of federal awards by grantor agency
For the year ended June 30, 2012
(In millions)

U.S. Department of Health and Human Services	$ 57
U.S. Department of Housing and Urban Development	25
U.S. Department of Transportation	17
U.S. Department of Agriculture	16
U.S. Department of Labor	15
U.S. Department of Justice	9
Other	18
Total federal expenditures	$157

Summary of audit findings and recommendations

For the financial statement audit, we found internal control weaknesses over the County's financial statement preparation process. For the federal compliance audit, we tested 11 federal programs under the major program guidelines established by the Single Audit Act and noted that the County did not always have adequate internal controls and did not always comply with federal program requirements for 8 of its programs. Our Report on Internal Control and Compliance over financial reporting and our Single Audit Report over federal programs contain further details to help the County correct these deficiencies. The most significant findings and recommendations are summarized below.

Inadequate financial statement preparation

The County did not follow its policies and procedures and record a $45 million liability incurred as a result of a lawsuit with hospitals seeking reimbursement for medical services provided to indigent patients. We discovered the omission and the County corrected the financial statements and related note disclosures to report the $45 million liability.

Recommendation

The County should follow generally accepted accounting principles and its current policies and procedures when preparing its annual financial statements and note disclosures. Specifically, the County must report in its financial statement amounts owed for litigation when it is probable that the County will lose a lawsuit and the amount owed can be reasonably estimated.

Noncompliance with federal program requirements

- The County had not established policies and procedures to monitor matching expenditures for the Teacher Incentive Fund federal grant program. Specifically, by September 2013, the County is required to match federal program monies with $5 million of nonfederal monies spent to benefit the program. However, the County had not been monitoring matching expenditures and therefore could not demonstrate that it was on target to meet the $5 million match. This could result in the County having to refund monies to the federal grantor if the match is not met.
- The County could not provide evidence verifying that salaries and wages that were paid with federal HOME Investment Partnership monies were actually for employee time and effort spent working on the program. Specifically, the County used pre-established distribution percentages rather than actual time and effort spent by employees working on the program to determine the salaries and wages to be paid with federal monies.

Recommendations

To improve and implement the controls and help ensure compliance with federal requirements, the County should:

- Establish policies and procedures to monitor matching expenditures throughout the award period.
- Remove the fixed percentage allocations of payroll expenditures for employees who work on multiple federal programs and charge the actual time worked to the programs.