ARIZONA
AuditorGeneral
Making a Positive Difference

REPORT HIGHLIGHTS
Annual Financial and Single Audit Reports
Year Ended June 30, 2016

Pima County

CONCLUSION: Pima County is responsible for preparing its annual financial report and a federal expenditure schedule, 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 the County's financial statements and federal expenditure schedule is presented below.

Based on our audits, we issued opinions on the County's financial statements and federal expenditure schedule and issued reports on internal control and on compliance over financial reporting and major federal programs. The information in the County's fiscal year 2016 financial statements and schedule is reliable. Our Office identified internal control weaknesses over financial reporting and an internal control weakness and an instance of noncompliance over the preparation of its federal expenditure schedule. The most significant findings are summarized on the next page.

Condensed financial information

Statement of net position—This statement reports all of the County's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Net position is reported in three major categories:

- **Net investment in capital assets—**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 other external entities, such as the federal government.
- **Unrestricted—**shows the remaining net position balance after allocating the net investment in capital assets and restricted balances.

Statement of activities—This statement reports all revenues, expenses, and other changes in net position. Revenues include program revenues—those generated by or dedicated to a specific program—and general revenues, such as taxes raised for general purposes. It also reports revenues and expenses as either governmental activities—primarily supported by taxes and grant monies—or business-type activities—primarily supported by user fees and charges. Net position increased by $47 million, or 2.6 percent, in fiscal year 2016.

Federal expenditure schedule—During fiscal year 2016, the County expended $52 million in federal awards. The County's federal award expenditures increased by approximately $1 million, or 2.0 percent, compared to fiscal year 2015.

Statement of net position
As of June 30, 2016 (In millions)

Assets and deferred outflows	
Current and other assets	$ 701
Capital assets, net of depreciation	3,207
Deferred outflows of resources	109
Total assets and deferred outflows	**4,017**
Liabilities and deferred inflows	
Current liabilities	77
Noncurrent liabilities:	
Net pension liability	729
Other	1,334
Deferred inflows of resources	47
Total liabilities and deferred inflows	**2,187**
Net position	
Net investment in capital assets	2,013
Restricted	222
Unrestricted	(405)
Total net position	**$1,830**

Statement of activities
Year ended June 30, 2016 (In millions)

Program revenues	
Governmental activities	$ 235
Business-type activities	184
General revenues	
Governmental activities	615
Business-type activities	2
Total revenues	**1,036**
Expenses	
Governmental activities	824
Business-type activities	165
Total expenses	**989**
Increase in net position	47
Net position—beginning	1,783
Net position—ending	**$1,830**

Federal expenditure schedule
Year ended June 30, 2016 (In millions)

Federal grantor agency	
Department of Transportation	$15
Department of Labor	9
Department of Health and Human Services	9
Department of Housing and Urban Development	6
Department of the Interior	3
Department of Justice	3
Department of Homeland Security	3
Other	4
Total federal expenditures	**$52**

Understanding the County's financial report

Understanding how to extract information from the County's financial report is important when reviewing financial performance and evaluating future financial decisions. As described below, our Office's financial report user guide and internal control and compliance reports user guide, available at azauditor.gov under reports and publications, help users identify and understand important and useful information in the County's financial report and our reports on internal control and on compliance over financial reporting and federal programs. Specifically:

- **Financial report user guide—**describes key financial information contained in county financial reports and indicates where to find this information. Key components in a financial report include the independent auditors' report, management's discussion and analysis, government-wide financial statements, fund financial statements, notes to financial statements, and other required supplementary information.
- **Internal control and compliance reports user guide—**describes our internal control and compliance reports over financial reporting and federal programs. Those reports, which are included in our single audit report, provide information about whether the County has effective internal control procedures and whether it has complied with certain financial- and federal-related laws and regulations.

Summary of audit findings and recommendations

For the financial statement audit, we found internal control weaknesses over the County's financial reporting related to its information technology (IT) systems. For the federal compliance audit, we tested seven federal programs under the major program guidelines established by the Single Audit Act and reported a weakness in internal control and an instance of noncompliance over the preparation of its federal expenditure schedule. Our report on internal control and compliance includes a schedule of findings and recommendations that contains further details to help the County correct the most significant internal control weaknesses summarized below.

County had inadequate policies and procedures over IT resources—The County's IT resources, which include its systems, network, infrastructure, and data, are vital to its daily operations. However, the County did not have adequate policies and procedures over its IT resources to effectively identify, analyze, and respond to risks that may impact its IT resources; sufficiently manage access, including preventing, detecting, and responding to unauthorized access; and to track, document, and test IT resource changes. The County also lacked a comprehensive up-to-date contingency plan to provide for the continuity of operations in the event of a disaster, system or equipment failure, or other interruption.

Recommendations

To help identify, analyze, and respond to risks that may impact its IT resources; prevent and detect unauthorized access to its IT resources; prevent and detect unauthorized, inappropriate, and unintended changes to its IT resources; and ensure county operations can continue in the event of a disaster, system or equipment failure, or other interruption the County needs to update and implement policies and procedures over its IT resources to ensure they address the following:

- **Risk-assessment process—**The risk-assessment process should include the identification of risk scenarios, including the scenario's likelihood and magnitude.
- **Sensitive information—**Security measures should be developed to identify, classify, and inventory sensitive information and protect it.
- **Logging and log monitoring—**Key user activity should be logged and monitored, particularly for users with administrative access privileges and remote access.
- **User access—**A periodic, comprehensive review should be performed of all existing employee accounts to help ensure that network access granted is needed and compatible with their job responsibilities.
- **Configuration management—**Changes made to IT resources should be logged and documented and a record should be retained of all change details.
- **Contingency planning—**The contingency plan should be updated at least annually for all critical information or when changes are made to IT resources, and updates to the plan should be communicated to key personnel.
- **IT standards and best practices—**IT policies and procedures should be reviewed against current IT standards and best practices, updated where needed, and implemented entity-wide, as appropriate.