Pima County

Report on Internal Control and on Compliance

Year Ended June 30, 2022

A Report to the Arizona Legislature

Lindsey A. Perry
Auditor General

ARIZONA Auditor General
Making a Positive Difference

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DEPUTY AUDITOR GENERAL

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Members of the Arizona State Legislature

The Board of Supervisors of
Pima County, Arizona

We have audited, in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the U.S. Comptroller General, the financial statements of the governmental activities, business-type activities, discretely presented component unit, each major fund, and aggregate remaining fund information of Pima County as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated December 22, 2022. Our report includes a reference to other auditors who audited the financial statements of the Stadium District, School Reserve Fund, Wireless Integrated Network, Self-Insurance Trust, Health Benefit Trust, Regional Wastewater Reclamation Department, Development Services, and Southwestern Fair Commission, 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.

Report on internal control over financial reporting

In planning and performing our audit of the financial statements, we considered the County's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we and the other auditors did not identify any deficiencies in internal control that we consider to be material weaknesses or significant deficiencies. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on compliance and other matters

As part of obtaining reasonable assurance about whether the County's basic financial statements are free from 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 financial statements. 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 and those of the other auditors disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and that are described in the accompanying schedule of findings and recommendations as items 2022-01 and 2022-02.

County response to findings

Government Auditing Standards requires the auditor to perform limited procedures on the County's responses to the findings identified in our audit that are presented in its corrective action plan at the end of this report. The County is responsible for preparing a corrective action plan to address each finding. The County's responses and corrective action plan were not subjected to the other auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on them.

Purpose of this report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the County's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Lindsey A. Perry

Lindsey A. Perry, CPA, CFE
Auditor General

December 22, 2022

Financial statement findings

2022-01

The County's top administrator retired and exercised a return-to-work clause in his employment contract without informing the Board of Supervisors, impacting the Board's ability to effectively assess and make decisions about the County's executive management workforce

Condition—The County Administrator retired July 4, 2021, and exercised a return-to-work clause[2] within his employment contract without informing the Board that he had taken these actions. In addition, he instructed a limited number of County employees to closely hold this information, according to the subsequent County Administrator in an April 15, 2022, memo to the Board. After his retirement and return-to-work, the County Administrator worked until October 23, 2021, and then used paid leave until he resigned April 4, 2022. The number of hours the County paid the County Administrator each week during the fiscal year after his retirement and return-to-work was appropriately restricted as required by Arizona State Retirement System laws, which restrict the number of hours a retiree may be paid each week by an ASRS employer—requirements that applied to the County Administrator. Further, his use of paid leave was included in his Board-approved employment contract.

Effect—The Board was denied the opportunity to evaluate the operational impact on the County and the direction it may have wanted to go in light of the County Administrator's closely-held retirement and exercising of a return-to-work clause in his employment contract.[2] Specifically, because the County Administrator had not informed the Board of his retirement and return-to-work status, the Board was unaware that the County Administrator would be required to work a reduced number of hours (less than 20 hours per week) for half the year after his retirement. Therefore, the Board could not determine if any changes to the County's executive management were necessary to ensure appropriate County governance.

Cause—At the time the County Administrator retired and returned-to-work by exercising a return-to-work clause in his employment contract[2], the County did not have any policies or procedures requiring the County Administrator to notify the Board of Supervisors of these actions.

Criteria—Management's developing and implementing control activities for managing human capital and approving employee-related transactions, including those involving changes in employee work status, is an essential part of internal control standards, such as the *Standards for Internal Control in the Federal Government* issued by the Comptroller General of the United States.[1]

Recommendations—To improve its system of internal control, the County should:

1. Enforce the policy it developed that requires the County Administrator to provide notice to the Board of their intention to retire at least 90 days prior to the retirement date and requires any return-to-work by

the County Administrator to be supported by a new employment contract approved by the Board. The Board approved this policy at its May 3, 2022, meeting, effective immediately.

2. Ensure it maintains a policy that includes requirements that the County Administrator provide the Board with notice of intent to retire and return-to-work, as applicable.

The County's corrective action plan at the end of this report includes the views and planned corrective action of its responsible officials. We are not required to audit and have not audited these responses and planned corrective actions and therefore provide no assurances as to their accuracy.

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[1] U.S. Government Accountability Office (GAO). (2014). *Standards for internal control in the federal government*. Washington, DC. Retrieved 01/11/2023 from https://www.gao.gov/assets/670/665712.pdf.

[2] The return-to-work clause the County Administrator exercised in his employment contract with Pima County, which was approved by the Pima County Board of Supervisors, states: "If Employee retires as allowed by the Arizona State Retirement System, Employee can return to work as a contractor without any negation of the terms of this contract, including its length."

2022-02

County Procurement Department's lack of verification over vendor information changes allowed public monies totaling $42,739 to be stolen by fraudsters and would have allowed another $4 million to be stolen had the bank not alerted the County

Condition—Contrary to County policies and procedures, the County's Procurement Department did not require a vendor to submit an IRS W-9 form prior to resetting a vendor's login credentials and password in the vendor self-service portal. Specifically, based solely on a fraudulent request it received by email, the Department provided a vendor's login credentials and a temporary password that allowed the fraudster to access the vendor self-service portal, add fraudulent bank account routing information for electronic fund transfer (EFT), and then steal $42,739 from the County. Within the next 2 weeks, the County approved 2 additional EFTs for the vendor, one for $1,538,688 that was transferred to the fraudulent bank account and another for $2,516,631 that was processed by the County and pending transfer. Fortunately, the bank where the fraudulent account was maintained alerted the County that the vendor's name on the bank account did not match the electronic payment details, which allowed the County to reverse the transfer and cancel the pending transfer.

Effect—The Department allowed public monies totaling $42,739 to be stolen by fraudsters, which was not able to be recovered, and would have allowed another $4,055,319 to be stolen if the bank had not contacted the County. The County immediately suspended its EFT process in the vendor self-service portal.

Cause—The Department did not train its employees on required verification procedures to obtain an IRS W-9 form prior to resetting a vendor's login credentials and password. Further, the Department's policies and procedures lacked requirements to perform additional verification procedures, such as verifying that the email request was from a valid email domain included within the vendor file, and to log and monitor changes to sensitive information, such as EFT bank account information, in the vendor self-service portal.

Criteria—Designing, implementing, and maintaining effective policies and procedures within or around the County's vendor payment process to achieve the County's objectives that include safeguarding public monies and other assets and responding to risks of fraud is an essential part of internal control standards, such as the *Standards for Internal Control in Federal Government* issued by the Comptroller General of the

United States, and integral to ensuring monies are not fraudulently or mistakenly misused.[1] County policies and procedures require an IRS W-9 form to be submitted and approved by the Procurement Department when a vendor requests its login credentials and password information to be reset (Pima County Procurement, VSS Administrator How to Reset Vendor Password policy). Further, assessing risk and developing an internal control framework for information technology systems to achieve the County's objectives that include changing sensitive information, such as EFT bank account information, should include proper logging and monitoring of changes to sensitive information, such as the standards stated in *Security and Privacy Controls for Information Systems and Organizations* issued by the National Institute of Standards and Technology.[2]

Recommendations—The County's Procurement Department should:

1. Train employees on existing policies and procedures to obtain a vendor IRS W-9 form prior to approving a vendor request to reset its login credentials and password.
2. Strengthen existing policies and procedures to:
   a. Require employees to conduct additional verification procedures when a vendor requests to reset its login credentials and passwords, such as verifying vendor email requests are from a valid email domain included within the vendor profile before responding to the vendor's request for information.
   b. Implement system controls to log and monitor changes to sensitive information within the vendor self-service portal, such as obtaining system alerts when a vendor modifies its EFT bank account information and requiring an employee to perform a secondary verification through an alternative method with the vendor prior to processing payments.

The County's corrective action plan at the end of this report includes the views and planned corrective action of its responsible officials. We are not required to audit and have not audited these responses and planned corrective actions and therefore provide no assurances as to their accuracy.

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[1] U.S. Government Accountability Office (GAO). (2014). *Standards for internal control in the federal government*. Washington, DC. Retrieved 1/11/2023 from https://www.gao.gov/assets/670/665712.pdf.

[2] National Institute of Standards and Technology (NIST). 2020 Publication 800-53, Revision 5, Security and Privacy Controls for Information Systems and Organizations. Retrieved 1/11/2023 from https://nvlpubs.nist.gov/nistpubs/SpecialPublications/NIST.SP.800-53r5.pdf.

COUNTY RESPONSE

PIMA COUNTY
FINANCE & RISK MANAGEMENT

March 16, 2023

Lindsey A. Perry
Arizona Auditor General
2910 N. 44th St., Ste. 410
Phoenix, AZ 85018

Dear Ms. Perry:

We have prepared the accompanying corrective action plan as required by the standards applicable to financial audits contained in *Government Auditing Standards* and by the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Specifically, for each finding, we are providing you with our responsible officials' views, the names of the contact people responsible for corrective action, the corrective action planned, and the anticipated completion date.

Sincerely,

Ellen Moulton, Director
Finance and Risk Management

Ellen Moulton, Director

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Pima County
Corrective Action Plan
Year ended June 30, 2022

2022-01

The County's top administrator retired and exercised a return-to-work clause in his employment contract without informing the Board of Supervisors, impacting the Board's ability to effectively assess and make decisions about the County's executive management workforce.

Names of contact persons: Cathy Bohland, Human Resources Director, and Ellen Moulton, Finance and Risk Management Director

Anticipated completion date: Completed May 3, 2022.

Pima County agrees with the recommendations provided. As noted, the Board of Supervisors (BOS) approved a revision to Personnel Policy 8-112 – Retirement System Participation on May 3, 2022, requiring the County Administrator to provide notice to the BOS of their intention to retire from ASRS, at least 90 days prior to the retirement date. This revision also includes a separate requirement that any approval of retirement and return to work, including remaining in their current position working reduced hours, by the County Administrator, be supported by a new employment contract approved by the BOS.

2022-02

County Procurement Department's lack of verification over vendor information changes allowed public monies totaling $42,739 to be stolen by fraudsters and would have allowed another $4 million to be stolen had the bank not alerted the County.

Names of contact persons: Terri Spencer, Procurement Director, and Ellen Moulton, Finance and Risk Management Director

Anticipated completion date: April 2024.

The County agrees with the recommendations provided and would like to clarify that this issue was specific to adding electronic funds transfer (EFT) functionality to our already existing vendor self-service portal. The Procurement Department was supporting a Department of Finance and Risk Management initiative to test and implement this new EFT functionality when this fraud occurred. The EFT functionality was immediately suspended once the County was made aware that the fraud had occurred. As a result, the County will be implementing improved controls and documented procedures in both Finance and Procurement before relaunching the EFT functionality.

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