A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Management Letter

Pima 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

August 1, 2005

Board of Supervisors
Pima County
130 West Congress Street, 11th Floor
Tucson, AZ 85701-1317

Members of the Board:

In planning and conducting our single audit of Pima 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 year ended June 30, 2004. Our review identified an instance of noncompliance, which is described in the accompanying summary as Recommendation 1.

This letter is intended solely for the information of the Pima 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 ensure that state highway user revenues are spent according to 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 mandates that the County use these monies solely for highway and street purposes. Over the past 2 fiscal years, the County Transportation Department has received over $99 million in HURF and restricted VLT monies, more than 90 percent of the Department's revenues. The Department used most of these monies to help finance highway and street construction, repairs, and maintenance and to pay principal and interest on transportation bonds. However, the County Transportation Department spent approximately $9.7 million of HURF and restricted VLT monies over the last 2 fiscal years to finance public transportation costs, such as City of Tucson bus service, rural transit services, and special needs transportation services, that were not in accordance with the Arizona Constitution, Article 9, §14.

The County should develop written policies that clearly define the allowable uses of HURF and restricted VLT monies and ensure that its transportation department follows these policies. In addition, the County should review and approve the proposed uses of these monies to help ensure that they are spent in accordance with the Arizona Constitution. Finally, the County should allocate $9.7 million of local revenues for highway and street purposes to replenish the monies it spent inappropriately over the last 2 fiscal years.

The Public Fiduciary's Office needs to implement previously reported recommendations to properly administer wards' assets

State statutes require counties to provide the monies necessary to operate a public fiduciary's office and require fiduciaries to exercise extreme care and diligence when making decisions on behalf of wards. However, the Pima County Public Fiduciary's Office did not always follow state statutes and did not implement the recommendations that we previously described in our Management Letter for the year ended June 30, 2003. For example, the Office did not distribute interest earned on the wards' shared checking account. Instead, the Office had a banking agreement through which the bank paid a portion of the Office's operating costs with credits earned from the wards' deposits. At June 30, 2004, the wards' shared checking account had a balance of $1.7 million.

The Pima County Public Fiduciary's Office should properly administer wards' assets by implementing the recommendations that we described in our Management Letter for the year ended June 30, 2003. This includes distributing interest earned on the wards' shared checking account to the wards' balances at least quarterly and correcting the other deficiencies noted.

PIMA COUNTY
FINANCE DEPARTMENT
130 WEST CONGRESS STREET
TUCSON, ARIZONA 85701-1317
(520) 740-8041 FAX (520) 624-9178

Thomas E. Burke, Director

July 26, 2005

Ms. Debbie Davenport, Auditor General
2910 N. 44th St., Suite 410
Phoenix, AZ 85018

Dear Ms. Davenport:

The following are Pima County's response to the Management Letter comments for Fiscal Year 2003/2004. If you have any questions, please feel free to call.

Sincerely,

Tom Burke, Director
Finance Department

Attachment

The County should ensure that state highway user revenues are spent according to state laws

Pima County disagrees with the position taken by the Auditor General in this audit regarding the interpretation of constitutional restrictions on Pima County's use of unrestricted VLT funds received pursuant to §28-5808 (A) (2) (b), deposited in the County's Transportation fund. We believe that the County's transportation program expenditures of HURF funds and unrestricted VLT funds are in full compliance with all applicable statutes and regulations.

The Public Fiduciary's Office needs to implement previously reported recommendations to properly administer wards' assets

The County has reviewed the findings issued by the Auditor General. Although, the Public Fiduciary has not corrected all of the previously stated deficiencies, we have addressed the distribution of interest earned on the wards' accounts.

The majority of the wards' monies are maintained in individual accounts which earn interest for the benefit of the wards. A small portion, less than 10%, of the wards' monies are maintained in a pooled checking account to facilitate the processing of the wards' monthly expenses. It is not cost efficient to allocate interest earned on the pooled account to the various wards as the costs associated with allocating the interest would exceed the amount earned given the current rate of interest. Therefore, the Public Fiduciary utilizes these interest earnings to defray service fees associated with this pooled checking account. We believe that the Public Fiduciary is exercising her responsibility to ensure the wards receive the highest possible return on their deposits in a cost efficient manner.

The County will direct the Public Fiduciary to enter into a banking agreement that complies with applicable laws, rules and policies.