A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Management Letter

# Pima County

Year Ended June 30, 2005

**Debra K. Davenport**
Auditor General

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STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

May 29, 2006

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, 2005, 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, 2005. 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, 2005. 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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# TABLE OF CONTENTS

Recommendation 1: The County should spend highway user and vehicle license tax monies in accordance with state laws 1

Recommendation 2: The County should implement procedures to ensure expenditures are properly approved 2

Recommendation 3: The County should establish a disaster recovery plan for its information systems 3

Recommendation 4: The Public Fiduciary's Office needs to implement previously reported recommendations 4

County Response

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

The State distributes Highway User Revenue Fund (HURF) monies to the County, and mandates that these monies be spent solely for highway and street purposes, as specified in the Constitution of Arizona, Article IX, §14. The County received $41.8 million in HURF monies in fiscal year 2005.

Also, the State distributes vehicle license tax (VLT) monies to the County. A portion of VLT monies distributed are for unrestricted purposes and are deposited in the County's General Fund. However, Arizona Revised Statutes (A.R.S.) §28-5801(B)(1)(c) mandates that a portion of the VLT monies distributed be spent solely for highway and street purposes. During fiscal year 2005, the County received $12.1 million of restricted VLT and deposited the monies in its Transportation Special Revenue Fund.

Auditors reviewed county expenditures of HURF and restricted VLT monies and noted expenditures that appeared to be unallowable based on the Arizona Constitution, A.R.S., and Attorney General Opinion No. I05-003. The following table summarizes those expenditures:

Unallowable Expenditures
from HURF and Restricted VLT Monies
Year Ended June 30, 2005

| Description | Amount |
|---|---|
| City of Tucson bus service and other public transit costs | $4,049,338 |
| General and automobile liability insurance premiums | 822,893 |
| School safety programs | 143,275 |
| Other[1] | 10,689 |

[1]Includes promotional products such as key chains and stress balls, employee training, food for business meetings, employee college tuition reimbursements, employee dry cleaning services, canopy for awards ceremony, food for public meetings, travel costs, and employee recognition plaques.

In addition to the above expenditures, the County used HURF and restricted VLT monies to pay for portions of its geographic information system and legislative monitoring activities. Auditors were unable to determine whether these costs were related to highway and street purposes because the County did not maintain documentation that supported how these costs were allocated to various county functions or departments.

County management informed auditors that the public transit costs included in the above table were paid for with VLT monies because the County considered all VLT monies to be unrestricted. The County's position was based on the fact that the Arizona Constitution, Article IX, §14 did not restrict the use of VLT monies. However, auditors noted that the County requested and received a State Attorney General's opinion that contradicts the County's position. Attorney General Opinion I85-81 states that even though VLT monies have been excluded from the Section 14 highway and street use requirement, the monies are still subject to allocation by the Legislature under the mandate of the Arizona Constitution, Article IX, §11. Based on the Legislature's allocation of VLT monies specified within A.R.S. §28-5801(B)(1)(c), auditors determined that a portion of the County's VLT monies are restricted for highway and street purposes.

The County should develop and implement written policies and procedures that ensure HURF and restricted VLT monies are spent in accordance with the Constitution of Arizona and state laws. The 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 restricted HURF and 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.

## The County should implement procedures to ensure expenditures are properly approved

The County Board of Supervisors is accountable to the taxpayers for how it spends monies collected. State law mandates that the Board adopt an annual budget containing estimates of proposed expenditures and requires that a public hearing take place prior to the final adoption. After adoption, the County is not allowed to spend money for any purpose not included within its budget; however, the Board may amend the adopted budget by transferring monies between budget items and approving the transfers at a public meeting, as specified in A.R.S. §42-17106 (B).

Auditors reviewed fiscal year 2005 financial transactions, and noted that the County made the following cash and capital equipment transfers totaling $11.3 million that were not approved by the Board of Supervisors:

- $3.2 million transferred from the General Fund to the Other Special Revenue Fund to eliminate the Stadium District's deficit at June 30, 2004.

- $3 million and $2.1 million transferred from the Parking Garages Enterprise Fund and Other Special Revenue Fund, respectively, to the Capital Projects Fund to purchase real property and capital equipment.

- $2 million transferred from the Transportation Special Revenue Fund to the Capital Projects Fund to finance transportation-related capital projects.

- $1 million transferred between various funds to purchase capital equipment and retire an interfund loan.

The County should ensure that all transfers are made in accordance with its adopted budget. If the County decides to transfer monies for purposes not included in its adopted budget, it must ensure that the transfer is in the public interest and is approved by the Board of Supervisors at a public meeting.

## The County should establish a disaster recovery plan for its information systems

The County's computer systems are vital to the County's daily operations. Those systems process and store critical financial and other information. Consequently, the County should ensure that it can continue to operate in the event of a system or equipment failure by developing, implementing, and testing a disaster recovery plan. A properly designed disaster recovery plan helps ensure that proper procedures are in place to provide for the continuity of operations and that electronic data files are not lost in the event of a disaster. In addition, written policies and procedures that provide instructions to employees for processing daily transactions in the event of a disaster are also necessary. However, the County did not have a disaster recovery plan.

To help ensure that the County can provide the continuity of its operations and to help prevent loss of data in the event of a major system or equipment failure, the County should develop and implement a disaster recovery plan. The plan should include the following:

- A risk analysis identifying critical applications and exposures, and an assessment of the impact on the County.

- Roles and responsibilities of employees assigned to disaster recovery teams and emergency telephone numbers to reach them.

- Operating procedures.
- Arrangements for a designated physical facility.
- Arrangements with vendors to support needed hardware and software requirements.
- A list of procedures for processing critical transactions, including forms or other documents to use, if manual processing is necessary.

In addition, the disaster recovery plan should be stored off-site, and updated and tested annually.

## The Public Fiduciary's Office needs to implement previously reported recommendations

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 because it did not distribute interest earned on the wards' shared checking account to the wards' accounts. Instead, the Office used interest earned on the wards' shared checking account to pay a portion of the Office's operating costs. In addition, the Office's banking agreement for the wards' shared checking account did not specify interest rates and minimum balances, and the Office did not compare its bank's charges and benefits with those of other banks.

Recommendations to correct these deficiencies have been provided to the Pima County Public Fiduciary's Office since fiscal year 2001. It is important that the Office implement the recommendations, including distributing interest to the wards' checking account, to help ensure that the Office properly administers wards' assets.

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130 WEST CONGRESS STREET
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Thomas E. Burke, Director

May 18, 2006

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

Dear Ms. Davenport:

The following is Pima County's response to the Management Letter comments for Fiscal Year 2004-05. If you have any questions, please feel free to call.

Sincerely,

Tom Burke

Enclosure

## The County should spend highway user and vehicle license tax monies in accordance with 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, unrestricted VLT funds and other revenue sources are in full compliance with all applicable statutes and regulations.

## The County should implement procedures to ensure expenditures are properly approved

The County will revise existing procedures to ensure that the Board of Supervisors will approve the transfers of unbudgeted funds.

## The County should establish a disaster recovery plan for its information systems

The Information Technology Department has been building the infrastructure necessary to establish and execute a disaster recovery plan. Pima County has begun to create the basic recovery plan. We expect to complete the overall plan in Fiscal Year 2006-07 with testing to begin in Fiscal Year 2007-08.

## The Public Fiduciary's Office needs to implement previously reported recommendations

The County agrees that the Public Fiduciary has not corrected all of the previously stated deficiencies. We have previously addressed in our response to the Office of the Auditor General's Management Letter for Fiscal Year 2003-04 the distribution of interest earned on the wards' accounts. 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 has directed the Public Fiduciary to enter into a banking agreement that complies with applicable laws, rules and policies and will take appropriate measures to ensure compliance by the end of this calendar year.