



REPORT HIGHLIGHTS

FINANCIAL STATEMENT AND SINGLE AUDITS

Our Conclusion

Pima 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 the 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 expenditures of federal awards is reliable. Our reports identified internal control weaknesses and instances of noncompliance over major federal programs. These findings are summarized on the next page.



2012

Year Ended June 30, 2012

Condensed financial information

Statement of net position—This statement reports all of Pima County's assets, liabilities, and net position. Net position, the difference between assets and liabilities, 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 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 position. Revenues include program revenues—those generated by or dedicated to a specific program—or 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. During fiscal year 2012, net position increased by \$125 million, or 5.8 percent, as compared to an increase of \$161 million, or 8.1 percent, in fiscal year 2011.

Schedule of expenditures of federal awards—During fiscal year 2012, the County's governmental activities expenses included \$69 million in federal awards expended. The County's federal award expenditures decreased by \$2 million, or 3 percent, compared to fiscal year 2011.

Condensed statement of net position Governmental and business-type activities

As of June 30, 2012
(In millions)

Assets	
Current assets	\$ 843
Capital assets, net	<u>2,903</u>
Total assets	<u>3,746</u>
Liabilities	
Current	163
Long-term	<u>1,309</u>
Total liabilities	<u>1,472</u>
Net position	
Net investment in capital assets	1,810
Restricted	240
Unrestricted	<u>224</u>
Total net position	<u>\$2,274</u>

Condensed statement of activities Governmental and business-type activities

For the year ended June 30, 2012
(In millions)

Program revenues	
Governmental activities	\$ 258
Business-type activities	225
General revenues	
Governmental activities	584
Business-type activities	<u>(23)</u>
Total revenues	<u>1,044</u>
Expenses	
Governmental activities	734
Business-type activities	<u>185</u>
Total expenses	<u>919</u>
Change in net position	125
Net position—beginning	<u>2,149</u>
Net position—ending	<u>\$2,274</u>

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	\$22
U.S. Department of Housing and Urban Development	14
U.S. Department of Labor	8
U.S. Department of Justice	6
Homeland Security	5
Other	<u>14</u>
Total federal expenditures	<u>\$69</u>

Summary of audit findings and recommendations

For the financial statement audit, we found an internal control weakness over the County's preparation of its financial statements. For the federal compliance audit, we tested seven federal programs under the major program guidelines established by the Single Audit Act and found that the County did not always have adequate internal controls and did not always comply with federal program requirements for three of those programs. In addition, we found that the County did not accurately prepare its schedule of expenditures of federal awards (SEFA). 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 procedures

The County's financial statements were not initially prepared in accordance with required U.S. generally accepted accounting principles. We found errors totaling \$66.2 million that the County was required to correct. The errors included \$9.8 million of improperly reported amounts and \$56.4 million that was classified in inappropriate line items within the financial statements. For example, we found that the County overstated depreciation expense by \$7.7 million and reported more than \$11 million of revenues as unrestricted when they were actually restricted for spending on highways and streets. The County made the necessary adjustments to correct the financial statements.

Noncompliance with federal program requirements

- The County understated expenditures by \$2,161,105 that it reported for the Neighborhood Stabilization Program on a quarterly progress report. In addition, the County incorrectly reported program spending on seven required reports it submitted for the Energy Efficiency and Conservation Program. In both cases, the reported amounts were not supported by the County's accounting records, and the County had no policies and procedures in place to help detect the errors.
- The County prepared its SEFA using incomplete data from its financial records and lacked policies and procedures to conduct a thorough review to detect the errors. This caused the SEFA to initially overstate and understate individual program expenditures by amounts totaling nearly \$14 million, or 20 percent. The County made the necessary adjustments to correct the SEFA.

Recommendations

To help ensure the accuracy of the County's financial statements, federal financial reports, and SEFA, the County should:

- Strengthen its existing internal control policies and procedures by requiring a thorough review of all reported amounts by someone who is independent of the person who prepared the reports and knowledgeable about the County's operations and reporting requirements.
- Require the reviewers to ensure that reported amounts reconcile to the County's financial records and to compare reported amounts with those reported in the previous fiscal year or reporting period for reasonability.