

**REPORT
HIGHLIGHTS**
FINANCIAL STATEMENT AUDIT

Subject

Pinal County issues financial statements annually. The County is responsible for preparing financial statements, maintaining strong internal controls, and demonstrating accountability for its use of public monies. As the auditors, our job is to determine whether the County has met its responsibilities.

Our Conclusion

The information in the County's financial statements is fairly stated in all material respects, and the financial statements can be relied on. However, auditors identified 10 internal control weaknesses and 4 instances of noncompliance over financial reporting and the most significant of these deficiencies are summarized on this page and page 2.



2009

Year Ended June 30, 2009

Financial Statement Audit Summary

Lack of Controls over Computer Systems—The County's computer systems process and store critical information necessary for daily operations. However, the County lacked

sufficient controls over logical access, program changes, and disaster recovery for its systems. Our recommendations are presented in the summary below.

Auditor recommendations to improve computer system controls—

Establish the following policies and procedures:

For logical access:

- Ensure that the employee's supervisor documents and approves access granted to and removed from the system.
- Review all employees' access periodically to ensure that the appropriate level of access is granted to the system and eliminate unnecessary or incompatible access rights to the system.
- Log and periodically monitor the activity of employees with unlimited system access. This high level of access should be restricted and should not conflict with employees' job responsibilities.
- Document and require the immediate removal of terminated employees' access rights to the system.

For program changes:

- Require that all changes to computer systems be documented, authorized, tested, reviewed, and approved prior to being put into use.
- Separate change management responsibilities so no one person can develop, test, review, and authorize changes made in the system.
- At a minimum, monitor key changes to the system such as those affecting critical fields.

For disaster recovery:

- Develop, implement, and test a disaster recovery plan for all significant computer systems and appropriately safeguard backup files.

Lack of Controls over Financial Reporting—

Accurate financial information is necessary to demonstrate accountability to the Board of Supervisors, federal and state grantors, creditors, and the public. However, the County needs to improve its internal

control policies and procedures to ensure complete and accurate general ledger accounting and financial statement presentation. Our recommendations are presented in the summary below.

Auditor recommendations to improve financial statement reporting—

Establish the following policies and procedures:

- Ensure that the financial statements, notes disclosures, and supporting schedules agree to the accounting records and are independently reviewed.
- Obtain and review all loan agreements to ensure that loans are paid as required by the agreements. Any significant violations of such agreements should be properly disclosed within the financial statements.

Improper Capital Asset Reporting—

Capital assets represent 71 percent of the County's total assets. Therefore, it is necessary that the County accurately report and control its capital assets. However, the County's internal control policies and

procedures did not always ensure that the amounts reported for capital assets were accurate and complete. Our recommendations are presented in the summary below.

Auditor recommendations to improve capital asset reporting—

Establish the following policies and procedures:

- Perform a complete reconciliation of capital assets annually that includes capital assets recorded at individual departments and make all necessary corrections.
- Enforce existing internal control policies and procedures requiring departments to perform an annual physical inventory of capital assets.
- Require each department to submit supporting schedules and records for capital assets balances, additions, and disposals to the Finance Department in a timely manner.
- Require that the Finance Department review the departments' supporting schedules for accuracy and completeness.

Condensed Financial Information

Statement of Net Assets—This statement reports all of Pinal County's assets and liabilities with the difference between the two reported as net assets. Net assets are reported in three major categories:

- Invested in capital assets, net of related debt shows the equity in property, plant, and equipment.
- Restricted net assets shows the net resources that must be used for restricted purposes as specified by external parties.
- Unrestricted net assets show the net resources available for general operations.

A condensed Statement of Net Assets is presented to the right.

Statement of Activities—This statement shows how net assets changed during the current fiscal year. Revenues are reported as either program revenues (those generated by or dedicated to a specific program) or general revenues (taxes and revenues not raised by or dedicated to a specific program). The change in net assets indicates whether financial health has improved or deteriorated as a result of current year activities. Net assets increased by \$30 million in the current year. In addition, beginning net assets were restated by \$6.3 million to correct prior year errors related to the Housing Department's capital assets. A condensed Statement of Activities is presented to the right.

Condensed Statement of Net Assets June 30, 2009 (In Thousands)	
	Total Governmental and Business-type Activities
Assets:	
Current and other assets	\$185,709
Capital assets, net	<u>449,803</u>
Total assets	<u>635,512</u>
Liabilities:	
Current and other liabilities	20,713
Long-term liabilities	<u>197,681</u>
Total liabilities	<u>218,394</u>
Net Assets:	
Invested in capital assets, net of related debt	269,920
Restricted	111,132
Unrestricted	<u>36,066</u>
Total net assets	<u>\$417,118</u>

Condensed Statement of Activities Year Ended June 30, 2009 (In Thousands)	
	Total Governmental and Business-type Activities
Program revenues:	
Charges for services	\$105,782
Operating grants and contributions	39,399
Capital grants and contributions	<u>58,746</u>
Total program revenues	<u>203,927</u>
General revenues	
	<u>159,665</u>
Total revenues	<u>363,592</u>
Expenses	
	<u>333,282</u>
Change in net assets	30,310
Net assets—beginning, as restated	<u>386,808</u>
Net assets—ending	<u>\$417,118</u>

TO OBTAIN
MORE INFORMATION

A copy of the full report
is available at:
www.azauditor.gov

Contact person:
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