



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Management Letter

Pinal County

Year Ended June 30, 2004



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

June 17, 2005

Board of Supervisors
Pinal County
P.O. Box 827
Florence, AZ 85232

Members of the Board:

In planning and conducting our single audit of Pinal 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 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. We requested an opinion from the Arizona Attorney General about whether certain types of county transportation department expenditures are for transportation purposes authorized by the Constitution and state laws. However, we received the opinion after completion of fieldwork at the County. Consequently, we will complete our review and report any instances of noncompliance in a separate letter.

This letter is intended solely for the information of the Pinal 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 improve controls over cash receipts for the Building Safety Department

Because cash is highly susceptible to potential theft or misuse, county management should establish and enforce effective controls to safeguard cash receipts at the various departments. However, the County did not have effective controls over the cash receipts for the Building Safety Department. This Department collects over \$12 million annually. Specifically, written policies and procedures for collecting, depositing, recording, and reconciling cash receipts have not been updated, and the County did not monitor the receipt procedures being followed by the Department. As a result, prenumbered cash receipts were not always numerically accounted for and controlled. In addition one employee collected cash, prepared the deposits, and prepared the daily reconciliations.

To help strengthen controls over departmental cash receipts, the County should update its written policies and control procedures for collecting, depositing, recording, and reconciling cash receipts and periodically monitor that the Building Safety Department is following them. These procedures should include the following:

- Account for used, unused, and voided cash receipt forms.
- Endorse restrictively all checks immediately upon receipt.
- Reconcile daily the totals from the sequence of receipts collected to the monies recorded and deposited. This reconciliation should be prepared daily, and differences should be investigated and corrected promptly.
- Separate responsibilities between employees so that the employees with access to cash receipts are not responsible for recording and depositing the receipts. In addition, a supervisor should review the daily reconciliations. If the responsibilities cannot be adequately separated because of the small staff size, then a supervisor should review and approve the transactions and related reconciliations.

The County should improve controls over its computer systems

The County uses computerized information systems to process and record its financial transactions. Consequently, the County's computer information systems are vital to its operations, and the County needs to ensure the integrity of the financial transactions processed on these systems. However, the County's computer system did not document the users who entered or approved financial transactions on the systems.

To help ensure that records of financial transactions are complete, accurate, and valid during input, processing, and retention, the County should establish a record within its computer systems to identify users initiating and authorizing transactions, receiving goods or services, and approving payments to vendors. This would also meet the recommendation of the Information Systems Audit and Control Association's guide, *Control Objectives for Information and Related Technology* (COBIT), §DS.11.

The County should properly administer federal financial assistance

The County received over \$12.5 million in federal financial assistance during fiscal year 2004. Consequently, county management is responsible for ensuring that departments administering federal programs follow all federal program requirements. This is essential because noncompliance with federal program requirements can result in significant sanctions to the County, including cancellation of a federal program and repayment of program expenditures to the federal government. The County did not comply with federal laws and regulations in the following areas:

Cash Management—The County's agreement with the Arizona Department of Emergency Management requires that recipients and subrecipients incur and pay program costs before requesting reimbursement from the grantor agency. During fiscal year 2004, the Public Works Department awarded \$202,641 to subrecipients for expenditure reimbursement for the State Domestic Preparedness Equipment Support Program. Of that amount, the Department allowed subrecipients to request reimbursement for \$108,453 prior to incurring the expenditures, and the County immediately requested reimbursement from the federal granting agency. However, the County did not reimburse its subrecipients of amounts ranging from \$210 to \$53,715 for time periods of 4 to 28 weeks until the subrecipients paid the expenditures. We estimated that less than \$1,000 of interest would have resulted from this.

Procurement and suspension and debarment—In accordance with each grantor agency's Code of Federal Regulations pertaining to administrative requirements, the County must verify that vendors and subrecipients are not suspended or debarred before entering into transactions with them to be paid with federal monies. This verification may be accomplished by checking the Excluded Parties List System maintained by the General Services Administration, obtaining a certification from the vendor or subrecipient, or adding a clause or condition to the contract with that entity. The County did not have policies and procedures in place to ensure that vendors and subrecipients are not suspended or debarred. However, for the major programs tested, auditors performed additional procedures and noted no instances of payments made to suspended or debarred individuals or organizations.

Subrecipient monitoring—In accordance with each grantor agency's Code of Federal Regulations pertaining to administrative requirements, the County must ensure that subrecipients spending \$500,000 or more in federal awards during the fiscal year meet the audit requirements of OMB Circular A-133. However, the County did not have policies and procedures to evaluate whether the subrecipients met the audit threshold requirements for an audit and, as a result, did not comply with this subrecipient monitoring requirement. Therefore, the Department could not ensure that its subrecipients are complying with all applicable program requirements. However, auditors performed additional procedures and noted no instances of material noncompliance.

County management must ensure that federal monies they administer are used in accordance with federal laws and regulations. To help ensure that these monies are spent in compliance with federal requirements, county management should establish procedures to help ensure that program administrators are aware of all applicable federal program requirements and should monitor the departments to ensure that these requirements are being followed.

The County needs to implement previously reported recommendations

We have previously reported to the County specific recommendations to correct certain deficiencies noted during our previous years' audits to improve county operations. However, the County has not implemented all of our recommendations pertaining to credit card transactions, budget preparation and monitoring, and computer information systems disaster recovery designed to correct these deficiencies. The County has not implemented the following recommendations reported in our Management Letter for the year ended June 30, 2003.

Credit card transactions policy—The County issued credit cards to employees for county purchases. However, the County did not have policies and procedures to govern when employees could use the county credit cards. Without such policies, employees may use the credit cards for personal expenses. Therefore, it is important that the County develop, implement, and enforce policies and procedures to ensure that credit card charges are only for public purposes.

Budget preparation and monitoring process—The county budget is used to set public policy, to control taxing and spending, and to serve as a financial planning tool. Good stewardship over public monies and Arizona Revised Statutes require that the County includes all accounts and funds that it administers in the County's adopted budget; the County includes transfers in and out as part of the Board of Supervisors approved budget; and that actual expenditures, obligations, and liabilities did not exceed the amounts budgeted. However, the County did not follow these procedures. Therefore it is important that the County ensure that its adopted budget is accurate, complete, properly monitored, and in accordance with statutes.

Disaster recovery plan—The County has an information system that provides general ledger, accounts payable, payroll, personnel, and capital assets subsystems for the Finance Department, and general ledger and property tax management subsystems for the County Treasurer. These systems are critical to the County's operations. However, the County did not have a disaster recovery plan or a negotiated written backup agreement for its financial computer systems. Such a plan will help ensure that electronic data files are not lost and transactions can be processed in the event of a disaster or other interruption. Therefore, it is important that the County prepare a disaster recovery plan and negotiate a written backup agreement as soon as possible to help maintain system integrity and security.

May 31, 2005

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

Dear Ms. Davenport:

Pinal County Management has chosen to respond to the Management Letter for the fiscal year ended June 30, 2004. Our responses to the Management Letter are attached. The Management Letter resulted from a single audit conducted of Pinal County.

If you have any questions, please contact me at (520) 866-6249.

Sincerely,

Jane Cisco
Interim Finance Director

PINAL COUNTY
Response to Summary of Audit Findings
Year Ended June 30, 2004

The County should improve departmental controls over cash receipts

Response: Concur. The Building and Safety Department has implemented procedures to ensure better controls over cash receipts per the audit recommendations. The County is currently working on implementing cash receipt, depositing and recording policies.

The County should improve its electronic audit trails

Response: Concur. Audit trails are in place based on user ID's and logins. However, due to the constraints of the current computer system, the audit trails requested were not easily obtainable or verified. The Management Information Systems Department is currently working with JD Edwards and the audit team to find reports that would satisfy this requirement.

The County should properly administer federal financial assistance

Response:

Cash Management: Concur. The Public Works Department has reimbursed subrecipients according to instructions provided to them by the granting agency (ADEM/HS).

Procurement and suspension and debarment: Concur. The County is currently working on implementing procedures to ensure vendors or subrecipients are not suspended or debarred before entering into agreements.

Subrecipient monitoring: Concur. The County will work on implementing policies and procedures regarding monitoring of departments and subrecipients to ensure they are following federal guidelines.

The County needs to implement previously reported recommendations

Response:

Credit card transactions policy: Concur. The County is still in the process of implementing credit cards and procurement cards policies.

Budget preparation and monitoring process: Concur. The County is working to implement policies and procedures to help strengthen controls over budget preparation and monitoring. The County currently monitors to ensure department compliance with the adopted budget. However, if departments spend more than their allotted funds, it is the position of the County to ensure that the budget is not overspent at the fund level. The County does not move budget capacity after the fact to make the appearance of budget compliance.

PINAL COUNTY
Response to Summary of Audit Findings
Year Ended June 30, 2004

The Budget Office budgets all funds that are known to the office at the time of the budgeting process. The creation of new areas after the budget cycle process will not be accounted for until the following years' budget process.

Because of the limited staff of the Budget Office, it is difficult to have an independent administrator review the budget before it is adopted. We are continuously working on the written policies and will submit them to the Board of Supervisors at the earliest opportunity.

Disaster recovery plan: Concur. The County Information Technology Department designated a Project Manager to develop and implement a county wide plan for disaster recovery. However, due to budget constraints, we do not have funding for an equipment backup agreement. The department will continue to keep the nightly backups offsite.