



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Expenditure Limitation Report

Maricopa County

Year Ended June 30, 2006



Debra K. Davenport
Auditor General

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Maricopa County
Report on Audit of Annual Expenditure Limitation Report
Year Ended June 30, 2006

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**STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL**

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

Independent Auditors' Report

Members of the Arizona State Legislature

The Board of Supervisors of
Maricopa County, Arizona

We have audited the accompanying Annual Expenditure Limitation Report of Maricopa County for the year ended June 30, 2006. This report is the responsibility of the County's management. Our responsibility is to express an opinion on this report based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the report is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the report. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall report presentation. We believe that our audit provides a reasonable basis for our opinion.

The Maricopa Managed Care Systems had inadequate internal controls for processing medical claims for its healthcare programs consisting of the Maricopa Health Plan and Arizona Long-Term Care System programs. As a result, we could not rely on the Systems' financial reporting system to generate reliable information for medical expenses. Further, the Systems' records did not permit us to apply sufficient auditing procedures to determine whether the amounts reported for the Systems' medical expenses were accurate. The Maricopa Managed Care Systems' healthcare programs were reported as Enterprise Funds in the County's financial statements, and these medical expenses for fiscal year 2006 totaled \$80.4 million representing 83 percent of total Enterprise Funds' expenses. Consequently, we were unable to determine the accuracy of the Enterprise Funds' exclusions claimed for contracts with other political subdivisions on Part II, and total Enterprise Funds' expenses reported on the Reconciliation.

The accompanying Annual Expenditure Limitation Report was prepared for the purpose of complying with the uniform expenditure reporting system as discussed in Note 1, and is not intended to be a presentation in conformity with U.S. generally accepted accounting principles.

In our opinion, except for the effects of such adjustments, if any, as might have been necessary had we been able to audit medical expenses of the County's Enterprise Funds, as described in the third paragraph, the Annual Expenditure Limitation Report of Maricopa County for the year ended June 30, 2006, referred to above presents fairly, in all material respects, the information required by the uniform expenditure reporting system on the basis of accounting described in Note 1.

This report is intended solely for the information and use of the members of the Arizona State Legislature and the Board of Supervisors, and for filing with the Auditor General of the State of Arizona, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Dennis L. Mattheisen, CPA
Financial Audit Director

September 30, 2008

Maricopa County
Annual Expenditure Limitation Report—Part I
Year Ended June 30, 2006

1. Economic Estimates Commission expenditure limitation	\$802,731,520
2. Amount subject to the expenditure limitation (total amount from Part II, Line C)	<u>802,731,519</u>
3. Amount under the expenditure limitation	<u>\$ 1</u>

I hereby certify, to the best of my knowledge and belief, that the information contained in this report is accurate and in accordance with the requirements of the uniform expenditure reporting system.

Signature of Chief Fiscal Officer: _____

Name and Title: Tom Manos, Chief Financial Officer

Telephone Number: (602) 506-3561 Date: September 30, 2008

See accompanying notes to report.

Maricopa County
Annual Expenditure Limitation Report—Part II
Year Ended June 30, 2006

Description	Governmental Funds	Enterprise Funds	Internal Service Funds	Fiduciary Funds	Total
A. Amounts reported on the Reconciliation, Line D	\$ 1,321,609,945	\$ 97,776,321	\$ 90,209,560	\$ 12,341,743,604	\$ 13,851,339,430
B. Less exclusions claimed:					
Proceeds from other long-term obligations (Note 2)	12,395,689				12,395,689
Debt service requirements on other long-term obligations (Note 3)	30,126,425	7,726	86,432		30,220,583
Dividends, interest, and gains on the sale or redemption of investment securities (Note 4)	37,271,787	447,790	1,857,002		39,576,579
Trustee or custodian (Note 5)	31,959,200			12,341,743,604	12,373,702,804
Grants and aid from the federal government (Note 6)	174,191,940				174,191,940
Grants, aid, contributions, or gifts from a private agency, organization, or individual, except amounts received in lieu of taxes (Note 7)	1,494,902				1,494,902
Amounts received from the State of Arizona (Note 8)	53,371,800				53,371,800
Quasi-external interfund transactions (Note 9)	5,588,815		83,088,952		88,677,767
Amounts accumulated for the purchase of land, and the purchase or construction of buildings or improvements (Note 10)	5,581,373				5,581,373
Highway user revenues in excess of those received in fiscal year 1979-80 (Note 11)	82,092,786				82,092,786
Contracts with other political subdivisions (Note 12)	43,576,369	83,643,164			127,219,533
Refunds, reimbursements, and other recoveries (Note 13)	7,605,925				7,605,925
Amounts received for distribution to school districts (Note 14)	16,258,346				16,258,346
Prior years carryforward (Note 15)	<u>36,217,884</u>				<u>36,217,884</u>
Total exclusions claimed	<u>537,733,241</u>	<u>84,098,680</u>	<u>85,032,386</u>	<u>12,341,743,604</u>	<u>13,048,607,911</u>
C. Amounts subject to the expenditure limitation	<u>\$ 783,876,704</u>	<u>\$ 13,677,641</u>	<u>\$ 5,177,174</u>	<u>\$ -</u>	<u>\$ 802,731,519</u>

See accompanying notes to report.

Maricopa County
Annual Expenditure Limitation Report—Reconciliation
Year Ended June 30, 2006

Description	<u>Governmental Funds</u>	<u>Enterprise Funds</u>	<u>Internal Service Funds</u>	<u>Fiduciary Funds</u>	<u>Total</u>
A. Total expenditures/expenses/deductions and applicable other financing uses, special items, and extraordinary items reported within the fund financial statements	\$ 1,656,985,870	\$ 99,105,695	\$ 94,706,320	\$ 12,341,743,604	\$ 14,192,541,489
B. Subtractions:					
Items not requiring use of working capital:					
Depreciation		180,316	814,517		994,833
Loss on disposal of capital assets			3,540		3,540
Claims incurred but not reported (Note 16)			44,052,574		44,052,574
Landfill closure and postclosure costs (Note 20)		1,182,797			1,182,797
Expenditures of separate legal entities established under Arizona Revised Statutes (Note 17)	125,843,325				125,843,325
Long-term care contributions withheld by the State Treasurer (Note 18)	130,003,100				130,003,100
Disproportionate share contribution withheld by the State Treasurer (Note 18)	<u>79,529,500</u>				<u>79,529,500</u>
Total subtractions	<u>335,375,925</u>	<u>1,363,113</u>	<u>44,870,631</u>		<u>381,609,669</u>
C. Additions:					
Principal payments on long-term debt (Note 19)		6,566	81,440		88,006
Acquisition of capital assets		27,173	956,749		983,922
Claims paid in the current year but reported as expenses incurred but not reported in previous years (Note 16)			<u>39,335,682</u>		<u>39,335,682</u>
Total additions		<u>33,739</u>	<u>40,373,871</u>		<u>40,407,610</u>
D. Amounts reported on Part II, Line A	<u>\$ 1,321,609,945</u>	<u>\$ 97,776,321</u>	<u>\$ 90,209,560</u>	<u>\$ 12,341,743,604</u>	<u>\$ 13,851,339,430</u>

See accompanying notes to report.

Maricopa County
Notes to Annual Expenditure Limitation Report
Year Ended June 30, 2006

Note 1 - Summary of Significant Accounting Policies

The Annual Expenditure Limitation Report (AELR) is presented on the basis of accounting prescribed by the uniform expenditure reporting system (UERS), as required by Arizona Revised Statutes (A.R.S.) §41-1279.07, which excludes expenditures, expenses, or deductions of certain revenues specified in the Arizona Constitution, Article IX, §20, from the total expenditures, expenses, or deductions reported in the fund financial statements.

In accordance with the UERS requirements, a note to the AELR is presented below for any exclusion claimed on Part II and each subtraction or addition in the Reconciliation that cannot be traced directly to an amount reported in the fund financial statements. All references to financial statement amounts in the following notes refer to the Statement of Revenues, Expenditures, and Changes in Fund Balances for the Governmental Funds; Statement of Revenues, Expenses, and Changes in Fund Net Assets for the Proprietary Funds; Statement of Cash Flows for the Proprietary Funds; and the Statement of Changes in Fiduciary Net Assets for the Fiduciary Funds.

Note 2 - The exclusion claimed for proceeds from other long-term obligations of \$12,395,689 in the Governmental Funds consists of lease trust certificates proceeds of \$3,000,000 and capital lease proceeds of \$9,395,689 reported as capital outlay expenditures.

Note 3 - The exclusion claimed for debt service requirements on other long-term obligations consists of principal retirement, interest expense, and escrow payments of \$14,014,076, \$5,507,349 and \$10,605,000, respectively, in the Governmental Funds; \$6,566 reported as principal payments on long-term debt on the Statement of Cash Flows, and \$1,160 reported as interest expense in the Enterprise Funds; and \$81,440 reported as capital lease payments on the Statement of Cash Flows, and \$4,992 reported as interest expense in the Internal Service Funds.

Note 4 - The exclusion claimed for dividends, interest, and gains on the sale or redemption of investment securities of \$37,271,787 in the Governmental Funds consists of interest on investments of \$24,208,055, which was reported as miscellaneous revenues, and interest on delinquent taxes of \$13,063,732, which was reported as tax revenues. Remaining excludable revenues of \$1,223,542 reported as miscellaneous revenues were unexpended and have been carried forward to future years. The exclusion claimed for dividends, interest, and gains on the sale or redemption of investment securities of \$447,790 and \$1,857,002 in the Enterprise Funds and the Internal Service Funds, respectively, consists of interest on investments, which was reported as investment income.

Maricopa County
Notes to Annual Expenditure Limitation Report
Year Ended June 30, 2006

- Note 5 - The exclusion claimed for trustee or custodian in the Governmental Funds consists of \$31,959,200 in contributions by the County to the Arizona Health Care Cost Containment System for acute care and, in the Fiduciary Funds, the exclusion consists of \$12,341,743,604 in distributions to investment pool participants.
- Note 6 - The exclusion claimed for grants and aid from the federal government of \$174,191,940 in the Governmental Funds consists of federal grants of \$94,662,440 and disproportionate share settlements of \$79,529,500 reported as intergovernmental revenues.
- Note 7 - The exclusion claimed for grants, aid, contributions, or gifts from a private agency, organization, or individual, except amounts received in lieu of taxes in the Governmental Funds, consists of \$1,494,902 reported as miscellaneous revenues. Remaining excludable revenues of \$407,502 reported as miscellaneous revenues were unexpended and have been carried forward for future years.
- Note 8 - The exclusion claimed for amounts received from the State of Arizona of \$53,371,800 in the Governmental Funds consists of \$52,797,097 reported as intergovernmental revenues and \$574,703 reported as miscellaneous revenues. Remaining excludable amounts of \$1,695,423 reported as intergovernmental revenues have been carried forward to future years.
- Note 9 - The exclusion claimed for quasi-external interfund transactions of \$5,588,815 in the Governmental Funds represents service billings consisting of \$675,380 reported as intergovernmental revenues and \$4,913,435 reported as charges for services revenues. Remaining excludable governmental funds charges of services revenues of \$13,574 were unexpended and have been carried forward to future years. In the Internal Service Funds, the \$83,088,952 represents charges for services revenues paid from other county funds to the internal service funds. Remaining excludable internal service funds charges for services revenues of \$8,031,476 were unexpended and have been carried forward to future years.
- Note 10 - The exclusion claimed in the Governmental Funds for amounts accumulated for the purchase of land, and the purchase or construction of buildings or improvements of \$5,581,373 consists of capital outlay expenditures for the construction of new jail facilities made from the accumulation of sales tax revenues approved and exempted from the expenditure limitation by county voters.

Maricopa County
Notes to Annual Expenditure Limitation Report
Year Ended June 30, 2006

Note 11 - The exclusion claimed in the Governmental Funds for highway user revenues in excess of those received in fiscal year 1979-80 is derived by subtracting the 1979-80 base year highway user fees of \$14,879,726 from the total of highway user revenues received of \$96,972,512, which was reported as intergovernmental revenues.

Note 12 - The exclusion claimed for contracts with other political subdivisions of \$127,219,533 consists of the following:

Governmental Funds—\$43,576,369. This amount consists of \$43,483,651 reported as intergovernmental revenues and \$92,718 reported as miscellaneous revenues. Remaining intergovernmental revenues of \$350,982 have been carried forward to future years.

Enterprise Funds—\$83,643,164. This amount consists of \$29,801,116 reported as charges for services revenues and \$53,842,048 reported as net patient service revenues.

Note 13 - The exclusion claimed for refunds, reimbursements, and other recoveries of \$7,605,925 in the Governmental Funds consists of various expenditure reimbursements reported as intergovernmental revenues, fines and forfeits revenues, and miscellaneous revenues. Remaining excludable expenditure reimbursements of \$311,863 were unexpended and have been carried forward to future years.

Note 14 - The exclusion claimed in the Governmental Funds for amounts received for distribution to school districts consists of federal, state, and county revenues of \$16,258,346 reported as education expenditures for the operation of accommodation schools and the small schools service program.

Note 15 - Prior years carryforward in the Governmental Funds consists of constitutionally excludable revenues unexpended in the year of receipt that have been accumulated and were expended in the current year, as follows:

Description	Governmental Funds
Proceeds from other long-term obligations	\$28,865,883
Amounts received from the State of Arizona	54,504
Contracts with other political subdivisions	<u>7,297,497</u>
Total prior years carryforward expended	<u>\$36,217,884</u>

Maricopa County
Notes to Annual Expenditure Limitation Report
Year Ended June 30, 2006

Note 16 - The subtraction of \$44,052,574 for claims that were reported but unpaid or incurred but not reported consists of the estimated costs of claims incurred and expensed in the current year but not yet paid in the Internal Service Funds. The addition of \$39,335,682 for claims paid in the current year consists of cash payments in the current year for claims recognized as an expense in previous years in the Internal Service Funds.

Note 17 - The subtraction of \$125,843,325 for separate legal entities established under Arizona Revised Statutes consists of expenditures of special assessment districts included within the County's reporting entity, but not included in the Economic Estimates Commission base limit calculations, and are reported in the Governmental Funds category in the fund financial statements:

Special Assessment Districts	
Public safety	\$ 34,700,725
Culture and recreation	18,999,498
Debt service	7,757,300
Capital outlay	<u>64,385,802</u>
Total	<u>\$125,843,325</u>

Note 18 - The amount of transaction privilege taxes withheld by the State Treasurer to meet the County's share of long-term care costs and disproportionate share costs for indigent treatment were reported as revenues and offsetting expenditures in the County's Governmental Funds. Consequently, these expenditures have been subtracted on the Reconciliation.

Note 19 - The addition of \$6,566 for principal payments on long-term debt in the Enterprise Funds consist of certificates of participation payments of \$6,566. The addition of \$81,440 for principal payments on long-term debt in the Internal Service Funds consists of capital lease payments.

Note 20 - The subtraction of \$1,182,797 for landfill closure and postclosure costs consists of that portion of the total estimated liability reported as expenses in the current year but not yet paid in the Enterprise Funds.



**STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL**

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

October 30, 2008

Board of Supervisors
Maricopa County
301 West Jefferson, Suite 1020
Phoenix, AZ 85003

Members of the Board:

We have audited Maricopa County's Expenditure Limitation Report for the year ended June 30, 2006, and have issued our report thereon dated September 30, 2008. In connection with our audit we noted the following matters that management should address to help ensure that the Annual Expenditure Limitation Report is prepared accurately and issued in a timely manner. Our recommendation is described below.

The County should establish procedures to accurately prepare and file its Annual Expenditure Limitation Report in a timely manner

The County's management is responsible for preparing the Annual Expenditure Limitation Report (AELR) to demonstrate compliance with the Arizona Constitution, Article IX, Section 20, and A.R.S. §41-1279.07. It is essential that the County establish strong internal controls over the preparation of the report to ensure that all exclusions claimed are accurate, allowable, and reported within the proper category. However, auditors noted many instances in which reported exclusions were not properly supported and reported. As a result, auditors proposed approximately \$10 million in cumulative adjustments to the AELR for the year ended June 30, 2006. The following are examples of the errors noted by type of exclusion:

- Amounts received from the State of Arizona
 - An exclusion of \$5,091,706 was not supported by a contract to document that the grants were received from the State, and exclusions of \$1,637,819 were improperly classified as state grants in the County's accounting records.
- Quasi-external interfund transactions
 - Exclusions of \$58,758 were payments received from another government that should have been excluded as contracts with other political subdivisions.

- Contracts with other political subdivisions
 - Exclusions of \$467,396 attributable to revenues received from the Maricopa Integrated Health System were reported. However, the System is not a political subdivision as defined in the Arizona Constitution, Article IX, Section 20, and as a result, the exclusion was unallowable.
- Refunds, reimbursements, and other recoveries
 - Exclusions of \$136,291 were improperly classified as amounts received from the State of Arizona, and allowable exclusions of \$95,849 were not claimed.

The County should establish and implement the following procedures to help ensure that its AELR is prepared accurately:

- Develop written policies and procedures that describe how financial data is compiled and exclusions are determined for AELR preparation.
- Research exclusions claimed and ensure they are supported by appropriate documentation.
- Provide training to ensure that grant activity is properly classified in the County's financial records.
- Require a supervisor not involved in AELR preparation to review the report and supporting documents.

This letter is intended solely for the information of the Maricopa 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