



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Management Letter

Pinal County

Year Ended June 30, 2003



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

August 17, 2004

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, 2003, 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.

There are no audit findings that are required to be reported by GAS and OMB Circular A-133. However, 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 A.R.S. §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. However, we have 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, but have not yet received a response to our request. Once we receive a response, 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 establish policies and procedures over its credit card transactions

Allowing employees to use county credit cards can result in inappropriate expenditures; therefore, it is important to establish effective policies governing their use. However, the County did not have policies and procedures over credit card transactions. The County maintained one account with several authorized signers to pay for county travel expenses and other miscellaneous items. Approximately \$171,000, or 16 percent, of the County's fiscal year 2002-2003 travel expenditures was charged to the account.

Based on detailed testwork of 179 transactions from the account, auditors identified the following:

- Ten transactions totaling \$930 were not supported by receipts; therefore, auditors could not verify that the charges were for valid county purposes.
- Of the 169 transactions that had receipts, 60 receipts totaling \$9,568 did not describe the purpose for the charge. As a result, auditors could not determine if the charge was incurred for county business or if it resulted in a gift of public monies.
- Auditors could not determine if meal charges were within per diem rates, since many charges appeared to be for more than one person. For example, there were 16 meal charges ranging from \$28 to \$455 at restaurants in the Town of Florence, the employee's place of business.
- Auditors identified charges for flowers, gifts, employee parties, laundry, valet parking, and airline ticket upgrades to first class totaling \$1,560. The County could not demonstrate that these charges were for a public purpose, as required by the Arizona Constitution Article 9, Section 7.
- The County Manager charged \$2,965 of Sheriff Posse expenditures to the credit card account. As a result, these expenditures were improperly classified as County Manager expenditures instead of Sheriff Posse expenditures.

To help ensure that credit card charges are for a public purpose and not to promote a purely private or personal interest, the County should establish policies and procedures to adequately control the use of credit cards and ensure that they are followed. Such policies and procedures should include the following:

- A stipulation that the county credit cards are not to be used for personal use or for expenses not allowed by county policy. Examples of such items include meals within a specified mile radius of an employee's designated place of employment, expenses exceeding the County's stated travel reimbursement policies, gifts, parties, and alcoholic beverages.
- A requirement that all credit card charges be supported by itemized receipts that include the charge's purpose and that are submitted to the employee's supervisor.
- A requirement that a department supervisor review charges for propriety and compliance with the County's policies, sign the supporting receipt as evidence of approval, and submit all supporting documents to the finance department for payment.

The County should strengthen controls over its budget preparation and monitoring process

The County's budget serves several essential purposes. The 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 (A.R.S.) require that the County includes all accounts and funds that it administers in the County's adopted budget; the County records operating transfers in and out in the budget and approved by the Board of Supervisors; and actual expenditures, obligations, and liabilities not exceed amounts budgeted. However, the County did not follow these procedures. For example, accounts administered by the County School Superintendent and funds for the special districts were not included in the adopted budget, as required by A.R.S. §§15-1001 and 42-17102.B. In another example, operating transfers in and out were not always included in the adopted budget or approved by the Board of Supervisors, as required by A.R.S. §42-17106. As a final example, approximately 40 departments exceeded their adopted budgets. A similar deficiency was reported in the prior year's management letter.

To help ensure that the County's adopted budget is accurate, complete, properly monitored, and in accordance with statutes, the County should:

- Establish written policies and procedures for budget preparation and monitoring.
- Ensure that an administrator, who is independent of the budget's preparation, reviews the budget prior to its adoption to ensure inclusion of all accounts and funds under the County's control.
- Ensure that the Board of Supervisors properly approves all transfers during the year and that they are recorded in the budget.
- Monitor the adopted budget and obtain the Board of Supervisors' approval for any necessary adjustments in accordance with A.R.S. §42-17106 to prevent expenditures from exceeding the legal level.

The County should negotiate a backup agreement for its computer systems

The County electronically processes and stores its critical financial information. Consequently, the County's computer systems are vital to its operations, and the County needs to anticipate how it would handle any service disruption. However, the County did not have a written equipment backup agreement with a vendor for processing critical jobs in the event of a major hardware or software failure. A similar deficiency was reported in the prior year's management letter.

It is essential that the County negotiate a written equipment backup agreement with a vendor to help ensure processing continuity of critical financial information. At a minimum, the agreement should specify the following:

- Machine time availability.
- Application-processing priorities.
- Information exchanges regarding equipment configuration/system software changes.
- Testing procedures.
- Cost.

The County's financial reporting system should provide complete information for federal programs

The County is required by the Office of Management and Budget (OMB) Circular A-133 to prepare a Schedule of Expenditures of Federal Awards (SEFA). However, the County's financial reporting system did not provide sufficient detailed information to comply with federal requirements. Specifically, the financial reporting system did not separately identify federal, state, and local program expenditures charged to each federal program. This caused almost \$200,000 in understatements in the SEFA. In addition, numerous program titles and identification numbers reported on the SEFA were incorrect. The County adjusted the SEFA for all significant errors noted by the auditors. A similar deficiency was reported in the prior year's management letter.

To help ensure the accuracy and completeness of the SEFA, and to ensure that the SEFA meets the reporting requirements of OMB Circular A-133, the County must ensure that federal expenditures of individual programs are separately identified in the County's accounting records. In addition, the County should have a second employee review the SEFA to ensure the accuracy of program titles and identification numbers.

PINAL COUNTY FINANCE DEPARTMENT

MAUREEN ARNOLD, CPA, CGFM, CPFO

CHIEF FINANCIAL OFFICER

PO BOX 1348

31 N. FINAL, BLDG. A, 2ND FLOOR

FLORENCE AZ 85232

520-866-6250 520-866-6944 (Fax)

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August 5, 2004

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, 2003. 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) 866-6209.

Sincerely,

Maureen Arnold, CPA, CGFM, CPFO
Chief Financial Officer

FINAL COUNTY
Response to Summary of Audit Findings
Year Ended June 30, 2003

The County should establish policies and procedures over its credit card transactions

Response: Concur. The County is implementing credit cards and procurement cards policies.

The County should strengthen controls over its budget preparation and monitoring process

Response: Concur. The County will ensure that policies and procedures are in place 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.

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.

The County should negotiate a backup agreement for its computer systems

Response: 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.

The County needs to ensure its financial reporting system provides complete and accurate information for federal reporting

Response: Concur. The Finance Department is currently using category codes within the cost centers to identify CFDA numbers and titles and using sub-ledgers in the account code structure to enable a breakout of federal, state, and local expenditures.