

Pinal County, Arizona
Single Audit Reporting Package

Year ended June 30, 2010

**Pinal County, Arizona
Single Audit Reporting Package
Year ended June 30, 2010**

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Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Basic Financial Statements Performed in Accordance with Government Auditing Standards

The Auditor General of the State of Arizona

The Board of Supervisors of
Pinal County, Arizona

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Pinal County, Arizona (the "County") as of and for the year ended June 30, 2010, which collectively comprise the County's basic financial statements and have issued our report thereon dated December 21, 2010. Our report was modified to include a reference to our reliance on other auditors and as to consistency because of the implementation of Governmental Accounting Standards Board Statement No. 51. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Long-Term Care Fund, the Housing and Community Development Fund and the Employee Benefit Trust Fund, as described in our report on the County's financial statements. This report includes our consideration of the results of the other auditors' testing of internal control over financial reporting and compliance and other matters that are reported on separately by those auditors. However, our report, insofar as it relates to the results of the other auditors, is based solely on the reports of other auditors.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2010-002 to be a material weakness.

A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs identified as items 2010-001 through 2010-003 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests and those of the other auditors disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The County's responses to the findings identified in our audit are described in the corrective action plan on pages 22 through 25 of this report. We did not audit the County's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Arizona State Legislature, the Auditor General of the State of Arizona, the Board of Supervisors, management, others within the County, federal awarding agencies and pass-through entities 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.

Walker & Armstrong LLP

Phoenix, Arizona
December 21, 2010

**Independent Auditors' Report on Compliance with Requirements
That Could Have a Direct and Material Effect on Each Major Program
and on Internal Control over Compliance in Accordance with OMB Circular A-133**

The Auditor General of the State of Arizona

The Board of Supervisors of
Pinal County, Arizona

Compliance

We have audited Pinal County's (the "County") compliance with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on the County's major federal programs for the year ended June 30, 2010, except for that portion of the federal programs administered by the Housing Department of Pinal County (Housing Department). The Housing Department was audited by other auditors whose report has been furnished to us, and in our opinion, insofar as it relates to the compliance of that entity with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement, is based solely on the report of the other auditors. The County's major federal programs are identified in the Summary of Audit Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit and the results of other auditors.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinion. Our audit does not provide a legal determination of the County's compliance with those requirements.

In our opinion, based on our audit and the report of other auditors, the County complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described as item 2010-101 in the accompanying Schedule of Findings and Questioned Costs.

Internal Control over Compliance

The County's management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

A *deficiency* in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness* in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We, and the report of other auditors, did not identify any deficiencies in internal control over compliance that we consider to be *material weaknesses*, as defined above. However, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying Schedule of Findings and Questioned Costs as item 2010-101. A *significant deficiency* in internal control over compliance is a deficiency or a combination of deficiencies in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of Pinal County as of and for the year ended June 30, 2010, and have issued our report thereon dated December 21, 2010. Our report was modified to include a reference to our reliance on other auditors and as to consistency because of the implementation of Governmental Accounting Standards Board Statement No. 51. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the County's basic financial statement. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of the other auditors is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The County's response to the finding identified in our audit is described in the corrective action plan on pages 22 through 25 of this report. We did not audit the County's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the members of the Arizona State Legislature, the Auditor General of the State of Arizona, the Board of Supervisors, management, others within the County, federal awarding agencies, and pass-through entities 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.

Walker & Armstrong LLP

Phoenix, Arizona

January 31, 2011, except for the Schedule of
Expenditures of Federal Awards, for which the date
is December 21, 2010

Pinal County, Arizona
Schedule of Expenditures of Federal Awards
Year ended June 30, 2010

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
<u>U.S. Office of National Drug Control Policy</u>			
<i>Passed through Arizona Criminal Justice Commission</i>			
High Intensity Drug Trafficking Areas	07.I7PSAP501Z	HT17-07-1815	\$ 12,945
High Intensity Drug Trafficking Areas	07.I8PSAP501Z	HT18-08-1815	38,215
<i>Total U.S. Office of National Drug Control Policy</i>			51,160
<u>U.S. Department of Agriculture</u>			
<i>Passed through Arizona Department of Education</i>			
Child Nutrition Cluster:			
School Breakfast Program	10.553	ED09-0001	23,917
National School Lunch Program	10.555	ED09-0001	54,565
Total Child Nutrition Cluster			78,482
<i>Passed through Arizona Department of Health Services</i>			
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	HG861086, HG050006	1,349,694
Commodity Supplemental Food Program	10.565	HG861138	40,850
WIC Farmers' Market Nutrition Program (FMNP)	10.572	HG861328	1,049
Senior Farmers Market Nutrition Program	10.576	HG861328	1,213
Schools and Roads—Grants to States	10.665		408,493
Rural Business Enterprise Grants	10.769		35,131
Law Enforcement Agreement—Tonto National Forest	10.06-LE- 11031200-005		15,837
<i>Total U.S. Department of Agriculture</i>			1,930,749
<u>U.S. Department of Housing and Urban Development</u>			
<i>Passed through the Arizona Department of Housing</i>			
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	124-09, 125-08, 161-09	240,853
<i>Passed through the Community Action Human Resources Agency</i>			
Supportive Housing Program	14.235	269-00, 549-03	114,445
<i>Passed through the Arizona Department of Housing</i>			
Home Investment Partnerships Program	14.239	315.09	187,508
<i>Passed through the City of Phoenix</i>			
Housing Opportunities for Persons with AIDS (HOPWA)	14.241	72838	37,088
Public and Indian Housing	14.850		504,451 *
Residential Opportunity and Supportive Services - Service Coordinators	14.870		30,898
Section 8 Housing Choice Vouchers	14.871		3,334,697 *
Public Housing Capital Fund	14.872		286,113
ARRA - Recovery Act - Public Housing Capital Fund Competitive	14.884		348,365 *
<i>Total U.S. Department of Housing and Urban Development</i>			5,084,418

* Audited by other auditors.

The accompanying notes are an integral
part of this schedule.

Pinal County, Arizona
Schedule of Expenditures of Federal Awards - (Continued)
Year ended June 30, 2010

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
<u>U.S. Department of the Interior</u>			
Payments in Lieu of Taxes	15.226		\$ 1,070,449
Bureau of Land Management Law Enforcement Assistance	15.unknown	LO8PX00133	21,903
<i>Total U.S. Department of the Interior</i>			1,092,352
<u>U.S. Department of Justice</u>			
DEA—Domestic Cannabis Eradication and Suppression Program	16.unknown		1,600
DEA Task Force Agreement	16.unknown		20,681
<i>Passed through the Arizona Governor's Office for Children, Youth and Families</i>			
Juvenile Accountability Block Grants	16.523	JB-CSG-08-9273-09, JB-CSG 09-0273-09	22,324
<i>Passed through Phoenix Police Department Arizona ICAC Task Force</i>			
Missing Children's Assistance	16.543	2009 ICAC	23,652
<i>Passed through the Arizona Criminal Justice Commission</i>			
Crime Victim Compensation	16.576	VC-10-060	36,636
Drug Court Discretionary Grant Program	16.585		28,994
<i>Passed through the Arizona Governor's Office for Children, Youth and Families</i>			
Violence Against Women Formula Grants	16.588	ST-WSG-09-9365-18, ST-WSG-09-9365-10Y2, ST-WSG-09-9365-10, ST-WSG-09-9365-18Y2	140,899
State Criminal Alien Assistance Program	16.606		215,025
Bulletproof Vest Partnership Program	16.607		6,096
Public Safety Partnership and Community Policing Grants	16.710		27,216
ARRA - Recovery Act - Public Safety Partnership and Community Policing Grants	16.710		147,876
Total for CFDA No. 16.710			175,092
Edward Byrne Memorial Justice Assistance Grant Program	16.738		37,538
<i>Passed through Arizona Criminal Justice Commission</i>			
ARRA - Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories	16.803	DC-10-049, DC-10-006	385,194
ARRA - Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to Units of Local Governments	16.804		92,038
<i>Total U.S. Department of Justice</i>			1,185,769
<u>U.S. Department of Transportation</u>			
ARRA-Recovery Act - Airport Improvement Program	20.106		157,136
<i>Passed through Arizona Department of Public Safety</i>			
National Motor Carrier Safety	20.218	2005-213A2	132,873

The accompanying notes are an integral part of this schedule.

Pinal County, Arizona
Schedule of Expenditures of Federal Awards (Continued)
Year ended June 30, 2010

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
<i>Passed through Arizona Governor's Office of Highway Safety</i>			
Highway Safety Cluster:			
State and Community Highway Safety	20.600	2009-PT-013	\$ 3,477
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	2008-410-003, 2010-410-024, 2008-410-044, 2010-410-027	465,170
Total Highway Safety Cluster			<u>468,647</u>
<i>Total U.S. Department of Transportation</i>			758,656
<u>Environmental Protection Agency</u>			
<i>Passed through the Arizona Department of Environmental Quality</i>			
Air Pollution Control Program Support	66.001	EV05-0016	51,000
<u>U.S. Department of Energy</u>			
Energy Efficiency and Conservation Block	81.128		13,800
<u>U.S. Department of Education</u>			
<i>Passed through Arizona Department of Education</i>			
Title I Grants to Local Educational Agencies	84.010	10FAATTI-060979-08A	77,073
<i>Passed through Arizona Supreme Court</i>			
Title I Program for Neglected and Delinquent Children	84.013	None	43,565
<i>Passed through Arizona Department of Education</i>			
Special Education—Grants to States	84.027	10FESCBG-060979-02A	30,032
<i>Passed through Arizona Supreme Court</i>			
Special Education—Grants to States	84.027	None	44,883
Total for CFDA No. 84.027			<u>74,915</u>
<i>Passed through University of Arizona</i>			
Federal Work-Study Program	84.033	None	6,046
<i>Passed through Arizona Department of Education</i>			
Safe and Drug-Free Schools and Communities - State Grants	84.186	10FSDIVB-070733-01A	31,855
<i>Passed through Arizona Supreme Court</i>			
Safe and Drug-Free Schools and Communities - State Grants	84.186	None	47
Total for CFDA No. 84.186			<u>31,902</u>
<i>Passed through Arizona Department of Education</i>			
Tech-Prep Education	84.243	09FCTDTP-970734-01A, 10FCTDTP-070734-01A	113,024
<i>Passed through Arizona Department of Education</i>			
Educational Technology State Grants	84.318	10FETETF-060979-10A	1,276
Reading First State Grants	84.357	10FSERN4-060979-01A	252,515
English Language Acquisition Grants	84.365	10FACENG-070733-04A	45,782

The accompanying notes are an integral part of this schedule.

Pinal County, Arizona
Schedule of Expenditures of Federal Awards (Continued)
Year ended June 30, 2010

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
<u>U.S. Department of Education (continued)</u>			
Improving Teacher Quality State Grants	84.367	10FAATII-060979-06A, 09FAAAZE-970733-02A, 10-FAAAZE-070734-02A	\$ 112,819
<i>Passed through Arizona Supreme Court</i>			
Improving Teacher Quality State Grants	84.367	None	9,878
Total for CFDA No. 84.367			122,697
<i>Passed through Arizona Department of Education</i>			
ARRA - Recovery Act - Educational Technology State Grants	84.386	10FETEET-060979-09A	1,364
ARRA - Recovery Act - Title I Grants to Local Educational Agencies	84.389	10FAAAART-060979-07A	47,496
<i>Passed through Arizona Department of Education</i>			
ARRA - Recovery Act - Special Education Grants to States	84.391	10FESAIG-060979-05A	26,102
<i>Passed through Arizona Supreme Court</i>			
ARRA - Recovery Act - Special Education Grants to States	84.391	None	15,415
Total for CFDA No. 84.391			41,517
<i>Passed through Arizona Department of Education</i>			
ARRA - Recovery Act - State Fiscal Stabilization Fund (SFSF) - Education State Grants	84.394	10FAAGSG-060979-03A, 10FSSGSG-060979-11A	262,708
<i>Total U.S. Department of Education</i>			1,121,880
<i>Passed through Arizona Secretary of State</i>			
Help America Vote Act Requirements Payments	90.401	None	78,724
<u>U.S. Department of Health and Human Services</u>			
<i>Passed through the Area Agency on Aging, Region One</i>			
National Family Caregiver Support, Title III, Part E	93.052	0010-0556	34,922
<i>Passed through Arizona Department of Health Services</i>			
Public Health Emergency Preparedness	93.069	HG754203	868,470
<i>Passed through Arizona Family Planning Council</i>			
Family Planning - Services	93.217	None	291,074
<i>Passed through Arizona Department of Health Services</i>			
Immunization Grants	93.268	HG854292	90,666
<i>Passed through Arizona Department of Economic Security</i>			
Child Support Enforcement	93.563	G-04-04-AZ-4004	2,169,451
Grants to States for Access and Visitation Programs	93.597	DES060680-1	16,248
<i>Passed through the Arizona Governor's Office for Children, Youth, and Families</i>			
Children's Justice - Grants to States	93.643	CJ-CSG-09-9273-06, CJ-CSJ-09-9273-06Y2	15,824
<i>Passed through the Pinal/Gila Council for Senior Citizens</i>			
Social Services Block Grant	93.667	0006-00556	5,800
<i>Passed through Arizona Department of Health Services</i>			
ARRA - Recovery Act - Immunization Grants	93.712	HG854292	16,658

The accompanying notes are an integral
part of this schedule.

Pinal County, Arizona
Schedule of Expenditures of Federal Awards (Concluded)
Year ended June 30, 2010

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
<i>Passed through the Arizona Department of Health Services</i>			
Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Programs	93.919	HG761268	\$ 116,133
HIV Prevention Activities - Health Department Based	93.940	HG852273	24,270
<i>Passed through Arizona Family Planning Council</i>			
Preventive Health Services - Sexually Transmitted Diseases Control Grants	93.977	None	2,351
<i>Passed through the Arizona Department of Health Services</i>			
Preventive Health Services - Sexually Transmitted Diseases Control Grants	93.977	HG854501	8,516
Total for CFDA No. 93.977			10,867
<i>Passed through the Arizona Department of Health Services</i>			
Preventive Health and Health Services Block Grant	93.991	HG854375	66,567
<i>Total U.S. Department of Health and Human Services</i>			3,726,950
<u>Executive Office of the President</u>			
<i>Passed through the City of Tempe Police Department</i>			
High Intensity Drug Trafficking Areas Program	95.001	HT19-09-1815, HT19-09-2714	74,230
<u>U.S. Department of Homeland Security</u>			
<i>Passed through the Arizona Department of Emergency and Military Affairs</i>			
Emergency Management Performance Grants	97.042	2009-None, 2010-EP-EX-0034	188,763
<i>Passed through the Arizona Department of Homeland Security</i>			
Homeland Security Grant Program	97.067	444303-02, 08-AZDOHS-OSGP-444316-01, 09-AZDOHS-OSGP-555313-01, 09-AZDOHS-OPSG-555313-02, 09-AZDOHS-OPSG-555313-03, 09-AZDOHS-OPSG-555313-04, 08-AZDOHS-HSGP-444316-03, 07-AZDOHS-HSGP-333311-02, 07-AZDOHS-LETPP-333311-03	1,108,668
Buffer Zone Protection Program (BZPP)	97.078	07-AZDOHS BZPP-333311-01	72,092
<i>Total U.S. Department of Homeland Security</i>			1,369,523
Total Expenditures of Federal Awards			\$ 16,539,211

The accompanying notes are an integral part of this schedule.

Pinal County, Arizona
Notes to Schedule of Expenditures of Federal Awards
Year ended June 30, 2010

Note 1 - Basis of Accounting

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Pinal County, Arizona and is presented on the modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

Note 2 - Catalog of Federal Domestic Assistance (CFDA) Numbers

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2010 *Catalog of Federal Domestic Assistance*. When no CFDA number had been assigned to a program, the two-digit federal agency identifier, a period, and the federal contract number were used. When there was no federal contract number, the two-digit federal agency identifier, a period, and the word "unknown" were used.

Note 3 - Subrecipients

From the federal expenditures presented in the schedule, the County awarded the following to subrecipients:

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amount</u>
Home Investment Partnerships Program	14.239	\$ 180,000
Tech-Prep Education	84.243	38,371
Reading First State Grants	84.357	185,167
English Language Acquisitions Grants	84.365	22,183

Pinal County, Arizona
Schedule of Findings and Questioned Costs
Year ended June 30, 2010

Summary of Auditors' Results

Financial Statements

Type of auditor's report issued:

Unqualified

Yes

No

Internal control over financial reporting:

Material weaknesses identified

X

Significant deficiencies identified

X

Noncompliance material to the financial statements noted?

X

Federal Awards

Internal control over major programs:

Material weaknesses identified

X

Significant deficiencies

X

Type of auditor's report issued on compliance for major programs:

Unqualified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (section .510[a])?

X

Identification of major programs:

CFDA No.	Name of Federal Program
10.557	Special Supplemental Nutrition Program for Women, Infants and Children
14.850	Public and Indian Housing
14.871	Section 8 Housing Choice Vouchers
14.872	Public Housing Capital Fund
14.884	ARRA – Recovery Act – Public Housing Capital Fund Competitive
16.803	ARRA – Recovery Act – Edward Byrne Memorial Justice Assistance Grant (JAG) Program/ Grants to States and Territories
84.394	ARRA – Recovery Act – State Fiscal Stabilization Fund (SFSF) – Education State Grants
93.069	Public Health Emergency Preparedness
93.563	Child Support Enforcement
97.067	Homeland Security Grant Program

Dollar threshold used to distinguish between Type A and Type B programs:

\$496,176

Auditee qualified as a low risk auditee?

X

Other Matters

Auditee's Summary Schedule of Prior Audit Findings required to be reported in accordance with Circular A-133 (section .315[b])?

X

Schedule of Findings and Questioned Costs - Continued

B. Financial Statement Findings

2010-001 - Improve Internal Controls over the Review and Approval of Property Tax Refund and Redemption Checks

Condition: The County Treasurer's Office calculates and maintains information related to property tax reimbursements payable to individuals who overpay taxes or who have purchased tax liens which were paid in full subsequent to their purchase. The check amounts are system generated and submitted by the accountant to the Treasurer or Deputy Treasurer for signature.

Based on our testing of these disbursements, we noted the checks were not accompanied by documented evidence indicating that the accuracy of the check amounts and payees were reviewed and approved prior to signing and release of the checks.

Recommendation: We recommend that the Treasurer's Office retain documented evidence indicating that the appropriate staff reviewed the accuracy of the check's payees and amounts. This documentation should accompany the checks and be verified by the check signer prior to signature and release. Maintaining documented evidence of the review and approval process will reduce the risk of errors and misappropriation related to such disbursements.

Management views and corrective action: See corrective action plan.

2010-002 – Improve the Recordkeeping of Capital Assets

Condition: During the 2010 fiscal year, restatements of beginning net assets totaling approximately \$13.5 million were necessary to correctly record the capital asset balances. The restatements resulted from the incorrect omission of certain roads and related right-of-ways in prior years, the incorrect inclusion of a road project that belongs to another municipality and certain calculation errors.

Recommendation: We recommend that the County improve the centralization of its accounting and reporting of capital assets. Also, the County's Finance and Public Works Department should regularly review information related to the capital assets for accuracy and completeness.

In addition, the County should consider maintaining its capital asset records in one property management system instead of using a combination of the accounting system's module and spreadsheets. This will simplify the accounting and reporting of capital assets and reduce the risk of material errors.

Management views and corrective action: See corrective action plan.

Schedule of Findings and Questioned Costs - Continued

B. Financial Statement Findings

2010-003 – Improve General and Access Computer Controls

Condition: During our testing of computer controls, we noted certain weaknesses in access and input controls over computer processing involving (1) lack of segregation of duties, (2) inadequate development and maintenance of passwords and (3) exception reports not being generated and reviewed which are further discussed below:

- Lack of segregation of duties – Certain personnel with access to the accounting system to have user profiles that give them the ability to access and modify data files. Such access should be limited to information technology personnel that do not have the ability to initiate or record transactions.
- Lack of exception reports – The County is not generating exception reports from its computer platform that indicate instances where modifications to data files may have occurred. As a result, unauthorized changes could occur and not be detected in a timely manner.
- Insufficient password development and maintenance – The County allows employees to develop and maintain passwords without review and approval by the Information Technology Department. Inadequate passwords could result in unauthorized access to programs and source files. In addition, users do not have profiles to restrict their ability to log onto others workstations and potentially access sensitive information.

Recommendation: We recommend that policies and procedures be implemented to limit the access for employees with responsibilities for recording and processing accounting transactions to those areas necessary to complete their job functions. We also recommend that reports be generated from the system that provide detail regarding who has accessed and modified system files. In addition, we recommend that passwords be developed by the Information Technology Department and assigned to employees. The passwords should utilize a sufficient combination of characters and be periodically rotated. Also, profiles should be granted to users which restrict their access to the appropriate workstations and programs.

Management views and corrective action: See corrective action plan.

Schedule of Findings and Questioned Costs - Continued

C. Federal Award Finding

2010-101 – Improve Internal Controls over Procuring Services

U.S. Department of Justice

Passed through Arizona Criminal Justice Commission

CFDA Number: 16.803
Program Title: Recovery Act – Edward Byrne Memorial Justice Assistance Grant (JAG) Program\Grants to States and Territories
Grant or Contract Number: DC-10-049, DC-10-006
Questioned Costs: None

Condition: The County pays a local government for services allowable under the grant in which there was no intergovernmental agreement in place during the fiscal year. Furthermore, the County did not follow the Federal guidelines for determining whether the local government was suspended or disbarred by the Federal government.

Criteria, Cause and Effect: 28 Code of the Federal Regulations (CFR) Sec. 66.36(b) requires recipients of Federal funding that procure goods and services to follow their own procurement policies and procedures or those set forth by federal regulation, whichever are more stringent,. The County's procurement policies requires the County to have a formal agreement approved by the Board of Supervisors when obtaining services that will be provided by another government entity. The cause is a lack of understanding of federal procurement, suspension and debarment requirements as they relate to intergovernmental agreements. The effect is an increased risk that the participating government will not comply with the Federal requirements applicable to the funding and a lack of recourse in the instance of nonperformance or noncompliance. Furthermore, by not verifying that a contractor or vendor has not been disbarred or suspended prior to retention, the County has an increased risk that contractor or vendor does not meet Federal standards.

Recommendation: We recommend that the County enter into a written intergovernmental agreement with participating governments and that such agreements are reviewed and approved by the County's Board of Supervisors prior to authorizing the performance of the services.

Management views and corrective action: See corrective action plan.

**Pinal County, Arizona
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2010**

09-101 Improve Internal Control Procedures Related to Activities Allowed, Allowable Costs, Procurement and Suspension and Debarment

CFDA Number: 16.738
Program Title: U.S. Department of Justice, Edward Byrne Memorial Justice Assistance Grant Program
Grant or Contract Numbers: 2005-DJ-BX-1286, 2007-DJ-BX-1261, DC-09-016, DC-09-033 and Cycle 22
Questioned Costs: Unknown

Condition: The County paid a local government \$65,076 from federal, state, and local monies to provide a full-time investigator for the federal program. The County has paid the local government for these services since fiscal year 2001, however, the County did not have an agreement with the local government that specified the services to be performed, the period of time services are to be provided, amounts to be paid, and compliance requirements that may apply if services are paid with federal monies. In addition, the County did not verify that the local government had not been suspended or debarred from doing business with the federal government.

Status: Not corrected. See finding 2010-101.

09-102 Improve Internal Control Procedures Related to Cash Management, Matching and Reporting

CFDA Number: 16.738
Program Title: U.S. Department of Justice, Edward Byrne Memorial Justice Assistance Grant Program
Grant or Contract Numbers: 2005-DJ-BX-1286, 2007-DJ-BC-1261, DC-09-016, DC-09-033, Cycle 22
Questioned Costs: \$1,846

Condition: The County did not have adequate procedures to ensure that financial reports, which are used to request and monitor program funding levels, were independently reviewed for accuracy and approved prior to submitting them to grantors. Also, for these grants, the County did not monitor the program's expenditures to ensure they were properly matched with local monies.

Status: Finding has been corrected.

Summary Schedule of Prior Audit Findings – Continued

09-103 Improve Internal Control Procedures Related to Allowable Costs

CFDA Numbers: 93.563, 97.042
Program Titles: U.S. Department of Health and Human Services, Child Support Enforcement
U.S. Department of Homeland Security, Emergency Management Performance Grant
Grant or Contract Number: G-04-04-AZ-4004
Questioned Costs: None

Condition: The County did not submit its most recent cost allocation plan as required by its grant agreements with the pass-through agencies for approval prior to requesting reimbursement for indirect costs incurred for the period of July 1, 2008 through June 30, 2009, as required by grant agreements.

Status: Corrected.

09-104 Improve Internal Control Procedures Related to Equipment and Real Property Management

CFDA Number: 97.067
Program Title: U.S. Department of Homeland Security, Homeland Security Grant Program
Grant or Contract Numbers: 222306-01, 333301-03, 444303-02, 08-AZDOHS-OSGP-444316-01, 08-AZDOHS-OSGP-444316-02
Questioned Costs: \$6,018

Condition: The County was unable to locate two of 13 capital assets tested for Homeland Security Grant program. The capital assets were computers and radios installed in sheriff deputies' vehicles by the County's information technology department.

Status: Finding has been corrected.

Summary Schedule of Prior Audit Findings – Continued

09-105 Improve Procedures Related to the Preparation and Issuance of the Schedule of Expenditures of Federal Awards

CFDA Numbers: 16.738, 93.069, 97.036, 97.042
Program Titles: U.S. Department of Justice,
Edward Byrne Memorial Justice Assistance
Grant Program
U.S. Department of Health and Human
Services,
Public Health Emergency Preparedness Grant
U.S. Department of Homeland Security,
Disaster Grants—Public Assistance
(Presidentially Declared Disasters)
U.S. Department of Homeland Security,
Emergency Management Performance Grant
Grant or Contract Numbers: Various
Questioned Costs: N/A

Condition: The County issued its Single Audit Reporting Package in May 2010, rather than by the federal reporting deadline of March 31, 2010. The deadline was not met because of various errors on the County's SEFA that resulted in omitted or incorrectly reported major programs that were required to be audited. The County did not identify one of the major programs until April 2010. The County incorrectly reported the other major program as two separate federal programs, and auditors noted this error while auditing the program. In addition, federal award expenditures for two other major programs were incorrectly reported on the SEFA. The County adjusted its SEFA for these errors.

Status: Finding has been corrected.

09-106 Improve Internal Control Procedures Related to Activities Allowed, Allowable Costs, Cash Management and Special Tests and Provisions

CFDA Number: 97.036
Program Titles: U.S. Department of Homeland Security,
Disaster Grants—Public Assistance
(Presidentially Declared Disasters)
Grant or Contract Numbers: ADEM/FEMA-1586-DR-AZ-021-99021-00,
ADEM/FEMA-1660-DR-AZ-021-99021-00
Questioned Costs: \$45,727

Summary Schedule of Prior Audit Findings – Continued

Condition: The County’s Public Works Department requested and received federal reimbursement for expenditures totaling \$45,727 for one of its large projects related to grant award number ADEM/FEMA-1586-DR-AZ-021-99021-00. However, the Department could not specifically identify which expenditures comprised this amount and did not have documentation supporting the charges. As a result, auditors were unable to determine whether these expenditures were proper charges for the program.

Status: Corrected.

09-107 Improve Internal Control Procedures Related to Suspension and Debarment

CFDA Number:	97.036
Program Titles:	U.S. Department of Homeland Security, Disaster Grants—Public Assistance (Presidentially Declared Disasters)
Grant or Contract Numbers:	ADEM/FEMA-1586-DR-AZ-021-99021-00, ADEM/FEMA-1660-DR-AZ-021-99021-00
Questioned Costs:	None

Condition: For three of eight vendors tested, the County’s Public Works Department did not verify that each contractor receiving over \$250,000 from the County had not been suspended or debarred from doing business with the federal government.

Status: Finding has been corrected.

09-108 Improve Internal Control Procedures Related to Activities Allowed and Allowable Costs

CFDA Number:	97.036
Program Titles:	U.S. Department of Homeland Security, Disaster Grants—Public Assistance (Presidentially Declared Disasters)
Grant or Contract Numbers:	ADEM/FEMA-1586-DR-AZ-021-99021-00, ADEM/FEMA-1660-DR-AZ-021-99021-00
Questioned Costs:	\$769

Summary Schedule of Prior Audit Findings – Continued

Condition: The County’s Public Works Department maintained the accounting records for all eligible payroll costs on the general ledger system, but maintained separate records for these costs on a spreadsheet to track each employee’s pay rate and the number of hours worked on each project. This spreadsheet was used to request reimbursement for projects funded by grant award number ADEM/FEMA-1660-DR-AZ-021-99021-00, but was not compared for accuracy against county accounting recorded or approved by another employee. As a result, auditors noted that several pay rates used to request reimbursements were less than the actual employees’ pay rates because the spreadsheet information was outdated. In addition, for one employee tested, the County requested reimbursement at a higher rate than the employee’s actual salary. There is potential that other employees’ pay rates were not accurate on the spreadsheet.

Status: Corrected.

09-109 Improve Internal Control Procedures Related to Activities Allowed, Allowable Costs and Cash Management

CFDA Number:	14.850
Program Title:	U.S. Department of Housing and Urban Development, Public and Indian Housing
Grant or Contract Number:	None
Questioned Costs:	Unknown

Condition: HUD conducted an On-Site Limited Financial Review of the Department during the week of September 28, 2009. As a result of the Review, HUD issued the following finding:

The department pays the expenditures for four other non-Public Housing programs from the Public Housing program bank account. Although the Department is allowed to pay expenditures for multiple programs from a “master account”, withdrawals for a specific program cannot be made in excess of the amount of funds available on deposit for that same program. A comparison of the accounts receivable balances applicable to each of the other programs on June 30, 2009 (totaling \$101,585 at fiscal year-end), with the bank accounts for each of the other programs (totaling \$18,491 the same date) indicates that the other programs’ bank deposits did not support the amount of funds expended on behalf of each particular program. The Department failed to verify that the other programs had sufficient funds on deposit to pay back the amounts expended and failed to require that periodic payments be made to the Public Housing program account to clear the accounts receivable balance for each program. The Department was unaware of the rules regarding the fungibility of HUD program funds.

Status: Finding has been corrected.

Summary Schedule of Prior Audit Findings – Continued

09-110 Improve Internal Control Procedures Related to Activities Allowed and Allowable Costs

CFDA Numbers:	14.850, 14.871
Program Title:	U.S. Department of Housing and Urban Development, Public and Indian Housing and Section 8 Housing Choice Voucher
Grant or Contract Number:	None
Questioned Costs:	N/A

Condition: HUD conducted an On-Site Limited Financial Review of the Department during the week of September 28, 2009. As a result of the Review, HUD issued the following observation:

As of June 30, 2009, the Public Housing program owed Section 8 Housing Choice Voucher program \$128,465 reflected in an inter-program receivable balance recorded in the Section 8 Housing Choice Voucher program's general ledger. Inter-program receivable and liability account balances should be cleared periodically and at the fiscal year-end.

Status: Finding has been corrected.



February 17, 2011

Walker & Armstrong LLP
4000 North Central Avenue, #1100
Phoenix, AZ, 85012-1989

Dear Sirs:

The accompanying responses to the financial statement findings and to the federal award finding have been prepared as required by U.S. Office of Management and Budget Circular A-133 and are providing you with the names of the contact persons responsible for corrective action, the corrective action planned, and the anticipated completion date for each audit finding included in the current year's financial statement findings and Schedule of Findings and Questioned Costs.

Sincerely,

Victoria L. Prins, MPA, CPA, CFE, CGFM
Chief Financial Officer



Responses to Financial Statement Findings

2010-001

Improve Internal Controls over the Review and Approval of Property Tax Refund and Redemption Checks

Contact person: Levi Gibson, Chief Deputy Treasurer

Anticipated completion date: 03/31/2011

The Pinal County Treasurer's Office is committed to safeguarding all monies entrusted to our office. Checks issued by our office are for property tax refunds, tax lien redemptions, and checks to other jurisdictions (i.e. apportionment checks). The majority of all checks are system generated and require no manual interference to produce with the exception of placing the check stock in the printer. All check stock is stored within a locked safe that is secured by a key card reader with only appropriate staff having the ability to access the safe.

Each check that prints contains the following information upon the check stub: control number, reason for the check (i.e. refund, redemption, etc.), parcel number, year being refunded in case of a tax refund, or year of the tax lien, tax certificate number, a batch number, the operator who generated the refund, the operator who released the check to print, and a control total. The checks are then sent to the signor, who does not have the ability to record transactions or print checks for review and a manual signature. The reviewer reviews the information contained upon the check stub and if additional information were needed would enter the batch number to obtain more detailed information about the check and why it is being issued.

All checks that are issued for other reasons are accompanied by support for the payment. In the case of checks issued for special districts a signed letter from the district along with a copy of the invoice to be paid is included.

In addition to the above mentioned controls, our office will implement an additional step in the refund process by creating a refund disbursement report. This report will contain all information regarding the refunds to ensure that the amounts being disbursed by the system are accurate. This report will be reviewed by the account clerk and evidenced by her signature and the date of the review and will be provided to the check signor at the time the checks are presented for signature. We anticipate that this procedure will be fully implemented by 03/31/2011.

2010-002

Improve the Recordkeeping of Capital Assets

Contact person: Yiannis Kalaitzidis, Finance Deputy Director

Anticipated completion date: 12/31/14

The fiscal year 2010 restatements of beginning net assets were a direct result of the County's implementation of new procedures that addressed prior year audit finding recommendations to ensure that capital assets are properly reported in the financial statements and all necessary corrections were made.



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The County has improved internal controls over capital assets reporting through increased coordination and communication between the Finance and Public Works Department and through the use of updated reconciliation schedules.

However, current system limitations prevent maintaining capital assets in one property management system, as the current fixed asset module is outdated. The County is in the process of preparing a request for proposal for a new comprehensive financial system which will include a property management system that should allow the centralization of capital asset records. This new system is expected to be implemented by 12/31/2014.

2010-003

Improve General and Access Computer Controls

Contact person: Richard Jones, Chief Information Officer

Anticipated completion date: Various

(1) Segregation of Duties

The County Information Technology Department (IT) has hired Security Consultants that helped evaluate Application security and implement standard security groups. IT has implemented the consultant's recommendations and has limited the access to the accounting system only to those people that are required to maintain the system's operation. All other accounting personnel access has been modified to fit the duties of those positions, including their ability to modify and access data files. This change was implemented as of 12/31/10.

(2) Exception reports

The current financial system is outdated. AS400 Server security system logs are recorded.

- Authorization failure
- Object creation
- Object deletion
- Object management
- Object restore
- Security configuration
- Security tasks

Exception (integrity and tolerance) reports produced by the system provide limited information to users. The County will evaluate these reports to determine functional use. The County is planning to continue improving on this issue with the implementation of a new financial system which is expected to be in place by 12/31/2014.

(3) Development and maintenance of passwords – Do not concur

We do not concur with the auditor recommendation that IT should develop and assign passwords to employees. This recommendation would result in an internal control weakness as IT would be required to know the users passwords and would have the ability to access systems on behalf of the users without their knowledge. However, IT will implement password complexity requirements for computer sign on in higher risk departments within the County.



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We do not concur with the auditor recommendation to limit the ability of staff to logon to other workstations. This recommendation would create operational issues by removing the flexibility of users to physically move to “overlap” areas. Users are instructed to save sensitive data to secure network shares. Also, data stored on local machines within the users profile is not accessible to other users logging onto the machine.

Responses to Federal Award Findings

2010-101

CFDA No: 16.803 Recovery Act – Edward Byrne Memorial Justice Assistance Grant Program

U.S. Department of Justice

Contact person: Linda Martinez, Office Manager, Sheriff’s Office

Anticipated completion date: Implemented

The Sheriff’s Office entered into a written Intergovernmental Agreement (IGA) with the City of Coolidge effective October 27, 2010. The IGA was approved by the Board of Supervisors in an open meeting prior to authorizing the performance of the services.