



A REPORT  
TO THE  
ARIZONA LEGISLATURE

Financial Audit Division

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Management Letter

# La Paz County

Year Ended June 30, 2002

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**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

July 15, 2003

Board of Supervisors  
La Paz County  
1108 South Joshua Avenue  
Parker, AZ 85344

Members of the Board:

In planning and conducting our single audit of La Paz County for the year ended June 30, 2002, 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 Circular A-133 have been included in the County's Single Audit Reporting Package for the year ended June 30, 2002. 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.

This letter is intended solely for the information of the La Paz 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 needs to improve its property control procedures

The County's capital assets represent a major investment of taxpayer monies and should be adequately accounted for and controlled. However, the County has not established adequate controls to ensure that capital assets are accurately recorded in the property control system. For example, the County did not have an accurate property listing since it included many equipment items that could not be located, and some equipment items that were disposed of in prior years. Also, the property listing lacked property control tag numbers or serial numbers for some items and many equipment items did not have property control tags attached to them. A similar finding was also noted during the prior year's audit.

Because capital assets constitute a significant portion of its total assets, the County should ensure that it establishes and follows policies and procedures to physically control these assets that include the following:

- Assign employees not responsible for custody of equipment items to perform a physical inventory of all items, and prepare a listing that includes accurate property control tag numbers or serial numbers and locations.
- Inform employees of asset control policies and procedures and emphasize their importance. These procedures should require that employees prepare asset transfer and disposition forms when items are moved to another location or disposed of.
- Perform periodic checks to ensure that employees are following policies and procedures.

## The County should complete a 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 continued operations.

Therefore, it is vital that the County have a contingency plan so it will be able to process its financial transactions should a major computer hardware or software failure occur. However, the County has started but not completed a disaster recovery plan for processing necessary financial transactions.

The County should provide for adequate recovery of these financial subsystems in the event of a system failure. Therefore, the County should complete its disaster recovery plan as soon as possible. The plan should include the following:

- Personnel assigned to disaster recovery teams with operating procedures and emergency phone numbers to reach them.
- Written equipment backup agreements to help ensure processing continuity of critical financial transactions, including a designated physical facility.
- System backup procedures and a backup site facility.

## The County needs to properly identify and record its federal revenues and related expenditures

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 did not adequately identify all federal awards received and did not accurately record federal expenditures charged to them. This contributed to an approximate \$389,000 understatement of expenditures 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.

To help ensure the accuracy and completeness of the SEFA and to ensure that the County complies with the reporting requirements of OMB Circular A-133, the County must ensure that federal expenditures of individual programs are separately identified in its accounting records. In addition, the County should ensure the accuracy of program titles and identification numbers in its SEFA.

# The County should improve internal controls over federal program requirements

As a condition of receiving federal awards, the County agrees to comply with applicable laws, regulations, and the provisions of contract agreements, and to maintain internal controls to provide reasonable assurance that it complies with these 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. However, several departments did not maintain adequate internal controls over reporting, examples of which follow:

- Adequate internal controls over reporting require that reports issued to the awarding agency are properly supported by underlying accounting records and are fairly presented in accordance with program requirements. However, we noted that the Sheriff's Office did not retain proper supporting records for \$3,298 of expenditures reported under the Byrne Formula Grant Program during the fiscal year.
- Effective information and communication allows for the identification, capture, and reporting of information. However, the Public Works Department did not reconcile the project worksheets used to request federal reimbursements and expenditures recorded on the County's financial system. Consequently, the Department failed to identify and capture an additional \$15,773 of allowable expenditures that could have been reimbursed under the Public Assistance Grants.

County management should ensure that departments administering federal programs establish the necessary internal controls to comply with applicable federal program requirements. Further, the County should seek reimbursement for the \$15,773 of allowable expenditures under the Public Assistance Grants.



## *La Paz County Finance*

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June 26, 2003

Debra K. Davenport, CPA  
Auditor General  
2910 N. 44<sup>th</sup> Street, Suite 410  
Phoenix, AZ 85018

Re: Management Letter for the Year Ended June 30, 2002

Dear Ms Davenport:

Following is our response to your findings and related recommendations as described in your management letter. We commend the professionalism of your audit staff and appreciate their assistance in identifying areas of concern. Please call me if you have any questions.

Sincerely,

Ava Alcaida  
Finance Director

La Paz County  
Management Letter Response  
Year Ended June 30, 2002

<u>Finding</u>	<u>Response</u>	<u>Recommendation</u>	<u>Action Taken/Planned</u>
<p>The County has not established adequate controls to ensure that capital assets are accurately recorded in the property control system.</p>	<p>The Finance Director concurs. Although the County performs a physical inventory every year, there are still inaccuracies in the property control system, especially with older data.</p>	<p>The County should assign employees not responsible for custody of equipment items to perform a physical inventory, inform employees of asset control policies and procedures and emphasize their importance, and perform periodic checks to ensure that employees are following policies and procedures.</p>	<p>The County will continue to conduct an annual physical inventory. Once every three years, Finance staff will observe and verify the inventory for each department. Finance staff will visually verify the serial number and tag number for each new General Fixed Asset addition. The County will use different tags to differentiate between capitalized assets and non-capitalized assets.</p>
<p>The County has started but not completed a disaster recovery plan for processing necessary financial transactions.</p>	<p>The Finance Director concurs that the disaster recovery plan is not completed.</p>	<p>The County should complete its disaster recovery plan as soon as possible.</p>	<p>The disaster recovery plan is scheduled to be completed no later than 12/31/2003. The Finance Director will work with the MIS Director to accelerate the scheduled completion date.</p>
<p>The County did not adequately identify all federal awards received on the Schedule of Expenditures of Federal Awards.</p>	<p>The Finance Director concurs that there were inaccuracies on the SEFA.</p>	<p>The County must ensure that federal expenditures of individual programs are separately identified in its accounting records and ensure the accuracy of program titles and identification numbers in its SEFA.</p>	<p>Finance staff will work with departments administering federal programs to ensure that federal expenditures are identifiable in the accounting records. Finance staff will verify the accuracy of program titles and identification numbers with the funding agency.</p>
<p>Several departments did not maintain adequate internal controls over federal program requirements.</p>	<p>The Finance Director concurs.</p>	<p>County management should ensure that departments administering federal programs establish the necessary internal controls to comply with program requirements.</p>	<p>The Finance Director will review the internal controls for departments administering federal programs.</p>