Maricopa County

Report on Internal Control
and on Compliance

Year Ended June 30, 2021

A Report to the Arizona Legislature

Lindsey A. Perry
Auditor General

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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*

Members of the Arizona State Legislature

The Board of Supervisors of
Maricopa County, Arizona

We have audited, 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, the financial statements of the governmental activities, business-type activities, aggregate discretely presented component units, each major fund, and aggregate remaining fund information of Maricopa County as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated December 17, 2021. Our report includes a reference to other auditors who audited the financial statements of the Stadium District, Risk Management, Employee Benefits Trust, Housing Authority, and Industrial Development Authority, 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 other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors.

Internal control over financial reporting

In planning and performing our audit of the financial statements, we considered the County's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and recommendations, we and the other auditors did identify certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the County's basic 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 recommendations as item 2021-03 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 recommendations as items 2021-01 and 2021-02 to be significant deficiencies.

Compliance and other matters

As part of obtaining reasonable assurance about whether the County's basic financial statements are free from 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 financial statements. 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 disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and that is described in the accompanying schedule of findings and recommendations as item 2021-02.

County response to findings

The County's responses to the findings identified in our audit are presented in its corrective action plan at the end of this report. The County is responsible for preparing a corrective action plan to address each finding. The County's responses and corrective action plan were not subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on them.

Purpose of this report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the County's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Lindsey A. Perry

Lindsey A. Perry, CPA, CFE
Auditor General

December 17, 2021

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

Financial statement findings

2021-01

The County's deficiencies in its process for managing and documenting its risks may put its operations and IT systems and data at unintended and unnecessary risk of potential harm

Condition—The County's process for managing and documenting its information technology (IT) risks did not include identifying, classifying, and inventorying sensitive information that might need stronger access and security controls.

Effect—The County's administration and IT management may put the County's operations and IT systems and data at unintended and unnecessary risk.

Cause—The County developed new written policies and procedures during the fiscal year but had not implemented them as of June 30, 2021.

Criteria—The County should follow a credible industry source such as the National Institute of Standards and Technology to help effectively manage risk at the County. Effectively managing risk should include addressing the risk of unauthorized access and use, modification, or loss of sensitive information.

Recommendations—The County should implement its new IT policies and procedures that include evaluating and managing the risks of holding sensitive information by identifying, classifying, and inventorying the information the County holds to assess where stronger access and security controls may be needed to protect data in accordance with State statutes and federal regulations.

The County's corrective action plan at the end of this report includes the views and planned corrective action of its responsible officials. We are not required to audit and have not audited these responses and planned corrective actions and therefore provide no assurances as to their accuracy.

This finding is similar to prior-year finding 2020-01.

2021-02

Contrary to State law, previous County treasurers misspent approximately $1.46 million of statutorily restricted monies on advertising costs

Condition—Contrary to State law, under the 2 previous County treasurers, the Treasurer's Office (Office) misspent restricted Taxpayer Information Fund (TIF) monies totaling $1.35 million and Elderly Assistance Fund (EAF) monies totaling nearly $113,000 (or $0.11 million) on advertising campaigns. These campaigns included advertising through various methods, such as television and radio advertisements and digital billboards. The campaigns that used TIF monies promoted taxpayers' use of the Office's automated property tax public information system, and the campaigns that used EAF monies advertised and marketed the availability of property tax relief for qualified homeowners who were 65 years of age or older. Specifically, after taking office in January 2021, the current County Treasurer discovered and notified us of potential misspending of TIF and EAF monies on advertising costs under the 2 previous County treasurers. Therefore, for TIF, we reviewed the Office's accounting records from July 2015 through June 2021, and for the EAF, from July 2015 through November 2019. We discovered the misspending of TIF monies totaling $1.35 million occurred from October 2015 through September 2020, and the misspending of EAF monies totaling $113,000 occurred in June 2018 and in March and April 2019.

The current County Treasurer, who began his term in January 2021, discontinued the practice of using TIF monies to pay for advertising costs upon discovering the monies had been misspent under the former treasurers. The EAF monies were depleted by November 2019, and once the monies that funded the Elderly Tax Relief Assistance Program were depleted, pursuant to State law, the program effectively ended.

Effect—A combined total of $1.46 million in TIF and EAF monies were not available for their intended purposes under State law. Specifically, for TIF, of the total $1.35 million available from October 2015 through September 2020, none of it was used for allowable costs related to converting or upgrading the Office's automated public information system. Although County Treasurer personnel informed us that the Office upgraded its systems using monies from other resources that exceeded $1.35 million, the additional $1.35 million from TIF could have potentially been used to make more robust upgrades or saved for future system upgrades, train employees to operate the system, or better maintain it. For the EAF, of the $10.84 million available after 2015, nearly $113,000 was not used for the allowable purpose to benefit qualified homeowners by reducing their primary school district taxes that were levied against their property.

Cause—The former County treasurers and/or their deputies approved using TIF and EAF monies to pay for advertising costs. The County Treasurer personnel reported that it had been a long-standing practice to use TIF monies for advertising costs to promote taxpayers' use of the Office's automated property tax public information system. In addition, the Office under previous County treasurers did not have written policies and procedures specific to allowed uses of and for ensuring that it used TIF and EAF monies for only those purposes allowed by State law. Further, instead of using Advantage, the County-wide accounting system, the Office used its own separate accounting system to record both TIF and EAF detailed expenditures, even though it used the County-wide system for its other operating expenditures. Therefore, TIF and EAF expenditure transaction detail was not available to the County's Office of Budget and Finance or to us during our audit work.

Criteria—For TIF, State law requires the county treasurers to establish and administer a taxpayer information fund and place certain fees it collects into that fund, such as special assessment fees, public records copy surcharges, and tax lien processing fees. In addition, State law requires the county treasurers to use the fund monies to defray the costs of converting or upgrading its automated public information system, including costs for purchasing information technology hardware and software, training employees to operate the system, and maintaining and updating the system. The county treasurers may also use the fund monies to notify taxpayers of the tax and ownership status of real properties and parcels adjacent to those properties prior to a deed sale (Arizona Revised Statutes [A.R.S.] §11-495).

For the EAF, according to State law, in a county with a population of more than 2 million persons (i.e., Maricopa County), the board of supervisors was required to establish an elderly assistance fund to proportionately reduce the primary school district taxes that were levied against the property of all qualified homeowners in the County. Qualified homeowners were those who were 65 years or older with certain income eligibility and property locations (A.R.S. §42-17401). Also, according to State law, the EAF was to be established with monies from proceeds of tax lien sales, but in 2015, State law removed the requirement for counties to collect monies from tax lien sales to fund the EAF program (Laws 2015, Ch. 324). Therefore, in 2019, when these proceeds were depleted, the EAF program effectively ended.

Further, designing control activities, such as establishing policies and procedures over uses of restricted monies is an essential part of internal control standards, such as the *Standards for Internal Control in the Federal Government* issued by the Comptroller General of the United States, and integral to ensuring monies are not fraudulently or mistakenly misspent.[1]

Recommendations—The current County Treasurer should:

1) Obtain legal counsel's advice to determine whether the misspent monies from TIF and the EAF should be replenished.
2) Implement the Office's newly established written policies and procedures that specify how TIF monies should be used for only statutorily allowable purposes and follow those procedures, ensuring responsible Office personnel who spend and approve the expenditures of TIF monies are fully aware of and understand the allowable uses.
3) Record all expenditures of TIF monies in Advantage, the County-wide accounting system and ensure that any future programs the Treasurer is required to administer are accounted for on the County-wide accounting system.

The County's corrective action plan at the end of this report includes the views and planned corrective action of its responsible officials. We are not required to audit and have not audited these responses and planned corrective actions and therefore provide no assurances as to their accuracy.

Other auditors' financial statement finding

The other auditors who audited the Maricopa County Housing Authority reported the following finding.

2021-03

Maricopa County Housing Authority's financial reporting process lacked effective internal controls, and numerous adjustments were required by the Authority to correct the financial statements

Condition—There were multiple adjusting journal entries recorded during the course of the audit. This is indicative of a lack of internal controls over the financial reporting process. Specifically, the Authority does not have a system of internal controls that would enable management to conclude the financial statements and related disclosures are complete and presented in accordance with GAAP. We also proposed material audit adjustments in order to draft the financial statements. Most of the adjusting journal entries were related to transactions with related parties. Significant adjustments such as these are indicative of inadequate controls over financial reporting. Specifically, we noted the following:

- Adjustments made to properly report the Authority's beginning net position and notes receivable.

[1] U.S. Government Accountability Office (GAO). (2014). Standards for internal control in the federal government. Washington, DC. https://www.gao.gov/assets/670/665712.pdf.

- Eliminations made to the Authority's notes receivable and payables and other interfund transactions as these transactions were between the Authority and its blended component units.

Effect—Inefficient controls over the financial reporting process could result in inaccurate account balances that require restatement, a significant number of audit adjustments or a lack of timely financial information.

Cause—The Authority did not properly establish and implement sufficient internal controls over financial reporting to ensure the timely and accurate recording of financial transactions. We noted that the Authority relies on the audits of related parties in order to record a significant number of related party transactions. Related party transactions should be recorded by the Authority as they are incurred. The audited financial statements of related parties should be reviewed, but not relied upon for the recording of the related party transactions.

Criteria—The Internal Control-Integrated Framework (COSO Report) requires adequate internal controls over financial reporting to ensure that transactions are properly recorded and accounted for to permit the preparation of reliable financial statements and demonstrate compliance with laws, regulations and other compliance requirements. Internal controls should be in place to provide reasonable assurance that financial statements are prepared in accordance with U.S. GAAP.

Recommendations—The Authority should evaluate their financial reporting processes and controls to determine whether additional controls over the preparation of annual financial statements can be implemented to provide reasonable assurance that financial statements are prepared in accordance with U.S. GAAP. We recommend the Authority to review their current procedures for reconciliations and year-end close procedures and evaluate the number of staff assigned to various accounting functions to ensure staffing is appropriate. We recommend the Authority implements a tracking system to ensure that related party transactions are recorded accurately when incurred in order to avoid delays or discrepancies in the reporting process. Additionally, the Authority's finance department should ensure that they are aware of all related party activities in order to avoid inaccurate reporting or nonreporting of related party transactions.

The County's corrective action plan at the end of this report includes the views and planned corrective action of its responsible officials. We are not required to audit and have not audited these responses and planned corrective actions and therefore provide no assurances as to their accuracy.

This finding is similar to prior-year finding 2020-04.

COUNTY RESPONSE

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Office of Budget and Finance

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February 10, 2022

Lindsey Perry
Auditor General
2910 North 44th Street, Suite 410
Phoenix, AZ 85018

Dear Ms. Perry:

We have prepared the accompanying corrective action plan as required by the standards applicable to financial audits contained in Government Auditing Standards and by the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Specifically, for each finding we are providing you with our responsible officials' views, the names of the contact people responsible for corrective action, the corrective action planned, and the anticipated completion date.

Sincerely,

Cynthia Goelz

Cynthia Goelz
Chief Financial Officer

2021-01 The County's deficiencies in its process for managing and documenting its risks may put its IT systems and data at unintended and unnecessary risk.
Contact person(s): Kevin Westover, Business Engagement Manager, Office of Enterprise Technology and Deborah Lukens, Information Technology Manager, Maricopa County Treasurer's Office
Anticipated completion date: December 31, 2022

Concur. Maricopa County takes all IT audit findings seriously and will make efforts to resolve any deficiencies. The County will work to implement the policies and procedures for managing and documenting risks.

2021-02 Contrary to State law, previous County treasurers misspent approximately $1.46 million of statutorily restricted monies on advertising costs.
Contact person(s): Bernice Salcido, Financial Services Director
Anticipated completion date: July 1, 2022

Concur. The Maricopa County Treasurer's Office takes its responsibility to the taxpayer seriously and believes in taking corrective action to ensure that the taxpayer's dollars are properly spent for their intended purpose. The County Treasurer has requested legal advice from the office's assigned attorney to determine if the monies misspent in prior years should be replenished. The Treasurer's Office has established written policies and procedures which specify the statutorily allowable uses of Taxpayer Information Fund (TIF) monies. These policies have been distributed to the office personnel who are involved with decisions regarding the TIF. Effective fiscal year 2023 (beginning on July 1, 2022), all activity in the TIF will be recorded in the County-wide accounting system, also known as Advantage. The Advantage system requires several levels of review and approvals, including from the Office of Budget and Finance. This will provide transparency and oversight.

HOUSING AUTHORITY of MARICOPA COUNTY

HAMC

February 11, 2022

Pete Koziol
U.S. Department of Housing & Urban Development
Office of Public Housing
One North Central Suite 600
Phoenix, AZ 85004-4414

Subject: AZ009 2021 Audit Corrective Action Plan

Dear Mr. Koziol,

On December 2, 2021, the Housing Authority of Maricopa County submitted the corrective action to Audit Finding: Audit Adjustment and Preparation of the Financial Statements. This letter is to clarify that as of December 2, 2021, the corrective action taken was for both fiscal years ending June 30, 2020 and June 30, 2021.

AUDIT FINDING

2021-001: Audit Adjustments and Preparation of the Financial Statements

Condition: There were multiple adjusting journal entries recorded during the course of the audit.This is indicative of a lack of internal controls over the financial reporting process.

Criteria: The internal Control-Integrated Framework (COSO Report) requires adequate internal controls over financing reporting to ensure that transactions are properly recorded and accountedfor to permit the preparation of reliable financial statements and demonstrate compliance with laws, regulations, and other compliance requirements. Internal controls should be in place to provide reasonable assurance that financial statements are prepared in accordance with U.S. GAAP.

Context: The Authority does not have a system of internal controls that would enable management to conclude the financial statements and related disclosures are complete and presented in accordance with GAAP. We also proposed material audit adjustments in order to draft the financial statements. Most of the adjusting journal entries were related to transactionswith related parties. Significant adjustments such as these are indicative of inadequate controlsover financial reporting.

Effect: Inefficient controls over the financial reporting process could result in inaccurate account balances that require a restatement, a significant number of audit adjustments or a lack of timelyfinancial information.

Cause: The Authority did not properly establish and implement sufficient internal controls over financial reporting to ensure the timely and accurate recording of financial transactions. We note that the Authority relies on the audits of related parties in order to record a significant number ofrelated party transactions. Related party transactions should be recorded by the Authority as they are incurred. The audited financial statements of related parties should be reviewed, but not relied upon for therecording of related party transactions.

Repeat Finding: Yes, 2020-001.

Corrective Action/Actions Taken: HAMC updated monthly accounting closing procedures to include the consolidation of partnership financial data, monthly, we have reviewed and evaluated our reporting process to ensure compliance with GAAP and have evaluated and trained staff in the necessary accounting functions.

Target Completion Date: Complete, corrective action has been taken and HAMC has fully implemented the systems and procedures to properly and timely record all transactions.

If you have questions regarding this Corrective Action Plan, please contact Gerald Minott, Deputy Director at (602) 744-4517.

Sincerely,

Gerald A. Minott II

Gerald Minott II
Deputy Housing Director
Housing Authority of Maricopa County

CC: Gloria Munoz, Executive Director, Housing Authority of Maricopa County

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