



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Report on Internal Control and Compliance

Maricopa County

Year Ended June 30, 2013



Debra K. Davenport
Auditor General

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Maricopa County
Report on Internal Control and Compliance
Year Ended June 30, 2013

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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

**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, each major fund, and aggregate remaining fund information of Maricopa County as of and for the year ended June 30, 2013, 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 19, 2013. Our report includes a reference to other auditors who audited the financial statements of the Stadium District, Risk Management, and Employee Benefits Trust Funds, 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) to determine the 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.

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. 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.

Our consideration of internal control 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 material weaknesses or significant deficiencies. Given these limitations, during our audit we and the other auditors did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We and the other auditors did identify certain deficiencies in internal control described in the accompanying Schedule of Findings and Recommendations as items 2013-01 and 2013-02 that we consider 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 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*.

Maricopa County Response to Findings

The County's responses to the findings identified in our report are presented on pages 5 through 6. The County's responses 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.

Jay Zsorey, CPA
Financial Audit Director

December 19, 2013

Maricopa County
Schedule of Findings and Recommendations
Year Ended June 30, 2013

Financial Statement Findings

2013-01

The County should follow its procedures when preparing financial statement and note disclosures

Criteria: The County should follow its procedures to ensure its financial statements and notes to financial statements are prepared in accordance with U.S. generally accepted accounting principles (GAAP). Accurate financial statements provide valuable information to those charged with governance, management, and other financial statement users, to make important decisions about the County's financial operations.

Condition and context: The County did not consistently follow GAAP when recording its accrued liabilities, net position, and disclosing information within its notes to the financial statements. Specifically, the County incorrectly reported approximately \$3 million as accounts payable in the Detention Operations Fund that was accrued liabilities and misclassified approximately \$35 million between two restricted fund balance classifications in the financial statements. Also, in the notes to financial statements, the County did not properly disclose the custodial and concentration of credit risk for \$15.5 million in the deposits and investments note. Further, \$13.2 million of court fees were excluded from the retirement note.

Effect: The County's financial statements were not initially prepared in accordance with U.S. GAAP. The County made recommended audit adjustments to the financial statements and note disclosures for all significant errors and misclassifications.

Cause: The County did not properly review the financial statement data and schedules.

Recommendation: To help ensure the accuracy of the County's financial statements, the County should follow GAAP and the County's procedures when compiling its financial statements and note disclosures by performing a more detailed review of all schedules supporting the financial statements and note disclosures.

This finding is similar to a prior-year finding.

Maricopa County
Schedule of Findings and Recommendations
Year Ended June 30, 2013

Other auditors' findings:

The other auditors who audited the Risk Management Trust Fund (Fund) reported the following significant deficiency:

2013-02

Workers' Compensation Claims

While the Fund's claims administrator was providing reports to the Fund, management was not aware that a cash balance totaling \$812,198 had accumulated by the Fund's workers' compensation claims administrator. The account balance accumulated as a result of the claims administrator's depositing insurance reimbursements and other credits to the operating account rather than remitting the money directly to the Fund. The cash account was not identified through the Fund's monthly bank account reconciliation process, resulting in an audit adjustment. Since the workers' compensation claims process has been brought in-house, we recommend that management document a process to account for all insurance reimbursements and credits.



Maricopa County
Department of Finance

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January 21, 2014

Ms. Debbie Davenport
Auditor General
2910 North 44th Street, Suite 410
Phoenix, Arizona 85018

Dear Ms. Davenport,

The accompanying Corrective Action Plan has been prepared as required by Governmental Auditing Standards. Specifically, we are providing you with the name of the contact person responsible for the corrective action, the corrective action planned, and the anticipated completion date for the finding included in the Report on Internal Control and Compliance.

Sincerely,

Shelby L. Scharbach, CPA, CGFM
Assistant County Manager - Chief Financial Officer

2013-01

The County should follow its policies and procedures when preparing financial statements and note disclosures

Contact person: John Lewis, Deputy Finance Director, Department of Finance, (602) 506-1373

Anticipated Completion Date: Completed

Concur. The County has internal control and review procedures in place to help minimize errors. Specifically, each financial statement, supporting schedule, and note disclosure is reviewed in detail by at least one other person besides the preparer. In addition, to ensure that the financial statements and note disclosures are prepared in accordance with generally accepted accounting principles, the County ensures its staff is up-to-date on accounting pronouncements and compares the statements and related note disclosures to applicable accounting principles and recommended practices. Due to the nature of the compilation process and system limitations, the compilation of the financial statements and note disclosures is a manual process subject to human mistakes. Unfortunately, the errors noted were a result of clerical oversight that was not caught during the review process.

2013-02

Workers' Compensation Claims

Contact person: Samantha Wright, Finance Manager, Risk Management, (602) 506-2827

Anticipated Completion Date: Completed

Concur. The bank account was used by the workers' compensation administrator to fund the County workers' compensation claims, which has since been brought in-house and is now administered by the Risk Management department. The account was recorded as a prepaid asset on the Risk Management Trust Fund balance sheet. The account has been closed and the funds transferred back with the County Treasurer and recorded as Other Income on the fiscal year 2012-13 financial statements. For future action, all money in the Trust will be handled by the County Treasurer and reconciled monthly to the general ledger by the Department of Finance.



Maricopa County

Report on Internal Control and Compliance
Year Ended June 30, 2013

State of Arizona
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