

**REPORT
HIGHLIGHTS**
FINANCIAL STATEMENT AUDIT

Subject

Pima County issues financial statements annually. The County is responsible for preparing financial statements, maintaining strong internal controls, and demonstrating accountability for its use of public monies. As the auditors, our job is to determine whether the County has met its responsibilities.

Our Conclusion

The information in the County's financial statements is fairly stated in all material respects, and the financial statements can be relied on. The County generally maintained adequate internal controls. However, auditors identified internal control weaknesses over the County's computer systems and capital assets reporting as summarized on this page.



2008

Year Ended June 30, 2008

The County Should Strengthen Controls over its Financial Computer Systems

The County's general ledger, purchasing, and treasurer computer systems are critical to its operations. Establishing and following effective internal control policies and procedures is essential to prevent or detect unauthorized use, intentional misstatement, and unintended or unauthorized changes to the County's financial computer systems and financial data. However, the County had not

established adequate policies and procedures to adequately protect its computer systems and data. Specifically, auditors noted deficiencies in the County's procedures to make changes to computer programs and critical data, to allow and monitor access to computer systems and data, and for disaster recovery planning.

The County Should Accurately Report the Value of its Capital Assets

The County maintains a network of transportation and flood control infrastructure assets valued at \$609 million and land valued at \$314 million, so it is essential that the County accurately report and account for these assets. However, the County's internal control policies and procedures did not always ensure that its infrastructure and land were properly reported. During fiscal years 2006 and 2007, several housing

subdivisions dedicated \$70.1 million in public roads and land parcels to the County to maintain. However, the County did not have internal control procedures to identify, record, and report these assets, and therefore, it failed to include them in either the fiscal year 2006 or 2007 financial statements. The County adjusted its fiscal year 2008 financial statements for these errors.

The County's Condensed Financial Information

The County's government-wide financial statements are designed to provide readers with a broad overview of the County's finances in a manner similar to private-sector businesses. These statements report the financial activities of the overall government, except for fiduciary activities.

The tables to the right present summarized versions of the County's government-wide Statement of Net Assets and Statement of Activities for its governmental and business-type activities reported in the current-year financial statements. The Statement of Net Assets presents information on all of the County's assets and liabilities, with the difference between the two reported as net assets. The Statement of Activities presents information showing how net assets changed during the most recent fiscal year.

As shown in the table, the County's revenues exceeded its expenses during the current year, resulting in an increase in net assets of \$69 million. This increase included a \$43 million increase in the net assets of the County's governmental activities and a \$26 million increase in its business-type activities.

Summarized Statement of Net Assets As of June 30, 2008 (In millions)

	Total Governmental and Business-type Activities
Assets:	
Current and other assets	\$ 651
Capital assets, net	<u>2,128</u>
Total assets	<u>2,779</u>
Liabilities:	
Current liabilities	152
Noncurrent liabilities	<u>909</u>
Total liabilities	<u>1,061</u>
Net assets:	
Invested in capital assets, net of related debt	1,365
Restricted net assets	242
Unrestricted net assets	<u>110</u>
Total net assets	<u>\$1,717</u>

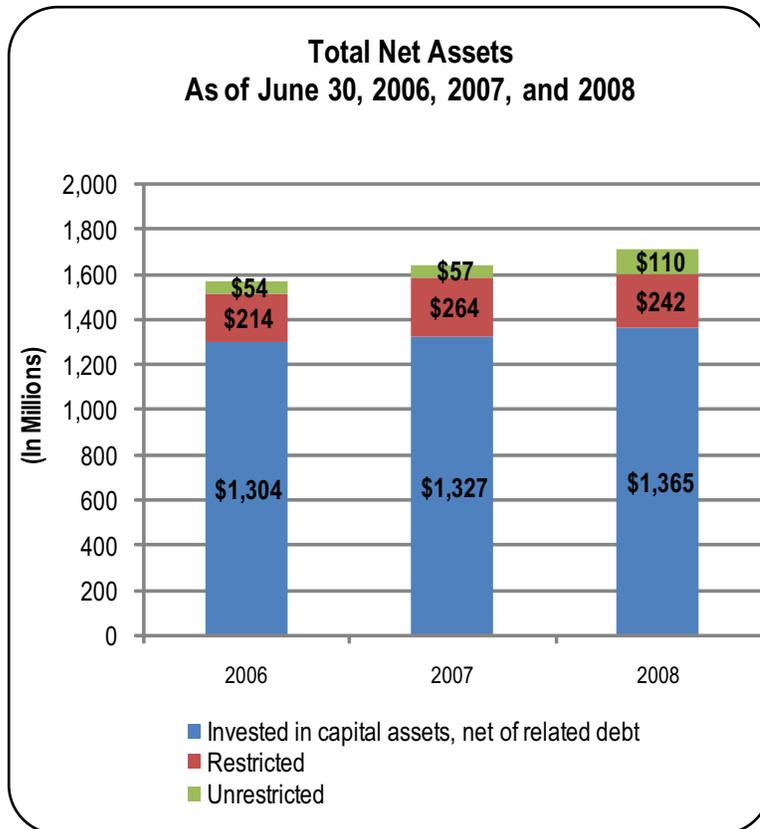
Summarized Statement of Activities For the Year Ended June 30, 2008 (In millions)

	Total Governmental and Business-type Activities
Program revenues:	
Governmental activities	\$ 257
Business-type activities	437
General revenues:	
Governmental activities	564
Business-type activities	<u>8</u>
Total revenues	<u>1,266</u>
Expenses:	
Governmental activities	778
Business-type activities	<u>419</u>
Total expenses	<u>1,197</u>
Change in net assets	69
Net assets—beginning, as restated	<u>1,648</u>
Net assets—ending	<u>\$1,717</u>

The County's Net Assets Increased \$145 Million since June 30, 2006

The County's net assets increased \$145 million from June 30, 2006 to June 30, 2008. As shown in the graph below, net assets are reported in three categories: (1) invested in capital assets, net of related debt, which was the largest category at 80 percent of net assets as of June 30, 2008; (2) restricted, which was 14 percent of total net assets; and (3) unrestricted, which was 6 percent of total net assets. The County's net assets invested in capital assets increased by \$61 million since June 30, 2006. These net assets represent the County's investments in land, buildings, infrastructure, and equipment, less accumulated depreciation and

outstanding debt that the County incurred and still owes to finance the acquisition of those assets. The second largest category is restricted net assets, which increased by \$28 million since June 30, 2006. These resources are restricted by external governments and must be used for specified purposes, such as for federal or state grant requirements. The smallest category is considered unrestricted and increased by \$56 million since June 30, 2006. As of June 30, 2008, these unrestricted resources totaled \$110 million, and the County must use these resources to help finance continuing operations and pay its debt obligations.



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