

**REPORT  
HIGHLIGHTS**  
FINANCIAL STATEMENT AUDIT

**Subject**

Pinal 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. However, auditors identified internal control weaknesses over the County's computer systems, capital assets reporting, and financial statement preparation as summarized on this page and page 2.



2008

Year Ended June 30, 2008

## The County Should Strengthen Controls Over its Computer Systems

The County's computer systems are critical to its operations. Establishing and following effective internal control policies and procedures is essential to prevent or detect unauthorized use, damage, loss, or modification of programs and equipment, and misuse of sensitive information. However, the County had not established adequate policies and

procedures to protect and secure its computer systems. Specifically, auditors noted deficiencies in the County's procedures to make changes to computer programs and critical data, and to allow and monitor access to computer systems and data. In addition, the County did not have a comprehensive disaster recovery plan that is updated and tested regularly.

## The County Should Accurately Report and Maintain Control over its Capital Assets

Capital assets represent approximately 69 percent of the County's total assets. Therefore, it is necessary that the County accurately report and control its capital assets. However, the County's internal control policies and procedures did not

always ensure that all capital assets were properly recorded. Specifically, the County improperly recorded repair and maintenance costs incurred by the Housing Department as capital assets, and did not consistently value donated roads.

## The County Should Ensure its Financial Statements are Accurately Presented

Accurate financial information reported in the County's financial statements is necessary to demonstrate accountability to the Board of Supervisors, federal and state grantors, and the public. However, the County needs to improve its internal control policies and procedures to ensure proper general ledger accounting and financial

statement presentation. Specifically, the County incorrectly recorded a year-end adjustment of over \$840,000 to cash balances in the general ledger accounting system and did not disclose a \$2 million loan in its notes to the 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 \$25,524. This increase consisted of a \$23,803 increase in the net assets of the County's governmental activities and a \$1,721 increase in its business-type activities.

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

	Total Governmental and Business-type Activities
<b>Assets:</b>	
Current and other assets	\$184,421
Capital assets, net	<u>408,709</u>
Total assets	<u>593,130</u>
<b>Liabilities:</b>	
Current and other liabilities	27,611
Long-term liabilities	<u>184,996</u>
Total liabilities	<u>212,607</u>
<b>Net assets:</b>	
Invested in capital assets, net of related debt	234,619
Restricted net assets	<u>109,258</u>
Unrestricted net assets	<u>36,646</u>
Total net assets	<u>\$380,523</u>

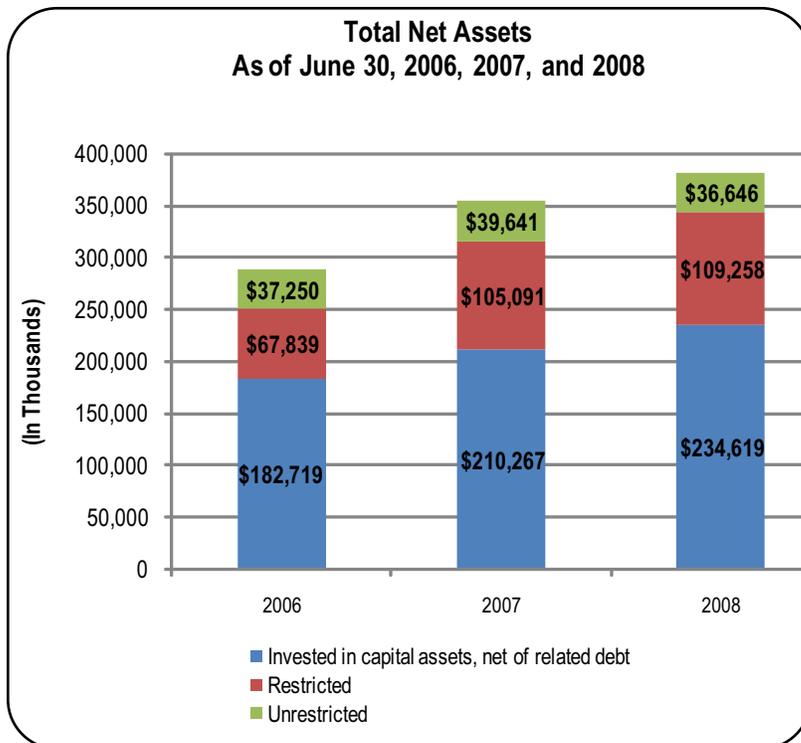
### Summarized Statement of Activities For the Year Ended June 30, 2008 (In thousands)

	Total Governmental and Business-type Activities
Program revenues	\$181,528
General revenues	<u>157,121</u>
Total revenues	<u>338,649</u>
Expenses	<u>313,125</u>
Change in net assets	25,524
Net assets—beginning	<u>354,999</u>
Net assets—ending	<u>\$380,523</u>

# The County's Net Assets Increased \$92.7 Million since June 30, 2006

The County's net assets increased \$92.7 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 62 percent of net assets as of June 30, 2008; (2) restricted, which was 29 percent of total net assets; and (3) unrestricted, which was 9 percent of total net assets. The County's net assets invested in capital assets increased by \$51.9 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 \$41.4 million since June 30, 2006. These resources are restricted by external parties and must be used for specified purposes, such as for federal or state grant requirements. The smallest category is considered unrestricted and decreased by \$604,000 since June 30, 2006. As of June 30, 2008, these unrestricted resources totaled \$36.6 million. The County uses these resources to help finance continuing operations and pay its debt obligations.



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