



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Management Letter

Pinal County
Year Ended June 30, 2002



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

June 30, 2003

Board of Supervisors
Pinal County
P.O. Box 827
Florence, AZ 85232

Members of the Board:

In planning and conducting our single audit of Pinal 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.

There are no audit findings that are required to be reported by GAS and OMB Circular A-133. However, 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 Pinal 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 should provide oversight over cash collections of its constables

The county constables serve complaints, summonses, and other documents for the justice courts and collect a fee for their services. County management should ensure that effective internal controls are in place to safeguard cash collections of the constables. Fees collected should be documented, promptly deposited intact, and remitted to the county treasurer monthly. Further, the County should monitor these procedures to ensure that they are being consistently followed and that cash is being properly safeguarded.

However, the County failed to provide adequate oversight for its constables to ensure that they followed these procedures. Specifically, the County lacked formal policies and procedures over cash receipts for constables and failed to ensure that they submitted fees collected and applicable paperwork monthly. For example, two constables made infrequent deposits. In another example, a constable deposited the fees in his personal savings account. As a final example, constable fees totaling \$1,290 were allegedly embezzled. This allegation has been referred to the Pinal County Attorney for review. Further, constables did not attend all required training courses.

County management should establish the necessary policies and procedures to help ensure that the constables are aware of all required procedures and should monitor the constables to ensure that they are following these procedures. At a minimum, the County should:

- Develop and implement procedures for collecting and depositing constable fees to ensure all county constables are following a uniform set of practices.
- Closely monitor the deposit of all constable fees to ensure that fees collected are remitted to the county treasurer monthly, and that all required documents are filed monthly with the justice court and with the clerk of the board of supervisors. The County should follow up with any constables that fail to adhere to procedures.

In addition, all constables must attend the New Constable Training Seminar after election and obtain at least the minimum required training hours on an annual basis. Finally, constables should retain proof that they attended all required training courses.

County Departments should strengthen controls over cash receipts

Since cash is highly susceptible to theft or misuse, County management should ensure that all departments receiving cash receipts establish and maintain effective internal controls to better safeguard cash. Employee responsibilities for receiving cash, preparing cash receipt reconciliations, preparing cash collections for deposit, and making deposits should be separated to ensure that monies collected are properly safeguarded and promptly deposited intact. In addition, the County should monitor these procedures to ensure that they are being consistently followed and that cash is being properly safeguarded.

However, various departments of the County did not have effective control over cash receipts. For example, employees receiving cash also maintained the accounting records at the Health Department, the Department of Planning and Development, and the Print Shop. In another example, the Department of Home Health and the Print Shop had no written cash handling policies and procedures. Similar control deficiencies were reported in the prior year's management letter.

The County should ensure that all departments receiving cash have written cash handling policies and procedures and periodically monitor that those procedures have been placed in operation and are operating effectively. The following procedures should be incorporated to help ensure that cash is better safeguarded.

- Assign a limited number of people to receive cash.
- Assign the responsibility for reconciling cash receipts and making deposits to an employee who does not receive cash. An employee should not be responsible for both cash-handling and recordkeeping activities.
- If, because of small staff size at remote locations, one employee has many related responsibilities, a department official should review and approve transactions at appropriate points in the process.
- Use sequentially prenumbered cash receipt forms or other method to document the receipt of cash.
- Account for used, unused, and voided cash receipt forms.
- Restrictively endorse checks and money orders immediately upon receipt.
- Safeguard cash receipts in a locked drawer or safe prior to deposit.
- Deposit cash receipts weekly at a minimum.
- Deposit cash intact and don't establish a change or petty cash fund from them.
- Reconcile cash collections to cash receipts issued daily.

The County should strengthen controls over its budget preparation and monitoring process

The County's budget serves several essential purposes. The budget is used to set public policy, to control taxing and spending, and to serve as a financial planning tool. Good stewardship over public monies and Arizona Revised Statutes (A.R.S.) require that all accounts and funds administered by the County be included in the County's adopted budget; operating transfers in and out are recorded in the budget and approved by the Board of Supervisors; and actual expenditures, obligations or liabilities do not exceed amounts budgeted. However, the County did not follow these procedures. For example, several accounts and funds administered by the County Attorney, the County School Superintendent, and the Sheriff's Office were not included in the adopted budget, as required by A.R.S. §§15-1001, 42-17102.B, and 42-17106. In another example, operating transfers in and out were not always included in the adopted budget or approved by the Board of Supervisors, as required by A.R.S. §42-17106. As a final example, 29 departments exceeded their adopted budgets. Similar deficiencies were reported in the prior year's management letter.

To help ensure that the County's adopted budget is accurate, complete, properly monitored, and in accordance with statutes, an administrator, who is independent of the budget's preparation, should review the budget before it is adopted to ensure that all accounts and funds under the control of the County are included. In addition, the Budget Office should ensure that all transfers during the year are properly approved by the Board of Supervisors and recorded in the budget. Finally, the Budget Office should monitor the adopted budget at the legal level and obtain the Board of Supervisors' approval for any necessary adjustments in accordance with A.R.S. §42-17106 to prevent expenditures exceeding the legal level.

The County should establish policies and procedures for information system disaster recovery

The County is responsible for protecting its information system against damage and equipment failure. However, the County's recovery controls did not adequately protect its information system against these risks, as it has not negotiated a written equipment backup agreement to ensure processing continuity. A similar deficiency was reported in the prior year's management letter.

It is essential that the County negotiate a written equipment backup agreement with a vendor to help ensure processing continuity of critical financial information. At a minimum, the agreement should specify the following:

- Machine time availability
- Application-processing priorities
- Information exchanges regarding equipment configuration/system software changes
- Testing procedures
- Cost

The County needs to ensure its financial reporting system provides complete and accurate information for federal reporting

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's financial reporting system did not provide sufficient detailed information to comply with federal requirements. Specifically, the financial reporting system did not separately identify federal, state, and local program expenditures charged to each federal program. This was a contributing factor that caused a \$682,186 error 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 SEFA meets the reporting requirements of OMB Circular A-133, the County must ensure that federal expenditures of individual programs are separately identified in the County's accounting records. In addition, the County should ensure the accuracy of program titles and identification numbers in its SEFA.

The County should ensure that departments comply with federal program requirements

County management is responsible for ensuring that departments administering federal programs follow all federal program 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 were in noncompliance with the program requirements, examples of which follow.

- Matching—For certain grants, the County is required to provide matching contributions of nonfederal monies. For one of the contracts applicable to the Byrne Formula Grant Program, the Sheriff's Office remitted the required matching contribution of \$21,306 to the grantor approximately 2 months late.
- Equipment—The County is required to maintain property records of equipment purchased with federal monies. However, the Sheriff's Office failed to capitalize \$20,585 of video surveillance equipment purchased from the Byrne Formula Grant Program.
- Suspension and Debarment—The County is prohibited from contracting with parties that are suspended or debarred from federal procurement or contracts. The Public Works Department has not established policies and procedures to verify that vendors providing goods or services in excess of \$100,000 under a federal grant have not been suspended or debarred. Further, the Public Works Department did not determine whether contractors receiving more than \$100,000 were suspended or debarred for the Federal-Aid Highway Program and the Public Assistance Grants. However, auditors noted no instances of payments made to suspended or debarred individuals or organizations.

In addition, the Public Works Department should establish written policies and procedures to determine that vendors providing goods or services in excess of \$100,000 under a federal grant award have not been suspended or debarred.

County management should establish the necessary procedures to help ensure that county departments administering federal programs are aware of all applicable federal program requirements and should monitor the departments to ensure these requirements are being followed.

June 24, 2003

Debbie Davenport
Auditor General
2910 N. 44th Street, Suite 410
Phoenix, AZ 85018

Dear Ms. Davenport:

Pinal County Management has chosen to respond to the Management Letter for the fiscal year ended June 30, 2002. Our responses to the Management Letter are attached. The Management Letter resulted from a single audit conducted of Pinal County.

If you have any questions, please contact me at (520) 866-6209.

Sincerely,

Maureen Arnold, CPA, CGFM, CPFO
Chief Financial Officer

PINAL COUNTY
Response to Summary of Audit Findings
Year Ended June 30, 2002

The County should provide oversight over cash collections of its constables

Response: Concur. The County will develop procedures for cash collections of constables and monitor their compliance with these procedures. Also, constables will be encouraged to complete the required training. However, as the Board of Supervisors has no authority over elected officials, it is difficult to enforce these procedures.

County Departments should strengthen controls over cash receipts

Response: Concur. The County will work with all departments to develop written policies and procedures for cash handling and will continue to monitor them to encourage compliance with these procedures. Segregation of duties in small departments is difficult due to limited staff.

The County should strengthen controls over its budget preparation and monitoring process

Response: Concur. The County will ensure that policies and procedures are in place to help strengthen controls over budget preparation and monitoring. The County currently monitors to ensure department compliance with the adopted budget. However, if departments spend more than their allotted funds, it is the position of the County to ensure that the budget is not overspent at the fund level. The County does not move budget capacity after the fact to make the appearance of budget compliance.

The funds for the County Attorney and Sheriff that were not budgeted are now included in the annual budget.

Because of the limited staff of the Budget Office it is difficult to have an independent administrator review the budget before it is adopted.

The County should establish policies and procedures for information system disaster recovery

Response: Concur. The County Information Technology Department is currently developing a plan for disaster recovery. However, due to budget constraints, we do not have funding for an equipment backup agreement.

PINAL COUNTY
Response to Summary of Audit Findings
Year Ended June 30, 2002

The County needs to ensure its financial reporting system provides complete and accurate information for federal reporting

Response: Concur. The Finance Department is currently working on revising the account code structure to enable a breakout of federal, state, and local expenditures. Also, procedures will be developed to ensure that proper CFDA numbers and program titles are reported on the SEFA.

The County should ensure that departments comply with federal program requirements

Response: Concur. The Finance Department will develop procedures to monitor personnel administering federal programs for compliance with applicable program requirements. Additionally, the Public Works Department has established procedures to ensure that vendors have not been suspended or debarred.