



A REPORT  
TO THE  
ARIZONA LEGISLATURE

Financial Audit Division

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Report on Internal Control and Compliance

# Pima County

Year Ended June 30, 2009

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**Debra K. Davenport**  
Auditor General

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Pima County  
Report on Internal Control and Compliance  
Year Ended June 30, 2009

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**STATE OF ARIZONA  
OFFICE OF THE  
AUDITOR GENERAL**

DEBRA K. DAVENPORT, CPA  
AUDITOR GENERAL

WILLIAM THOMSON  
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  
Pima County, Arizona

We have audited the financial statements of the governmental activities, business-type activities, the discretely presented component unit, each major fund, and aggregate remaining fund information of Pima County as of and for the year ended June 30, 2009, which collectively comprise the County's basic financial statements, and have issued our report thereon dated December 21, 2009. Our report was modified to include a reference to our reliance on other auditors. We conducted our audit 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. Other auditors audited the financial statements of the Stadium District, School Reserve Fund, Self Insurance Trust, Regional Wastewater Reclamation Department, Development Services, and Southwestern Fair Commission, 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, we considered the County's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's basic financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We consider items 09-01, 09-02, and 09-03 described in the accompanying Schedule of Findings and Recommendations to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the County's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the County's basic financial statements are free of 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards*, and which is described in the accompanying Schedule of Findings and Recommendations as item 09-01.

Pima County's responses to the findings identified in our audit are presented on pages 7 through 9. We did not audit the County's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the members of the Arizona State Legislature, the Board of Supervisors, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Jay Zsorey, CPA  
Financial Audit Director

December 21, 2009

Pima County  
Schedule of Findings and Recommendations  
Year Ended June 30, 2009

09-01

**Pima Health System and Services Enterprise Fund should improve its internal controls over claims processing**

Criteria: The County should ensure that medical claims for program enrollees of the Pima Health System are timely and accurately processed, paid, and submitted to the Arizona Healthcare Cost Containment System (AHCCCS). Also, medical claims submitted to AHCCCS must include the appropriate pay rates, medical service and procedure codes, and other information AHCCCS requires.

Condition and context: During fiscal year 2009, the County processed approximately 30,000 medical claims each month totaling on average approximately \$16 million. While testing a sample of the County's medical claims, auditors noted claims that had not been submitted to AHCCCS and claims that were submitted more than once. Also, auditors noted that claims were submitted with missing information or other errors that the County had not corrected. Further, at June 30, 2009, the County had over 200,000 claims totaling approximately \$94,679,000 in the pended status with AHCCCS. Of those claims, over 106,000 had not been submitted to AHCCCS within the required timelines. These claims were submitted to AHCCCS more than 4 months after they were paid, and some were paid over 365 days ago.

Effect: Because of these deficiencies, AHCCCS has assessed the County a potential sanction of \$1,084,065 as of June 30, 2009. However, AHCCCS acknowledges it may waive this sanction if the County shows continued improvement in submitting complete and accurate claims within the contractual timelines. In addition, until complete and accurate claims information is submitted to AHCCCS, the County cannot reasonably estimate the amount of reinsurance revenues to report in its financial statements. Further, AHCCCS evaluates the County's profit margins by comparing capitation revenues to medical claims expenses submitted to AHCCCS. If they are in excess of specified contractual thresholds, AHCCCS requires the County to pay back the excess profits. This analysis is based on the total dollar value of only those claims properly submitted to AHCCCS. AHCCCS sent the County a preliminary notice of a maximum potential liability of \$4,636,370 for the contract year ended September 30, 2008. The County has until January 2010 to resubmit claims with errors and incomplete information, and submit all claims that had not been submitted for the contract year to reduce this potential liability.

This finding is a significant deficiency in internal control over financial reporting and noncompliance with AHCCCS contractual requirements.

Cause: The County lacked adequate policies and procedures over its claims processing systems to ensure that all medical claims were submitted to AHCCCS in a timely manner and that the claims information submitted was accurate and complete. Software purchased and implemented by January 2009 to help correct deficiencies did not always properly synchronize with AHCCCS' systems, resulting in discrepancies. Further, problems during the implementation of the new software resulted in the County's not submitting all claims and in some instances submitting duplicate claims. The problems with this software were not discovered until after its implementation, and the problems and causes were not immediately detected.

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Year Ended June 30, 2009

Recommendation: To help ensure the County submits all medical claims to AHCCCS in a timely manner and that claims information submitted is accurate and complete, the County should continue to develop and revise its internal control policies and procedures over its claims processing systems by continuing to implement the following:

- Assign experienced staff to accurately identify all pended claims as well as claims never encountered and ensure these claims are successfully encountered and adjudicated with AHCCCS as soon as possible to reduce or avoid possible sanctions and liabilities.
- Assign experienced staff to analyze pended encounters to determine the cause of these pended encounters so that software or procedural modifications can be made to correct and prevent future errors.
- Ensure all software modifications are accurately documented, reviewed by appropriate supervisors, and approved by independent users.
- Ensure that all new software is adequately tested for accurate results prior to being placed into the production environment.
- Assign staff to monitor claims held by AHCCCS and ensure any necessary corrections are made within 90 days of submittal.
- Implement the available MDE program to migrate successfully encountered claims data into the County's QNXT claims processing software to help with additional analysis of pended claims and to aid in the preparation of the required financial reports.

09-02

**The County should accurately report deposit and investment information**

Criteria: The County must disclose essential risk information about its deposits and investments within the notes to the financial statements in accordance with generally accepted accounting principles.

Condition and context: The County Treasurer oversees the vast majority of the County's deposits and investments, totaling \$799 million at fiscal year-end. The County's finance department prepares the deposit and investment financial statement risk disclosures and relies on some information provided by the County Treasurer to do so. While testing those risk disclosures, auditors noted that some of the Treasurer's information provided to the finance department was inaccurate. Specifically, the Treasurer's investment schedule included credit ratings at the time investments were purchased rather than at the financial report date of June 30, 2009. Also, the Treasurer's schedules did not correctly reconcile to the State Treasurer or to its servicing bank account statements. This resulted in the County's not reporting investment risks for \$5.5 million of investments, reporting \$1.5 million in investments in the wrong investment type, and excluding a \$10 million bank balance from the reported bank deposits balance. The County adjusted its financial statement disclosures for all significant errors.

Effect: Deposit and investment risk disclosures could be significantly misreported. Financial statement users need accurate information about the County's deposit and investment risks that could affect the County's ability to provide services and meet its obligations as they become due. This finding is a significant deficiency in internal control over financial reporting.

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Cause: The County lacked adequate written policies and procedures that established responsibility and ensured that the information it obtained and used when preparing deposit and investment risk disclosures was accurate and reported in accordance with generally accepted accounting principles.

Recommendation: The County should ensure its written policies and procedures include adequate details and establish responsibility for reporting deposit and investment risks. Specifically, policies and procedures should include updating investment credit ratings throughout the year and at fiscal year-end. In addition, deposit and investment balances should be reconciled to the State Treasurer and financial institutions' statements at least monthly and all differences should be investigated and resolved.

09-03

**The County should strengthen controls over its financial computer systems**

Criteria: For the County's computerized financial information systems, including the general ledger, purchasing, and treasurer systems, the County should have effective controls to prevent and detect unauthorized use, damage, loss, or modification of sensitive financial information. Also, program changes to these systems should be reviewed and approved. In addition, access to data in these systems should be adequately protected by strong, user-specific password controls and activities performed through superuser and group accounts should be carefully monitored. Further, effective plans should be in place to protect data and continue financial operations in the event of a disaster or other unexpected system interruption.

Condition and context:

*Change Management*—The County could not provide documentation to support the review and authorization for three of the ten program changes tested by auditors.

*User Access*—For the first 11 months of the period, the County allowed individual users to select weak (easy to determine) passwords. Sufficiently strong passwords were only required during the final month of the period. Additionally, the County used at least six superuser and group access accounts and did not adequately monitor the activity in these accounts.

*Disaster Recovery*—The County has not finalized or tested its disaster recovery plan.

Effect: There is an increased risk that the County's financial information could be misstated, misused, or damaged because the programs used to record, process, and report financial information could have been improperly changed and access to the underlying data was not adequately restricted. In addition, in the event of a disaster or other unexpected system interruption, the County may not be able to report financial information or perform other financial operations. This finding is a significant deficiency in internal control over financial reporting.

Cause: The County had not fully established or enforced sufficient written policies and procedures to control program changes and restrict user access. Also, the County continued to develop its disaster recovery plan but had not completed or tested it.

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Recommendation: To help strengthen controls over its financial computer systems for program change management, user access, and disaster recovery, the County should implement the following:

*Change Management*

- Ensure that change management forms are tracked and retained.
- Monitor system-generated audit logs and reports that track all changes to verify that all significant changes are appropriately documented tested, reviewed, and approved.

*User Access*

- Limit the use of superuser and group access accounts in accordance with existing policies, and monitor and track user activities on these accounts.

*Disaster Recovery*

- Finalize the disaster recovery plan and update and test the plan on a regular basis.

A similar finding was noted in the previous fiscal year.



**PIMA COUNTY**  
**FINANCE AND RISK MANAGEMENT DEPARTMENT**  
130 WEST CONGRESS STREET  
TUCSON, ARIZONA 85701-1317  
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Thomas E. Burke, Director

February 16, 2010

Ms. Debbie Davenport, Auditor General  
2910 N. 44<sup>th</sup> St., Suite 410  
Phoenix, AZ 85018

Dear Ms. Davenport:

The following corrective action plans for the FY 2008-09 audit findings have been prepared as recommended by Government Auditing Standards. Specifically, we are providing you with the name of the contact person responsible for corrective action, the corrective action planned or completed, and the anticipated completion date.

Sincerely,

Tom Burke, Director  
Department of Finance and Risk Management

Attachment

09-01

**Pima Health System and Services Enterprise Fund should improve its internal controls over claims processing**

**Contact person:** Mary Fellows, Chief Financial Officer

**Anticipated completion date:** April 1, 2010

The County agrees. There were multiple internal control deficiencies affecting the submission and monitoring of claims to AHCCCS. As a result of the County's internal assessment and the significant deficiency noted by our auditors, multiple resources have been assigned to identify and correct errors, discrepancies and weaknesses within the claims process. Specifically, staff associated with the financial and IT aspect of PHS&S claims were re-assigned to the central Finance and central IT departments in early 2009.

Software upgrades, additional resources and new or updated policies and procedures will significantly address and improve the proper submission and timely monitoring of claims to AHCCCS.

09-02

**The County should accurately report deposit and investment information**

**Contact person:** Paul Guerrero, Division Manager, Finance and Risk Management

**Anticipated completion date:** during the audit of Fiscal Year 2009-10, on or around November 1, 2010.

The County Treasurer and the Finance and Risk Management department are reviewing its current practices and internal procedures to identify areas of improvement necessary to accurately report deposit and investment financial information. Both departments will work collaboratively to create procedures that will assist in accurately disclosing deposit and investment balances and related information within the Cash and Investments note in the County's Comprehensive Annual Financial Report. As part of these procedures, central Finance will conduct regular reviews of the Treasurer's investment reporting and monthly reviews of the Treasurer's deposit activities.

09-03

**The County should strengthen controls over its financial computer systems**

**Contact person:** Lionel Bittner, Information Technology Director

*Change Management*

The County continues to evaluate change management policies and written procedures to ensure all changes to its financial systems are properly documented. Current policies and procedures implemented in 2009 confirm that changes are appropriate, authorized, developed, tested, reviewed and approved.

**Anticipated completion date:** Completed (as of December 2009)

User Access

As indicated by the auditor finding, the County has already implemented an updated password policy that requires sophisticated password changes every 60 days.

**Anticipated completion date: Completed**

Disaster Recovery

The County's Information Technology department has re-evaluated its strategy for disaster recovery. Current discussions with the Arizona Department of Administration are intended to facilitate the back up and restoration of numerous aspects of the County's financial data system. The contractual agreement currently being reviewed will provide for a disaster recovery plan in place by the end of the calendar year.

**Anticipated completion date: December 31, 2010**