A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Single Audit

Pima County

Year Ended June 30, 2006

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

Debra K. Davenport
Auditor General

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Pima County, Arizona
Single Audit Reporting Package
Year Ended June 30, 2006

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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, 2006, which collectively comprise the County's basic financial statements, and have issued our report thereon dated December 1, 2006. Our report was modified to include a reference to our reliance on other auditors and for an emphasis of a matter for the retroactive reporting of general infrastructure assets as part of the implementation of GASB Statement No. 34. 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, Development Services Enterprise Fund, the Self-Insurance Trust Internal Service Fund, Wastewater Management Enterprise Fund, Pima Health System and Services Enterprise Fund, and Southwestern Fair Commission, Inc., 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 in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements and not to provide an opinion on internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We and the other auditors noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

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 Questioned Costs as item 06-01.

We also noted certain additional matters that we will report to the County's management in a separate letter at a future date.

This report is intended solely for the information and use of the members of the Arizona State Legislature, the Board of Supervisors, 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.

Dennis L. Mattheisen, CPA
Financial Audit Director

December 1, 2006

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

Members of the Arizona State Legislature

The Board of Supervisors of
Pima County, Arizona

Compliance

We have audited the compliance of Pima County with the types of compliance requirements described in the *U.S. Office of Management and Budget* (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The County's major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the County's compliance with those requirements.

In our opinion, Pima County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133, and that are described in the accompanying Schedule of Findings and Questioned Costs as items 06-101, 06-102, 06-103, and 06-104.

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Internal Control over Compliance

The County's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over compliance that, in our judgment, could adversely affect the County's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 06-101, 06-102, 06-103, and 06-104.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control over compliance would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

Schedule of Expenditures of Federal Awards

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, 2006, and have issued our report thereon dated December 1, 2006. Our report was modified to include a reference to our reliance on other auditors and for an emphasis of a matter for the retroactive reporting of general infrastructure assets as part of the implementation of GASB Statement No. 34. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the members of the Arizona State Legislature, the Board of Supervisors, 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.

Dennis L. Mattheisen, CPA
Financial Audit Director

March 1, 2007, except for the
Schedule of Expenditures of Federal Awards,
for which the date is December 1, 2006.

Pima County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2006

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number (Note 2)	Pass-Through Grantor's Number	Expenditures
U.S. Office of National Drug Control Policy			
High Intensity Drug Trafficking Areas	07.I 1-5 PSAP549(Z)		$ 7,644,462
Passed through the Arizona Criminal Justice Commission			
High Intensity Drug Trafficking Areas	07.I6PSAP501Z	HT 16-06-0211, HT 16-06-0410, HT 16-06-0610, HT 16-06-0810, HT 16-06-1714, HT 16-06-2411	369,646
Passed through the County of El Paso, Texas			
High Intensity Drug Trafficking Areas	07.I3PSBP999	I3PSBP999	303,919
Total High Intensity Drug Trafficking Areas			8,318,027
U.S. Department of Agriculture			
Passed through the Arizona Department of Education			
Child Nutrition Cluster:			
School Breakfast Program	10.553	ED05-0001	86,163
National School Lunch Program	10.555	ED05-0001	160,488
Total Child Nutrition Cluster			246,651
Passed through the Arizona Department of Health Services			
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	HG 361077, HG 561265 HP 561153	2,202,240
Commodity Supplemental Food Program	10.565	HG 361103	81,414
WIC Farmers' Market Nutrition Program (FMNP)	10.572	HG 361288	1,284
Passed through the Arizona State Treasurer			
Schools and Roads---Grants to States	10.665	NFF	76,460
Water and Waste Disposal Loans and Grants (Section 306C)	10.770		190,919
Total U.S. Department of Agriculture			2,798,968
U.S. Department of Housing and Urban Development			
Community Development Block Grants/Entitlement Grants	14.218		3,466,435
Emergency Shelter Grants Program	14.231		101,576
Supportive Housing Program	14.235		1,857,569
Passed through the City of Tucson			
Supportive Housing Program	14.235	0032-06	81,560
Total Supportive Housing Program			1,939,129
Passed through the City of Tucson			
HOME Investment Partnerships Program	14.239	0190-02, 0621-01	1,358,856
HOPE for Homeownership of Single Family Homes	14.240		513
Housing Opportunities for Persons with AIDS	14.241		311,568
Opportunities for Youth---Youthbuild Program	14.243		218,489
Total U.S. Department of Housing and Urban Development			7,396,566
U.S. Department of the Interior			
Bureau of Land Management---Law Enforcement	15.DAU		19,250
Sonoran Desert Conservation Plan	15.FFB		194,141
Payments in Lieu of Taxes	15.226		1,944,777
Passed through the Arizona State Treasurer			
Distribution of Receipts to State and Local Governments	15.227	TAYLO	10,853
Fish, Wildlife and Plant Conservation Resource Management	15.231		1,200
Total U.S. Department of the Interior			2,170,221

(Continued)

See accompanying notes to schedule.

Pima County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2006
(Continued)

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number (Note 2)	Pass-Through Grantor's Number	Expenditures
U.S. Department of Justice			
Federal Equitable Sharing Program	16.unknown		$ 1,423,005
Passed through Arizona Department of Emergency and Military Affairs			
State and Local Domestic Preparedness Equipment Support Program	16.007	2002-TE-CX-0142	7,866
Passed through the Arizona Governor's Office for Children, Youth and Families, Division for Community and Youth Development			
Juvenile Accountability Incentive Block Grants	16.523	JB-GRA-03-5273-09, JB-GRA-04-6273-06, JB-IGA-05-7273-01	95,138
National Institute of Justice Research, Evaluation, and Development			
Project Grants	16.560		40,343
Passed through the Arizona Criminal Justice Commission			
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560	FDC-05-207, FDC-05-307	24,689
Total National Institute of Justice Research, Evaluation, and Development Project Grants			65,032
Passed through the Arizona Department of Public Safety			
Crime Victim Assistance	16.575	2003-392, 2004-422	42,087
Passed through the Arizona Criminal Justice Commission			
Crime Victim Compensation	16.576	VC-01-059	229,725
Passed through the Arizona Criminal Justice Commission			
Edward Byrne Memorial Formula Grant Program	16.579	PC-030-05, PC-030-06	258,091
Passed through the City of Tucson			
Edward Byrne Memorial Formula Grant Program	16.579	0277-05	345,080
Total Edward Byrne Memorial Formula Grant Program			603,171
Passed through the Maricopa County Sheriff's Office			
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580	C-50-05-546-2	1,299
Passed through the Arizona Governor's Office for Children, Youth and Families, Division for Women			
Rural Domestic Violence and Child Victimization Enforcement Grant Program	16.589	RD-GRA-05-6365-01	51,249
Grants to Encourage Arrest Policies and Enforcement of Protection Orders	16.590		119,271
Local Law Enforcement Block Grant Program	16.592		289,868
State Criminal Alien Assistance Program	16.606		407,301
Community Prosecution and Project Safe Neighborhoods	16.609		34,178
Passed through the Arizona Criminal Justice Commission			
Community Prosecution and Project Safe Neighborhoods	16.609	PSN-04-2001, PSN-04-3001, PSN-06-7010	211,604
Total Community Prosecution and Project Safe Neighborhoods			245,782
Public Safety Partnership and Community Policing Grants	16.710		174,013
Passed through the Administrative Office of the Courts			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	AD-07-041	163,026
Passed through the City of Tucson			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	0302-06	100,168
Total Edward Byrne Memorial Justice Assistance Grant Program			263,194
Total U.S. Department of Justice			4,018,001

(Continued)

See accompanying notes to schedule.

Pima County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2006
(Continued)

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number (Note 2)	Pass-Through Grantor's Number	Expenditures
U.S. Department of Labor			
WIA Cluster:			
Passed through the Arizona Department of Economic Security			
WIA Adult Program	17.258	E5705011, E5706011	$ 1,892,606
WIA Youth Activities	17.259	E5705011, E5706011	1,549,801
Passed through the Arizona Governor's Office			
WIA Youth Activities	17.259	WF-VSG-05-6181-004	5,221
Total WIA Youth Activities			1,555,022
Passed through the Arizona Department of Economic Security			
WIA Dislocated Workers	17.260	E5705011, E5706011	1,378,386
Passed through the Home Builder's Institute			
WIA Dislocated Workers	17.260	None	22,172
Total WIA Dislocated Workers			1,400,558
Total WIA Cluster			4,848,186
WIA Pilots, Demonstrations, and Research Projects	17.261		68,364
Youth Opportunity Grants	17.263		1,295,527
Homeless Veterans Reintegration Project	17.805		175,501
Total U.S. Department of Labor			6,387,578
U.S. Department of Transportation			
Airport Improvement Program	20.106		295
Passed through the Arizona Department of Transportation			
Highway Planning and Construction	20.205	SS333-01C, SL455-01C, SD010-01C, SL525-01D SL467-01C, SLS41-01X JPA05-045	4,491,213
Formula Grants for Other than Urbanized Areas	20.509	JPA 04-016T, JPA05-010P	493,137
Passed through the Arizona Governor's Office of Highway Safety			
State and Community Highway Safety	20.600	2004-163-001, 2006-AL-013	194,642
Passed through the Arizona Emergency Response Commission			
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	None	1,466
Total U.S. Department of Transportation			5,180,753
U.S. Department of Treasury			
Federal Equitable Sharing Program	21.unknown		553,216
State and Local Overtime and Authorized Expense Program	21.unknown		81,487
Total U.S. Department of Treasury			634,703
U.S. Environmental Protection Agency			
Air Pollution Control Program Support	66.001		407,735
Passed through the Arizona Department of Environmental Quality			
Water Pollution Control State, Interstate, and Tribal Program Support	66.419	98-0044-7	1,122
Surveys, Studies, Investigations and Special Purpose Grants	66.606		579,229
Environmental Education Grants	66.951		39,587
Total U.S. Environmental Protection Agency			1,027,673
U.S. Department of Energy			
Passed through the Arizona Department of Commerce			
Weatherization Assistance for Low-Income Persons	81.042	062-03	52,098

(Continued)

See accompanying notes to schedule.

Pima County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2006
(Continued)

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number (Note 2)	Pass-Through Grantor's Number	Expenditures
U.S. Federal Emergency Management Agency			
Passed through Arizona Department of Emergency Management			
Community Emergency Response Teams	83.565	EMS-2003-GR0312	$ 555
U.S. Department of Education			
Passed through the Arizona Department of Education			
Adult Education—State Grant Program	84.002	V002A040003	96,705
Title I Grants to Local Educational Agencies	84.010	S010A010003	66,489
Passed through the Arizona Supreme Court			
Title I Grants to Local Educational Agencies	84.010	0138A133894-703	91,915
Total Title I Grants to Local Educational Agencies			158,404
Passed through the Arizona Department of Education			
Title I Program for Neglected and Delinquent Children	84.013	S013A040003	3,205
Special Education—Grants to States	84.027	H027A0030007, H027A020007	123,651
Rehabilitation Services—Vocational Rehabilitation Grants to States	84.126	E1225014	179,667
Passed through the Tucson Unified School District			
Safe and Drug-Free Schools and Communities—National Programs	84.184	S184L010153	45,515
Passed through the Arizona Department of Education			
Safe and Drug-Free Schools and Communities—State Grants	84.186	S186A020003	847
Tech-Prep Education	84.243	V243A030003	294,867
Passed through the Arizona Department of Education			
State Grants for Innovative Programs	84.298	S298A020003	903
Education Technology State Grants	84.318	S318X040003, S318X050003	163,211
Tech-Prep Demonstration Grants	84.353		151,335
Passed through the Arizona Department of Education			
Reading First State Grants	84.357	S357A0200003	252,618
English Language Acquisition Grants	84.365	T365A30003A	44,506
Improving Teacher Quality State Grants	84.367	S281A030003	75,834
Passed through the Arizona Supreme Court			
Improving Teacher Quality State Grants	84.367	0138A133894-703	26,241
Total Improving Teacher Quality State Grants			102,075
Total U.S. Department of Education			1,617,509
Election Assistance Commission (EAC)			
Passed through the Arizona Secretary of State			
Help America Vote Act Requirements Payments	90.401	None	2,122,216
U.S. Department of Health and Human Services			
Passed through the Pima Council on Aging			
Special Programs for the Aging—Title III, Part B—Grants for Supportive Services and Senior Centers	93.044	134996-0704	1,219,214
Passed through the Arizona Department of Health Services			
Maternal and Child Health Federal Consolidated Programs	93.110	HG561232	17,472
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	HG352248	52,358
Passed through the Arizona Family Planning Council			
Family Planning—Services	93.217	02-01-A-135501-0105, 02-01-A-137665-0106	839,081
Consolidated Knowledge Development and Application (KD&A) Program	93.230		402,031

(Continued)

See accompanying notes to schedule.

Pima County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2006
(Continued)

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number (Note 2)	Pass-Through Grantor's Number	Expenditures
Substance Abuse and Mental Health Services—Projects of Regional and National Significance	93.243		$ 1,181,943
Passed through the University of Arizona			
Substance Abuse and Mental Health Services—Projects of Regional and National Significance	93.243	Y772782	47,647
Total Substance Abuse and Mental Health Services—Projects of Regional and National Significance			1,229,590
Passed through the Arizona Department of Health Services			
Immunization Grants	93.268	HG352196	1,106,374
Centers for Disease Control and Prevention—Investigations and Technical Assistance	93.283	252036	1,372,051
Passed through the Arizona Department of Economic Security			
Temporary Assistance for Needy Families	93.558	E5905020, E5905030, E6306007	913,762
Child Support Enforcement	93.563	E7203119, G04-04-AZ-4004, G02-04-AZ-4004, DES06073-1	581,139
Low-Income Home Energy Assistance	93.568	009-06, E6306007	303,401
Community Services Block Grant	93.569	E6302025	685,653
Passed through the Arizona Department of Education			
Refugee and Entrant Assistance—Discretionary Grants	93.576	90ZE0030-02	100
Passed through the United Way			
Early Learning Fund	93.577	90LO0130	13,350
Passed through the Arizona Secretary of State			
Voting Access for Individuals with Disabilities—Grants To States	93.617	None	43,595
Passed through the United Way			
Social Services Research and Demonstration	93.647	90EJ0025	26,109
Passed through Arizona Department of Economic Security			
Social Services Block Grant	93.667	E6206009, E6306007	1,425,119
Passed through the Arizona School Health Insurance Programs, Inc.			
Medical Assistance Program	93.778	925097	2,369
Passed through the Arizona Department of Health Services			
Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Programs	93.919	HG361209	368,901
HIV Prevention Activities—Health Department Based	93.940	HG352263, HG454517, HG652199	239,930
Passed through COPE Behavioral Services Inc.			
HIV Prevention Activities—Health Department Based	93.940	02-01C-131804-0902	95,285
Total HIV Prevention Activities—Health Department Based			335,215
Passed through the Arizona Department of Health Services			
Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	93.944	HG352300	27,001
Preventive Health Services—Sexually Transmitted Diseases Control Grants	93.977	HG354252	198,940
Preventive Health and Health Services Block Grant	93.991	HG354184	60,577
Maternal and Child Health Services Block Grant to the States	93.994	HG361165	67,914
Total U.S. Department of Health and Human Services			11,291,316
Corporation for National and Community Service			
Passed through the Arizona Governor's Office for Children, Youth and Families, Division for Community and Youth Development			
Planning and Program Development Grants	94.007	MK-VSG-05-6090-06	6,866

(Continued)

See accompanying notes to schedule.

Pima County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2006
(Continued)

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number (Note 2)	Pass-Through Grantor's Number	Expenditures
Homeland Security Grant Program Cluster:			
U.S. Department of Justice			
Passed through Arizona Department of Emergency and Military Affairs			
State and Local Domestic Preparedness Equipment Support Program	16.007	2004-GE-T4-0051, 2003-TE-CX-0196 2003-MU-T3-0034	$ 1,948,702
Department of Homeland Security			
Passed through Arizona Department of Emergency and Military Affairs			
State Domestic Preparedness Equipment Support Program	97.004	2004-GE-T4-0051	34,181
Homeland Security Grant Program	97.067	2005-GE-T5-0030	206,215
Total Department of Homeland Security			240,396
Total Homeland Security Grant Program Cluster			2,189,098
Department of Homeland Security			
Passed through Arizona Department of Emergency and Military Affairs			
Pre-Disaster Mitigation (PDM) Competitive Grants	97.017	PDMC-PJ-09-AZ-2003-02	394,328
Passed through the United Way			
Emergency Food and Shelter National Board Program	97.024	22-027200-015, 23-027200-015	120,962
Passed through Arizona Department of Emergency and Military Affairs			
Disaster Grants—Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-3241-EM	39,648
Emergency Management Performance Grants	97.042	None	116,427
Total Department of Homeland Security			671,365
Total Expenditures of Federal Awards			$ 55,883,513

See accompanying notes to schedule.

Pima County
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2006

Note 1 - Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Pima County and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

Note 2 - Catalog of Federal Domestic Assistance (CFDA) Number

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2006 *Catalog of Federal Domestic Assistance*. When no CFDA number had been assigned to a program, the two-digit federal agency identifier, a period, and the federal contract number or identifier were used. When there was no federal contract number, the two-digit federal agency identifier, a period, and the word "unknown" were used.

Note 3 - Subrecipients

From the federal expenditures presented in the schedule, the County awarded the following to subrecipients:

Program or Cluster Title	CFDA Number	Amount
High Intensity Drug Trafficking Areas	07.I 1-5 PSAP549(Z)	$5,670,538
Homeland Security Grant Program Cluster	16.007, 97.004, 97.067	70,675

Pima County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2006

Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unqualified	
	Yes	No
Material weaknesses identified in internal control over financial reporting?	___	X
Reportable conditions identified not considered to be material weaknesses?	___	X (None reported)
Noncompliance material to the financial statements noted?	___	X

Federal Awards

Material weaknesses identified in internal control over major programs?	___	X
Reportable condition identified not considered to be a material weakness?	X	___
Type of auditors' report issued on compliance for major programs:	Unqualified	
Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (section .510[a])?	X	___

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
07.I 1-5 PSAP549(Z) 07.I6PSAP501Z 07.I3PSBP999	High Intensity Drug Trafficking Areas
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
14.235	Supportive Housing Program
20.205	Highway Planning and Construction
90.401	Help America Vote Act Requirements Payments
	Homeland Security Grant Program Cluster:
16.007	State and Local Domestic Preparedness Equipment Support Program
97.004	State Domestic Preparedness Equipment Support Program
97.067	Homeland Security Grant Program

Pima County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2006

Dollar threshold used to distinguish between Type A and Type B programs:	$1,676,505

	Yes	No
Auditee qualified as low-risk auditee?	X	

Other Matters

Auditee's Summary Schedule of Prior Audit Findings required to be reported in accordance with Circular A-133 (section .315[b])?	X	

Pima County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2006

Financial Statement Finding

06-01

The County Should Spend Highway User Revenue Fund and other Dedicated State Transportation Monies in Accordance with State Law

The State distributed $43.2 million in Highway User Revenue Fund (HURF) monies to the County and mandated that these monies be spent solely for highway and street purposes, as specified in the Constitution of Arizona, Article IX, §14. Additionally, the State distributed $13.6 million in vehicle license tax (VLT) monies to the County and mandated through Arizona Revised Statutes (A.R.S.) §28-5801(B)(1)(c) that these monies also be spent solely for highway and street purposes.

Auditors reviewed a sample of the County's expenditures of these restricted monies and noted that the County spent $3.2 million of restricted VLT monies on public bus service. Based on the Arizona Constitution, A.R.S., and Arizona Attorney General Opinion No. I05-003, public bus services are not an allowable highway and street purpose. Therefore, the County may have spent $3.2 million in violation of state law and for purposes not intended by the State.

County management stated that the County spent restricted VLT monies on public bus service because the Arizona Constitution, Article IX, §14, does not directly restrict the spending of VLT monies and the County does not believe that the State can restrict the County's spending of VLT monies by enacting legislation. However, the County requested and received a State Attorney General's Opinion (I85-81) that informed the County that the State could and did restrict the spending of VLT monies to allowable highway and street purposes by enacting legislation.

The County should spend restricted state VLT monies in accordance with state law, as required by A.R.S. §28-5801(B)(1)(c). Additionally, the County should allocate local revenues for highway and street purposes to replenish the monies it spent inappropriately.

Pima County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2006

Federal Award Findings and Questioned Costs

06-101
CFDA No.: 07.I 1-5 PSAP549(Z), 07.I6PSAP501Z High Intensity Drug Trafficking Areas (HIDTA)
U.S. Office of National Drug Control Policy, 07.I6PSAP501Z passed through the Arizona Criminal Justice Commission
Award Years: 10/01/02 to 06/30/07, 10/01/03 to 06/30/07, 10/01/04 to 06/30/07, and 10/01/05 to 09/30/07
Award Numbers: I3PSAP549, I4PSAP549, I5PSAP549Z, and I6PSAP501Z
Allowable Costs/Cost Principles
Procurement and Suspension and Debarment

Questioned Cost: $393,445

The County used $358,800 of HIDTA monies to rent building space and $34,645 of HIDTA monies to purchase two previously owned vehicles. According to the County's management, the County limited its purchasing procedures for these items because operating certain law enforcement programs, including HIDTA programs, sometimes requires privacy and careful management of sensitive information. However, the County did not have policies and procedures to ensure that certain federal cost principles and procurement requirements were followed when making these types of purchases. As a result, the County did not comply with federal requirements when using HIDTA monies to rent the building space and purchase the two vehicles.

Office of Management and Budget Circular A-102 *Grants and Cooperative Agreements with State and Local Governments* (common rule) was codified by the Office of National Drug Control Policy at 21 Code of Federal Regulations (CFR) 1403. The common rule requires the County to use the same policies and procedures for purchases made with federal funds as those made with nonfederal funds. The common rule also mandates minimum procurement procedures that must be performed for purchases using federal funds whether or not the procedures are required by the County. For purchases of less than $100,000, 21 CFR 1403.36(d)(1) requires the County to obtain price or rate information from an adequate number of qualified sources. When a purchase is available from only one source or when a noncompetitive process is used, 21 CFR 1403.36(d)(4)(ii) requires the County to perform a cost analysis and evaluate the specific elements of a contract's cost for reasonability.

In addition, for building rental costs to be allowable, OMB Circular A-87 Attachment B.37 requires the County to periodically determine that rental rates are reasonable. This reasonability determination should be based on rental costs of comparable property; market conditions in the area; any available alternatives; and the type, condition, and value of the rented property.

The County should implement policies and procedures to ensure that minimum federal requirements are followed when limiting its purchasing procedures for the safety and effectiveness of its law enforcement programs. As required by the common rule and OMB Circular A-87, these minimum policies and procedures should include a cost analysis for renting building space and also when items are available from only one source. Also, for purchases under $100,000, the County should obtain price information from an adequate number of sources. By implementing these policies and procedures, the County will help ensure that all costs paid with federal monies are reasonable and allowable.

06-102
CFDA No.: 07.I 1-5 PSAP549(Z) High Intensity Drug Trafficking Areas (HIDTA)
U.S. Office of National Drug Control Policy
Award Years: 10/01/00 to 9/30/06, 10/01/01 to 06/30/07, 10/01/02 to 06/30/07, 10/01/03 to 06/30/07, and 10/01/04 to 06/30/07
Award Numbers: I1PSAP549, I2PSAP549, I3PSAP549, I4PSAP549, and I5PSAP549Z
Subrecipient Monitoring

Questioned Cost: N/A

The County did not have adequate policies and procedures to ensure that the program's 18 subrecipients were adequately monitored. The County's subrecipient monitoring procedures consisted of reviewing subrecipient expenditure documentation. However, Office of Management and Budget Circular A-133 (A-133) also requires the County to ensure that subrecipients meet A-133's audit requirements, issue management decisions on any findings noted during the required audits, and ensure the subrecipients take timely and appropriate corrective action. Additionally, A-133 requires the County to take appropriate action if a subrecipient does not obtain required audits.

The County could only demonstrate to auditors that it ensured 3 of the 18 subrecipients met the A-133 audit requirements. Of the remaining 15 subrecipients, auditors expected that 13 would be required to obtain an A-133 single audit. As a result, all subrecipients may not have met their audit requirements, and the County did not make any related management decisions or ensure that the subrecipients took corrective action on any findings reported in their single audit reports. However, auditors did not question any costs because we determined that the County adequately reviewed subrecipient expenditure documentation before providing reimbursement.

As required by A-133, the County should implement policies and procedures to help ensure that subrecipients meet the audit requirements of A-133 within 9 months after the end of the subrecipients' audit periods, issue management decisions on audit findings within 6 months after receiving the subrecipients' audit reports, and ensure that the subrecipients take timely and appropriate corrective action on all audit findings.

06-103
CFDA Nos.: 16.007 State and Local Domestic Preparedness Equipment Support Program
97.004 State Domestic Preparedness Equipment Support Program
97.067 Homeland Security Grant Program
U.S. Department of Justice, passed through the Arizona Department of Emergency and Military Affairs and Department of Homeland Security, passed through the Arizona Department of Emergency and Military Affairs
Award Years: 4/1/03 to 5/31/06, 12/1/03 to 5/31/07, and 10/1/04 to 3/31/07
Award Numbers: 2003-TE-CX-0196, 2003-MU-T3-0034, 2004-GE-T4-0051, and 2005-GE-T5-0030
Reporting

Questioned Cost: N/A

The County did not have adequate policies and procedures to ensure compliance with the program's reporting requirements as demonstrated by the following deficiencies. The County failed to retain copies of 13 reimbursement requests submitted for contract 2003-TE-CX-0196. Additionally, the County did not always ensure that its quarterly Financial Status Reports (SF269As) were supported by its accounting records and could not provide documentation reconciling all of the differences. Further, the County could not demonstrate that its retained copies of quarterly SF269A reports were the versions submitted to the Arizona Department of Emergency and Military Affairs (AZDEM), and several copies were not signed or dated. Finally, for contract 2004-GE-T4-0051, the County did not submit SF269A quarterly reports for the quarters ended in September and December 2005. Instead, the County reported expenditures for those two quarters on the March 2006 SF269A without indicating that the report included the three quarters of expenditures. Auditors did not question any costs because we determined that the reimbursement amounts requested and received by the County were supported by allowable costs of the program.

As required by the contractual agreements with AZDEM, the County should establish adequate policies and procedures to ensure that all quarterly status reports are submitted to AZDEM. Additionally, the County should ensure that all submitted reports and reimbursement requests are retained along with supporting documentation demonstrating how the reported amounts reconcile to the County's accounting records.

06-104
CFDA No.: 90.401 Help America Vote Act Requirements Payments (HAVA)
Election Assistance Commission (EAC), passed through the Arizona Secretary of State (SOS)
Award Year: 9/6/05 – 9/30/07
Award Number: None stated
Cash Management

Questioned Cost: $50,468

The County did not have adequate policies and procedures to minimize the time elapsing between the receipt of HAVA monies and their disbursement. Although the County received a $2,128,790 advance of program monies in June 2006 to purchase voting equipment, the final cost of the equipment totaled only $2,122,216. The County delayed paying the vendor until January 2007 because the County was

investigating the reason for the price differential. As a result of the delay, the entire $2,128,790 advance remained idle and earned interest, and $6,574 of the advance was never expended or returned to the grantor agency. To date, the County has neither reported nor remitted the interest earnings or the excess advance to the EAC. The estimated interest earnings were $43,894 for the period June 2006 through January 2007, which along with the excess advance of $6,574 resulted in total questioned costs of $50,468.

In accordance with the cash management administrative requirements of OMB Circular A-102 *Grants and Cooperative Agreements with State and Local Governments*, the County should implement procedures to minimize the time elapsing between the receipt of funds and their disbursement. Further, any interest earned should be remitted to the federal agency at least quarterly; however, the County may keep interest amounts up to $100 per year for administrative expenses. In addition, in accordance with the Memorandum of Understanding between the Arizona SOS and the County, the County should repay the SOS any overpayments of HAVA monies.

PIMA COUNTY
DEPARTMENT OF FINANCE AND RISK MANAGEMENT

Tom Burke, Director

March 12, 2007

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

Dear Ms. Davenport,

The following corrective action plan has been prepared as required by the U.S. Office of Management and Budget Circular A-133. Specifically, we are providing you with the name of the contact person responsible for corrective action, the corrective action planned, and the anticipated completion date for each audit finding included in the current year's schedule of findings and questioned costs.

Sincerely,

Thomas Burke
Director

130 West Congress Street, 6th Floor, Tucson, Arizona 85701-1317 Ph. (520) 740-8041 Fax (520) 243-2329

Financial Statement Finding

06-01

The County Did Not Always Comply with Restrictions on the Use of State Transportation Revenues

Contact Person – Tom Burke
Anticipated Completion Date – completed

The County continues to believe that all HURF and VLT monies have been appropriately spent, and the County continues to disagree with the Auditor General's interpretation of the Attorney General's various opinions regarding what expenditures are used for "for highway and street purposes." Nevertheless, the County has subsequently allocated and transferred an additional $3 million of General Fund monies for its transportation purposes and is intending to allocate $3.2 million of General Fund monies for next fiscal year to address this issue.

Federal Award Findings and Questioned Costs

06-101
CFDA No.: 07.I 1-5 PSAP549(Z), 07.I6PSAP501Z High Intensity Drug Trafficking Areas (HIDTA)
U.S. Office of National Drug Control Policy, 07.I6PSAP501Z passed through the Arizona Criminal Justice Commission
Award Years: 10/01/02 to 06/30/07, 10/01/03 to 06/30/07, 10/01/04 to 06/30/07, 10/01/05 to 09/30/07
Award Numbers: I3PSAP549, I4PSAP549, I5PSAP549Z, I6PSAP501Z
Allowable Costs/Cost Principles
Procurement and Suspension and Debarment

Questioned Cost: $393,445

Contact Person – Ron Jee
Anticipated Completion Date – April 2007

The County believes that the costs referenced in this finding were reasonable expenditures and intends to document in future years the processes by which grant expenditures are in compliance with the same policies and procedures for purchases using federal funds that the County uses for purchases using nonfederal funds.

06-102
CFDA No.: 07.I 1-5 PSAP549(Z) High Intensity Drug Trafficking Areas (HIDTA)
U.S. Office of National Drug Control Policy
Award Years: 10/01/00 to 9/30/06, 10/01/01 to 06/30/07, 10/01/02 to 06/30/07, 10/01/03 to 06/30/07, 10/01/04 to 06/30/07
Award Numbers: I1PSAP549, I2PSAP549, I3PSAP549, I4PSAP549, I5PSAP549Z
Subrecipient Monitoring

Questioned Cost: N/A

Contact Person – Paul Guerrero
Anticipated Completion Date – April 2007

The County concurs and is currently implementing a procedure that establishes a centralized process, within the Finance and Risk Management Department, for obtaining and monitoring the audit reports of subrecipients for this and other federal programs.

06-103
CFDA Nos.: 16.007 State and Local Domestic Preparedness Equipment Support Program
97.004 State Domestic Preparedness Equipment Support Program
97.067 Homeland Security Grant Program
U.S. Department of Justice, passed through the Arizona Department of Emergency and Military Affairs
Department of Homeland Security, passed through the Arizona Department of Emergency and Military Affairs
Award Years: 4/1/03 to 5/31/06, 12/1/03 to 5/31/07, 10/1/04 to 3/31/07
Award Numbers: 2003-TE-CX-0196, 2003-MU-T3-0034, 2004-GE-T4-0051, and 2005-GE-T5-0030
Reporting

Questioned Cost: N/A

Contact Person – Dennis Douglas
Anticipated Completion Date – completed

The County agrees and has made modifications to internal controls applicable to the reporting of this grant's financial activities. SF269A reports and reimbursement requests are now properly maintained by the Health Department and will represent a complete and accurate accounting of the program.

06-104
CFDA No.: 90.401 Help America Vote Act Requirements Payments (HAVA)
Election Assistance Commission (EAC), passed through the Arizona Secretary of State
Award Year: 9/6/05 – 9/30/07
Award Number: None stated
Cash Management

Questioned Cost: $50,468

Contact Person – Paul Guerrero
Anticipated Completion Date – completed

The County agrees with the finding. A reversion of the unspent proceeds and the interest earnings associated with the advance has occurred.

PIMA COUNTY
FINANCE DEPARTMENT
130 WEST CONGRESS STREET
TUCSON, ARIZONA 85701-1317
(520) 740-8041 FAX (520) 243-2329

Thomas E. Burke, Director

March 6, 2007

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

Dear Ms. Davenport:

The following summary schedule of prior audit findings has been prepared as required by the U.S. Office of Management and Budget Circular A-133. Specifically, we are reporting the status of audit findings included in the prior audit's schedule of findings and questioned costs related to federal awards.

Sincerely,

Thomas E. Burke, Director
Department of Finance and Risk Management

Attachment

Pima County
Schedule of Prior Year Audit Findings
Year Ended June 30, 2006

Federal Award Findings and Questioned Costs

05-101 and 05-102
CFDA No.: 07.I5PSAP549Z High Intensity Drug Trafficking Areas (HIDTA)
U.S. Office of National Drug Control Policy (ONDCP)
Status – **Fully Corrected**

05-103
CFDA Nos.: 16.007 State and Local Domestic Preparedness Equipment Support Program
U.S. Department of Justice, passed through the Arizona Department of Emergency and Military Affairs
U.S. Department of Homeland Security, passed through the Arizona Department of Emergency and Military Affairs
Status – **Partially Corrected**

The County is revising procedures applicable to reporting and has assigned these responsibilities to different staff. Additional internal controls are being implemented to ensure complete, accurate and timely reporting of the programs' expenditure activity.

05-104
CFDA Nos.: 16.007 State and Local Domestic Preparedness Equipment Support Program
U.S. Department of Justice, passed through the Arizona Department of Emergency and Military Affairs
U.S. Department of Homeland Security, passed through the Arizona Department of Emergency and Military Affairs
Status – **Partially Corrected**

The County is currently implementing a procedure that establishes a centralized process, within the Finance and Risk Management Department, for obtaining and monitoring the audit reports of subrecipients for this and other federal programs.

05-105
CFDA No.: 20.205 Highway Planning and Construction
U.S. Department of Transportation, passed through the Arizona Department of Transportation
Status – **Fully Corrected**

04-101 and 03-102
CFDA Nos.: 17.258 –WIA Adult Program, 17.259 – WIA Youth Activities, and 17.260 – WIA Dislocated Workers
U.S. Department of Labor, passed through the Arizona Department of Economic Security
Status: **Fully Corrected**