



MEMORANDUM

Date: December 26, 2018

To: The Honorable Chairman and Members
Pima County Board of Supervisors

From: C.H. Huckelberry
County Administrator 

Re: **Auditor General Finds County Use of State Transportation Revenues to be for Authorized Purposes**

State statute requires the State Auditor General to annually audit financial transactions and accounts for all Arizona counties. This includes auditing all counties' use of state-shared transportation revenues for authorized transportation purposes, (Highway User Revenue Funds and transportation portion of the Vehicle License Tax). The Comprehensive Annual Financial Report (CAFR) of Pima County for the fiscal year that ended June 30, 2018 was transmitted to the Board via email from the State Auditor General's office on Friday December 21st. It has since been placed on the County's website and hard copies will be transmitted to the Board shortly. This report presents comprehensive financial and operating information about the County's activities for the fiscal year. The Auditor General's report and opinion is located at the front of the financial section of the CAFR, and is also attached to this memorandum.

As for past years, the Auditor General has issued an unmodified ("clean") opinion on the Pima County's financial statements. This includes the following statement on Pima County's use of HURF and other dedicated state transportation revenues:

"In connection with our audit, nothing came to our attention that caused us to believe that the County failed to comply with the authorized transportation purposes, insofar as they relate to accounting matters, for highway user revenue fund monies it received pursuant to Arizona Revised Statutes Title 28, Chapter 18, Article 2, and any other dedicated state transportation revenues it received."

CHH/anc

Attachment

c: Jan Leshar, Chief Deputy County Administrator
Tom Burke, Deputy County Administrator for Administration
Carmine DeBonis, Jr., Deputy County Administrator for Public Works
Michelle Campagne, Director, Finance and Risk Management
Ana Olivares, Director, Transportation Department



MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

ARIZONA AUDITOR GENERAL
LINDSEY A. PERRY

JOSEPH D. MOORE
DEPUTY AUDITOR GENERAL

Independent auditors' report

Members of the Arizona State Legislature

The Board of Supervisors of
Pima County, Arizona

Report on the financial statements

We have audited the accompanying financial statements of the governmental activities, business-type activities, discretely presented component unit, each major fund, and aggregate remaining fund information of Pima County as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of certain departments, one major fund, and the discretely presented component unit, which account for the following percentages of the assets and deferred outflows, liabilities and deferred inflows, revenues, and expenses or expenditures of the opinion units affected.

Opinion unit/department	Assets and deferred outflows	Liabilities and deferred inflows	Revenues	Expenses/ expenditures
<u>Government-wide statements</u>				
Governmental activities:				
Stadium District	1.51%	0.43%	1.13%	1.06%
School Reserve Fund	0.04%	0.14%	0.21%	0.25%
Wireless Integrated Network	0.09%	0.02%	0.34%	0.32%
Self-Insurance Trust	3.05%	2.47%	2.03%	1.84%
Health Benefit Trust	1.55%	0.38%	7.58%	7.32%
Business-type activities:				
Regional Wastewater Reclamation Department	98.10%	98.94%	94.20%	94.69%
Development Services	0.41%	0.96%	4.56%	3.47%
Discretely presented component unit:				
Southwestern Fair Commission	100.00%	100.00%	100.00%	100.00%
<u>Fund statements</u>				
Major enterprise fund:				
Regional Wastewater Reclamation Department	100.00%	100.00%	100.00%	100.00%

Opinion unit/department	Assets and deferred outflows	Liabilities and deferred inflows	Revenues	Expenses/ expenditures
Aggregate remaining fund information:				
Stadium District	0.11%	2.20%	0.31%	0.34%
School Reserve Fund	0.11%	0.26%	0.07%	0.10%
Wireless Integrated Network	0.38%	0.13%	0.13%	0.11%
Development Services	0.95%	3.28%	0.37%	0.26%
Self-Insurance Trust	12.84%	19.94%	0.77%	0.66%
Health Benefit Trust	6.51%	3.08%	2.88%	2.62%

Those statements were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for those entities, are based solely on the other auditors' reports. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the County's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, discretely presented component unit, each major fund, and aggregate remaining fund information of Pima County as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Other matters

Required supplementary information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 15 through 33, budgetary comparison schedules on pages 99 and 100, schedule of the County's proportionate share of the net pension liability—cost-sharing plans on page 101, schedule of changes in the County's net pension liability and related ratios—agent plans on pages 102 and 103, and schedule of county pension contributions on page 104, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and other information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The combining and individual fund statements and schedules and the introductory and statistical sections listed in the table of contents are presented for purposes of additional analysis and are not required parts of the basic financial statements.

The combining and individual fund statements and schedules are management's responsibility and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the combining and individual fund statements and schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Compliance over the use of highway user revenue fund and other dedicated state transportation revenue monies

In connection with our audit, nothing came to our attention that caused us to believe that the County failed to comply with the authorized transportation purposes, insofar as they relate to accounting matters, for highway user revenue fund monies it received pursuant to Arizona Revised Statutes Title 28, Chapter 18, Article 2, and any other dedicated state transportation revenues it received. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the County's noncompliance with the authorized transportation purposes referred to above, insofar as they relate to accounting matters.

The communication related to compliance over the use of highway user revenue fund and other dedicated state transportation revenue monies in the preceding paragraph is intended solely for the information and use of the members of the Arizona State Legislature, the Board of Supervisors, management, and other responsible parties within the County and is not intended to be and should not be used by anyone other than these specified parties.

Other reporting required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we will issue our report on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters at a future date. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the County's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.

Lindsey Perry, CPA, CFE
Auditor General

December 19, 2018