



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Report on Internal Control and Compliance

Pima County

Year Ended June 30, 2008



Debra K. Davenport
Auditor General

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Pima County
Report on Internal Control and Compliance
Year Ended June 30, 2008

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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, 2008, which collectively comprise the County's basic financial statements, and have issued our report thereon dated December 19, 2008. Our report was modified to include a reference to our reliance on other auditors and as to consistency because of the implementation of Governmental Accounting Standards Board Statement Nos. 45, 48, 49, and 50. 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, Pima Health System & Services, 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 08-01 and 08-02 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, of the significant deficiencies described above, we consider items 08-01 and 08-02 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Pima County's responses to the findings identified in our audit are presented on pages 6 through 8. 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 19, 2008

Pima County
Schedule of Findings and Recommendations
Year Ended June 30, 2008

08-01

The County should strengthen controls over its financial computer systems

The County's general ledger, purchasing, and treasurer computer systems are critical to its operations. Establishing and following effective internal control policies and procedures is essential to prevent or detect unauthorized use, damage, intentional misstatement, loss, and unintended or unauthorized changes to the County's financial computer systems and critical data. However, the County had not established adequate policies and procedures and did not always follow its policies and procedures to adequately protect its systems and data. Specifically, auditors noted deficiencies in the County's procedures for making changes to computer programs and financial data, granting and monitoring access to computer systems and data, and disaster recovery planning.

Change Management

Effective change management controls should ensure that program changes and changes to financial data are valid, meet user needs, and are subject to review and independent approval. Additionally, it is important to maintain a separation of duties between the individual programmers who develop and test the program changes and the individuals who implement the changes in the production environment. However, the County did not have adequate policies and procedures in place to ensure that changes to its general ledger computer system and financial data were sufficiently reviewed, authorized, and documented. Specifically, programmers approved their own program change requests with no evidence of an independent review or approval. Programmers also bypassed the County's change management process altogether by routinely preparing and approving changes to financial data.

User Access

To help prevent unauthorized access and modification to computer systems and financial data, it is essential that users are only granted access that is consistent with their job duties and responsibilities. However, the County did not have sufficient policies and procedures in place to ensure that users' access to systems and data was always appropriate. Specifically, auditors noted several instances where users were granted access to financial data that was not needed for their job duties. In addition, the County established a powerful group user account for its purchasing system and several group accounts in its general ledger system that allowed users to create, modify, and delete critical financial data without individual accountability. The County did not adequately monitor these group accounts. Further, although county policies required users to obtain written authorization for access to financial systems and data, auditors noted instances in which the County was unable to provide access-approval forms indicating that users had been approved for their access to the general ledger, purchasing, and treasurer's systems or data. Auditors also noted at least 35 terminated employees who had active system accounts.

Disaster Recovery

The County's general ledger, purchasing, and treasurer computer systems and data are critical to its operations. Therefore, it is important for the County to ensure that it can continue to operate in the event of a system or equipment failure by developing, implementing, and testing a disaster recovery plan. A properly designed disaster recovery plan helps to ensure that procedures are in place to provide for continuity of operations and to ensure that electronic data files are not lost. However, the County has not yet completed or tested its disaster recovery plan.

Pima County
Schedule of Findings and Recommendations
Year Ended June 30, 2008

To help strengthen controls over its financial computer systems for managing program changes, user access, and disaster recovery, the County should:

Change Management

- Develop comprehensive change management policies and procedures to help ensure that all program or data changes are appropriate, authorized, developed, tested, reviewed, and approved.
- Implement standardized change management request forms that include an appropriate level of detail and authorization.
- Develop a comprehensive list of individuals who are authorized to approve program changes.
- Ensure that the 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 and approved.

User Access

- Ensure that requests for access to computer systems and data are consistent with employee job duties and responsibilities and access approval forms are retained.
- Limit the use of group access accounts in accordance with existing policies and monitor and track user activities on group access accounts.
- Improve procedures for removing or modifying access rights of users when they terminate employment or transfer departments.

Disaster Recovery

- Maintain a current listing of employees assigned to disaster teams, including emergency phone numbers to reach them.
- Prepare a risk analysis identifying critical applications and an assessment of the impact on the County.
- Maintain a listing of off-site storage locations and information stored at these locations.
- Prepare a list of procedures for processing critical transactions, including forms or other documents to use. Also, include detailed tasks and assignments for each member of the recovery teams.
- Determine hardware and software requirements needed to run critical systems and the applicable vendors where hardware and software can be obtained.
- Implement the disaster recovery plan and update and test the plan annually.

Pima County
Schedule of Findings and Recommendations
Year Ended June 30, 2008

08-02

The County should improve its capital asset reporting

The County maintains a network of transportation and flood control infrastructure assets valued at \$609 million and land valued at \$314 million, so it is essential that the County accurately report and account for these assets. However, the County's internal control policies and procedures did not always ensure that its infrastructure and land were properly reported. Specifically, during fiscal years 2006 and 2007, several housing subdivisions dedicated \$70.1 million in public roads and land parcels to the County to maintain. Generally accepted accounting principles require the County to report these capital assets when they are dedicated. However, because the County did not have internal control procedures to identify, record, and report these assets, it failed to include them in either the fiscal year 2006 or 2007 financial statements. The County adjusted its fiscal year 2008 financial statements for these errors.

To help ensure that the County accurately reports its capital assets, the County should strengthen its internal control policies and procedures to include specific steps to readily identify and report all infrastructure roadways and land parcels when they are dedicated to the County.



**PIMA COUNTY
DEPARTMENT OF FINANCE AND RISK MANAGEMENT**

Thomas E. Burke, Director

February 18, 2009

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

Dear Ms. Davenport,

The following corrective action plans 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, and the anticipated completion date.

Sincerely,

Thomas Burke, Director
Department of Finance and Risk Management

08-01

The County should strengthen controls over its financial computer systems

Contact person – Lionel Bittner, Information Technology Director

Anticipated completion date – July 1, 2009 for Change Management and User Access and December 31, 2009 for Disaster Recovery Plan, for planning and development, and December 31, 2010 for implementation

Change Management

The County concurs with the finding. By October 2008, the County implemented new controls over the change request forms for the financial computer systems under the management of the County's Finance Department to provide for appropriate review and authorizations. The Finance Department developed internal departmental procedures to monitor and manage changes initiated by Finance. In addition, the County's Information Technology Department (ITD) established a project team to review existing change management and implement a new, comprehensive change management process. Some changes were made immediately, and a complete process revision is expected by July 1, 2009, with finalization of new formal administrative procedures by September 30, 2009. The County Treasurer, who maintains some County financial computer systems independently of the maintenance of the County's other financial computer systems, has indicated that her office has improved its procedures.

User Access

The County agrees with the finding and has begun changes to current processes and procedures applicable to physical access, logical access and password management in the Finance and ITD areas of financial computer systems. The County initiated a comprehensive review of physical and logical access controls and eliminated access provided to employees unless proper authorization was documented. All procedures associated with user access are under revision to strengthen current internal controls. By September 30, 2009, revised administrative procedures will be submitted to the County Administrator. The Treasurer has stated that she has taken corrective action to remediate the findings of the Auditor General.

Disaster Recovery

The County concurs with the portion of item 08-01 relating to the need for a Disaster Recovery plan. The County is developing a plan that provides for a prioritization of critical services and their associated recovery times. The plan is expected to be developed by the end of 2009 and implemented by the end of 2010. The County will include the Treasurer's computer financial systems in its Disaster Recovery plan.

08-02

The County should improve its capital asset reporting

Contact person – Paul Guerrero, Finance and Risk Management

Anticipated completion date - fully completed

The County concurs and has completed internal control procedures to ensure dedicated infrastructure roadways and drainageways are reported on an accurate and timely basis.