A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Report on Internal Control and Compliance

Pima County

Year Ended June 30, 2012

STATE OF ARIZONA
OFFICE OF THE
AUDITOR
GENERAL

Debra K. Davenport
Auditor General

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Pima County
Report on Internal Control and Compliance
Year Ended June 30, 2012

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Report Issued Separately

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

MELANIE M. CHESNEY
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, aggregate discretely presented component units, each major fund, and aggregate remaining fund information of Pima County as of and for the year ended June 30, 2012, which collectively comprise the County's basic financial statements, and have issued our report thereon dated December 18, 2012. 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

The County's management is responsible for establishing and maintaining effective 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.

A deficiency in internal control 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 and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the County's basic financial statements will not be prevented, or detected and corrected, on a timely basis.

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Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We and the other auditors did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Recommendations as item 12-01 that we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 response to the finding identified in our audit is presented on pages 4 through 5. We did not audit the County's response, and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the members of the Arizona State Legislature, the Board of Supervisors, management, others within the County, 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 18, 2012

12-01
The County should prepare accurate financial statements

Criteria: Accurate financial statements prepared in accordance with U.S. generally accepted accounting principles provide valuable information to those charged with governance, management, and other financial statement users, to make important decisions about the County's financial operations.

Condition and context: While testing individually significant transactions and reviewing the financial statements, auditors noted seven errors, totaling $66.2 million, within the county-prepared financial statements. The errors included $9.8 million of improperly recorded amounts and $56.4 million of transactions that were misclassified on the financial statements.

Effect: The County's financial statements were not initially prepared in accordance with U.S. generally accepted accounting principles. The County made recommended audit adjustments to the financial statements for all significant errors and misclassifications.

Cause: County officials stated that the implementation of a new accounting system during the year put an additional strain on their available financial statement preparation resources. In addition, the financial statements were prepared manually for the current fiscal year, which increased the risk for errors and misclassifications. Once fully implemented, the new accounting system should be capable of producing automated financial statements using general ledger data and classifications designated by management.

Recommendation: The County should strengthen their existing internal control procedures over financial statement preparation by requiring a more thorough review of financial statement data and schedules. The review should include comparisons of financial statement amounts with the prior year and should be performed by someone knowledgeable of the County's overall operations and financial statement presentation and disclosure requirements.

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COUNTY RESPONSE

PIMA COUNTY
DEPARTMENT OF FINANCE AND RISK MANAGEMENT

Thomas E. Burke, Director

February 11, 2013

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

Dear Ms. Davenport:

The following response and corrective action plan have been prepared as recommended by Government Auditing Standards.

Sincerely,

Tom Burke, Director
Department of Finance and Risk Management

Attachment

130 West Congress Street, 10th Floor, Tucson, Arizona 85701-1317 Ph. (520) 724-3030 Fax (520)770-4173

Pima County
Schedule of Findings and Recommendations
Year Ended June 30, 2012

12-01
The County should prepare accurate financial statements

Contact Person: Paul Guerrero
Anticipated Completion Date: October 2013

The County acknowledges that, for this fiscal year, there were some misclassifications made in the roll-up of the detailed financial statements into the government-wide portions of the financial statements and were corrected as part of the audit. The Auditor General correctly describes the causes of these misclassifications due to the implementation of a new accounting system. The County will strengthen its existing internal control procedures over financial statement preparation by implementing a more thorough review of financial statement data and schedules prior to submission to the auditors.

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For the Year Ended June 30, 2012

State of Arizona

Office of the Auditor General