



A Report
to the
Board of
Supervisors

*Maricopa County
Internal Audit
Department*

Ross L. Tate
County Auditor

Grant Funded Organizations Federal Audit Compliance

*Most County Subrecipients Comply
with Audit Standards*

July ■ 2008

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The mission of Maricopa County is to provide regional leadership and fiscally responsible, necessary public services so that residents can enjoy living in a healthy and safe community.

The mission of the Internal Audit Department is to provide objective, accurate, and meaningful information about County operations so the Board of Supervisors can make informed decisions to better serve County citizens.

The County Auditor reports directly to the Maricopa County Board of Supervisors, with an advisory reporting relationship to the Citizen's Audit Advisory Committee.

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July 25, 2008

Andrew Kunasek, Chairman, Board of Supervisors
Fulton Brock, Supervisor, District I
Don Stapley, Supervisor, District II
Max W. Wilson, Supervisor, District IV
Mary Rose Wilcox, Supervisor, District V

We have completed our annual Single Audit compliance reviews for federal grant funds distributed through Maricopa County to various subrecipients. This review was performed in accordance with the Board of Supervisors' approved annual audit plan.

We examined the audited financial and grant compliance reports (Single Audit reports) of 38 federal grant subrecipients to determine compliance with the federal Single Audit Act. We found that 20 of 38 audit reports contain 94 findings related to federal grant compliance or internal controls. The findings reported by the independent auditors do not appear to impact funds passed through by the County. A summary of the findings has been forwarded to each responsible County agency. The appropriate County agencies should coordinate corrective action as needed.

This report includes an executive summary, introduction, and detailed findings. If you have any questions, please contact Richard Chard at 506-7539.

Sincerely,

A handwritten signature in cursive script that reads "Ross L. Tate".

Ross L. Tate
County Auditor

Executive Summary

What is a Single Audit?

A Single Audit is an independent audit of non-federal entities that expend \$500,000 or more in federal grant funds in a fiscal year. In simple terms, non-profit organizations, governments and other organizations meeting the threshold of expending federal money must engage independent auditors to examine their financial statements, systems of internal control, and grant compliance in accordance with Government Auditing Standards. The Federal Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the 1984 Single Audit Act require these audits.

Why does Internal Audit review Grant Subrecipient Single Audit Reports?

In 1988, the Arizona Auditor General’s Office found the County did not comply with the Single Audit Act because no procedures were in place to ensure that grant subrecipients complied with audit requirements. Since then, the Board of Supervisors authorized Internal Audit to determine which subrecipient entities must obtain independent audits and to report compliance with Single Audit reporting standards.

Report Summary

We surveyed 80 non-federal organizations that received over \$21 million in federal funds from Maricopa County pass-through distributions. Of the 80 organizations, we determined 48 subrecipient organizations were required to comply with the Single Audit Act and submit their audited reports to Maricopa County. Only 38 organizations submitted audit reports at the time of our review.

<u>Status</u>	<u>Single Audit Reports</u>
Audit Reports Reviewed by Maricopa County Internal Audit	38
Organizations Not Providing Audit Reports to Maricopa County	10

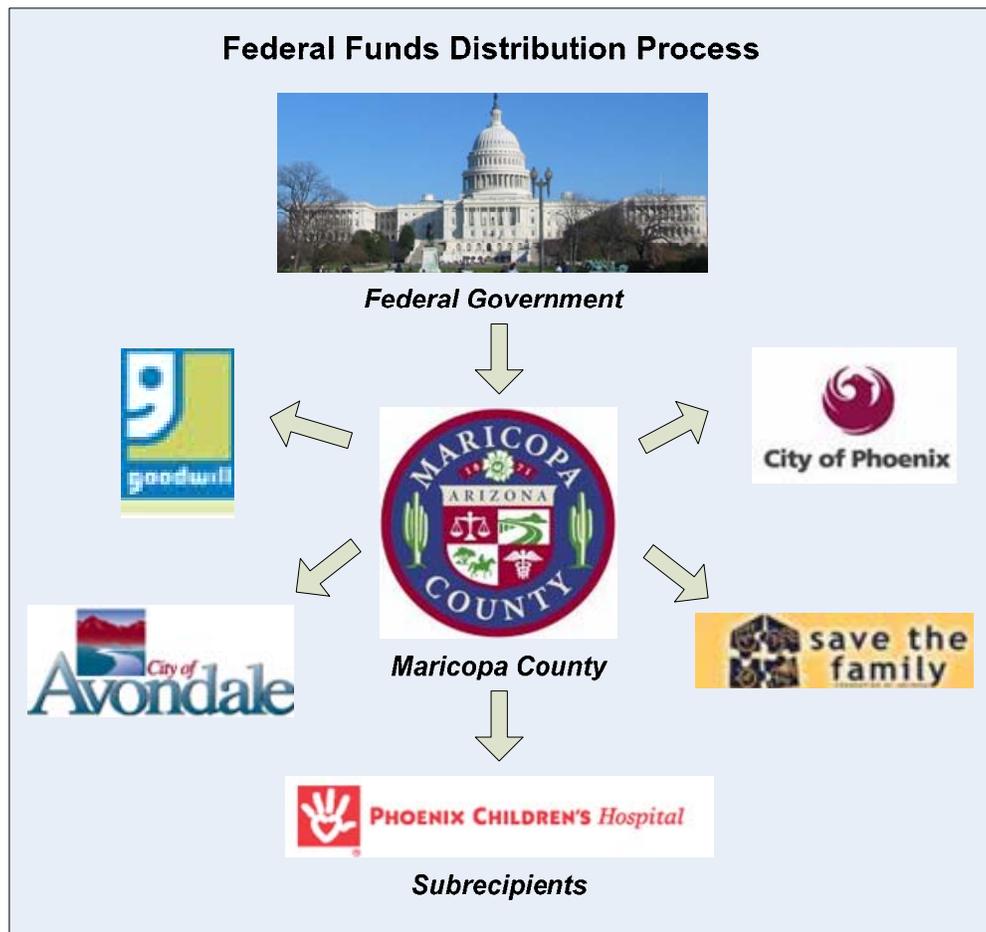
All 38 of the reports we reviewed comply with Single Audit Act reporting standards. However, 94 audit findings were reported in 20 of 38 reports. We forwarded summaries of these audit report findings and audit reports unavailable for review to responsible County agencies for follow-up. These agencies should make the final determination whether the findings and status of audits impact federal funds passed through by the County and should coordinate corrective action as needed.

Introduction

Background

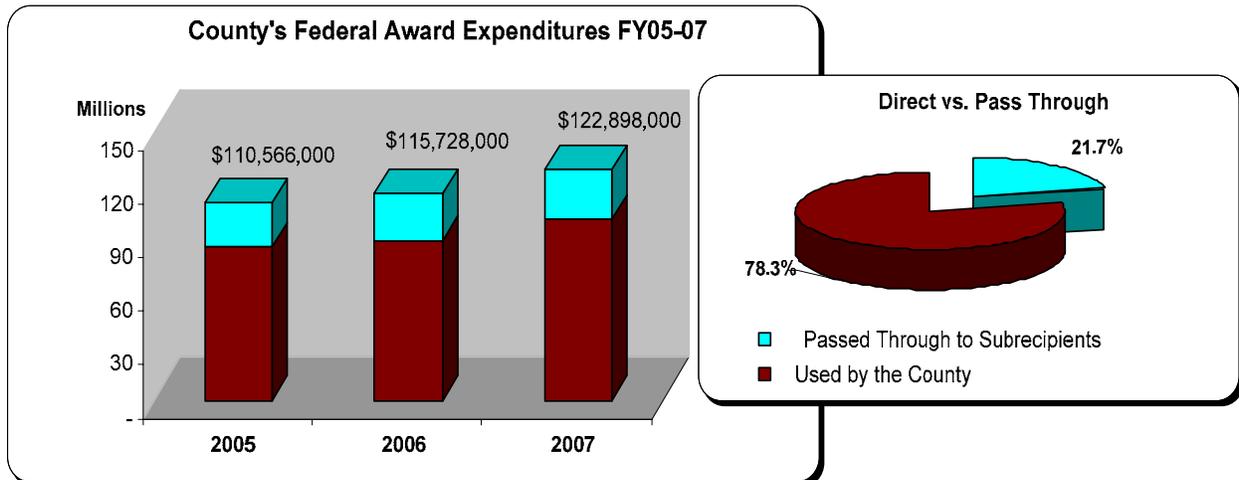
In 1984, the United States Congress passed the Single Audit Act to consolidate a fragmented and inefficient approach to auditing federal grants. The Federal Office of Management and Budget (OMB) issued Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, to implement the Single Audit Act. Currently, non-federal entities that expend \$500,000 or more in federal assistance in a fiscal year are required to undergo a comprehensive financial and compliance audit each year (aka Single Audit).

Circular A-133 defines a *subrecipient* as “an organization that receives federal financial assistance to carry out a program” from a primary recipient or other subrecipient. A *pass-through entity* is a primary recipient or subrecipient that passes federal grant funds through to subrecipients. Illustrated below is the federal fund distribution process.



Twenty-four County agencies spent over \$122.9 million in federally awarded grant funds in FY07. The County's expenditures of federal awards increased an average of five percent over the last three fiscal years from \$110.6 million in 2005 to \$122.9 million in 2007. The County passed through \$27.9 million, which is roughly 22 percent of all federal awards, to subrecipients that include cities, charitable organizations, and service foundations.

Federal Grant Funds Used and Distributed by the County



Auditor General Findings and Internal Audit's Role

The Arizona Auditor General's June 30, 1988, *Report on Supplemental Data, Internal Controls, and Compliance for Single Audit* found Maricopa County did not comply with the Single Audit Act. The County did not have countywide procedures to ensure subrecipients were audited. The Auditor General recommended that the County establish procedures to ensure subrecipients undergo audits, follow up on reported audit findings, and take corrective action.

As a result, the Board of Supervisors (Board) directed Internal Audit to establish and maintain a countywide subrecipient audit management program. Each year Internal Audit:

- Identifies County subrecipients
- Contacts subrecipients to determine if they expended enough federal grant funds to meet the Single Audit threshold
- Requests and reviews the Single Audit reporting packages
- Communicates the findings to applicable County agencies for follow-up and corrective action

The County's Community Development Department and the Sheriff's Office each obtained Board approval to assume responsibility for ensuring subrecipient compliance with the Single Audit Act. As a result, we did not review Community Development and Sheriff's Office subrecipients for FY06-07, which accounted for \$8.7 million and \$419 thousand, respectively, in pass-through grants.

Specific Requirements

Annually, primary recipients and subrecipients that exceed the “grant funds expended” \$500,000 threshold must engage independent auditors to conduct independent audits according to the Single Audit Act. The auditors perform uniform audit procedures established by the Single Audit Amendment of 1996 and produce a Single Audit reporting package that includes the following:

- Independent Auditor's Report
- Audited Financial Statements
- Schedule of Expenditures of Federal Awards
- Report on Compliance and Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards
- Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133
- Schedule of Findings and Questioned Costs
- Summary Schedule of Prior Audit Findings
- Corrective Action Plan (if appropriate)

When an auditor’s report identifies findings related to the federal award provided, the pass-through entity must issue a management decision on the findings within six months of receipt of the reporting package. The entity also ensures that the subrecipient takes appropriate corrective action.

Subrecipient Audit Reports



County Pass-Through Grantors

Summary

The County passed through \$27.9 million in federal grant funds from 10 County agencies in FY07. Our preliminary review determined there were 80 total subrecipients, 65 from FY07 and an additional 15 subrecipients from prior reporting periods, which potentially met the criteria for requiring an audit in accordance with the Single Audit Act. Internal Audit surveyed these subrecipients and identified 48 subrecipient organizations that were required to comply with the Single Audit Act and submit their audit reports to Maricopa County.

Criteria

The Board of Supervisors (Board), through an Agenda Information Form signed in 1989, directed Internal Audit to establish and maintain a countywide subrecipient audit management program identifying and contacting County subrecipients to determine if they are required to obtain a Single Audit.

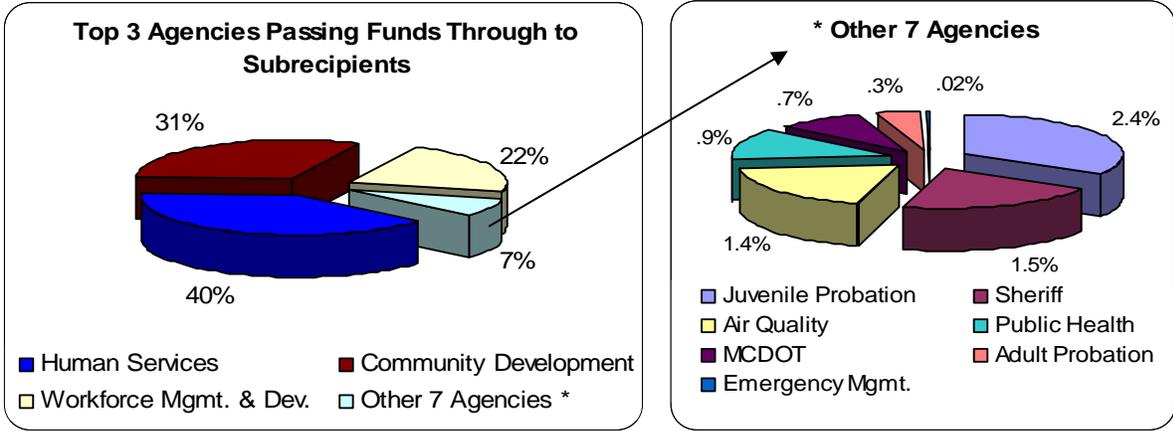
In FY03, the Board authorized the Community Development Department and the Sheriff's Office to monitor their own subrecipients in place of Internal Audit's subrecipient management program.

Condition

As shown by the County's financial system and unaudited *Schedule of Expenditures of Federal Award*, the following 10 County agencies passed through \$27.9 million in federal grant funds to subrecipients in FY07.

- Adult Probation
- Air Quality
- Community Development
- Emergency Management
- Human Services
- Juvenile Probation
- Public Health
- Sheriff
- Transportation (MCDOT)
- Workforce Management and Development

The following charts show each agency's portion of total grant funds passed through to subrecipient organizations in FY07.



We contacted these subrecipients and determined that OMB Circular A-133 required 48 subrecipients to complete a single audit report. Thirty-eight of the subrecipients submitted their reports to the County within our review period, which ended May 30, 2008. The following table displays the distribution of the subrecipient's Single Audit submittal status.

Status of Subrecipient Single Audit Reports		
<i>Year</i>	<i>Single Audit Status</i>	<i>Quantity</i>
FY07	Submitted a single audit report	29
	Overdue/(or) did not submit	4
	Due 9/30/08	6
	Under federal threshold *	25
	Federal Agency *	1
	FY07 Total	65
Prior Year	Submitted a single audit report	9
	Overdue/(or) did not submit	6
	Prior Year Total	15
Grand Total		80

The subrecipients that did not submit or complete their reports for FY05, 06, and 07 are listed below.

FY07 Reports

- Gila County
- Mountain Park Health Center
- State of Arizona (Arizona State University & Department of Corrections)

Prior Year Reports

- City of Gila Bend (FY06 and FY05)
- Mountain Park Health Center (FY06)
- Apache County (FY06)
- La Paz County (FY06)
- Navajo County (FY06)

Independent Auditors' Findings

Summary

Based upon our review of subrecipient Single Audit reports, 48 of 80 organizations met the \$500,000 federal assistance expenditure threshold that requires independent audits of financial statements, systems of internal control, and grant compliance in accordance with Government Auditing Standards. Only 38 subrecipients submitted their reports, which included 94 audit findings. In addition, there were 23 expenditure discrepancies totaling over \$3.5 million between County agency reports and subrecipient Single Audit reports. Internal Audit reported these findings to appropriate agencies, along with organizations that did not submit required audit reports. These agencies are required to issue a management decision related to the audit findings and ensure the subrecipients take appropriate and timely corrective action.

Criteria

The Single Audit Act of 1984 and OMB Circular A-133 require subrecipients meeting the \$500,000 expenditure of federal awards threshold to have a single audit report completed by an independent Certified Public Accountant.

If control weaknesses exist over financial reporting or non-compliance with federal program requirements, the auditor is required to report these control weaknesses as findings within their reports. In July of 2007, the Governmental Auditing Standards' finding classifications were updated to include the following three categories.

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 or noncompliance with a federal program on a timely basis and are typically communicated in a separate management letter.

A **Significant Deficiency** is a deficiency in internal control, or combination of internal controls, that adversely affects the entity's ability to process and record data and financial information or administer a federal program such that there is more than a remote likelihood that a material misstatement or noncompliance with a federal program will not be prevented or detected by the entity's internal controls.

A **Material Weakness** is a significant deficiency, or combination of deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements or material noncompliance with a federal program will not be prevented or detected by the entity's internal controls.

Condition

Our review of 38 audit reports identified 20 reports that contained 94 findings as summarized in the following table. A description of each finding is also included in Appendix A. We reported these findings to the appropriate County agencies so they could determine whether the findings impacted any of the grant funds they distributed.

Summary of Findings Reported in Single Audit Reports					
Subrecipient Name	Agency Passing Through Funds	Control Deficiency	Significant Deficiency	Material Weakness	Total
Body Positive	PH		2		2
Catholic Charities	PH		1		1
Catholic Health Care West	PH		1		1
Central Arizona Shelter Svc.	PH, HS		1		1
Chicanos Por La Causa	PH		4	1	5
City of El Mirage	HS		4		4
City of Peoria	EM	3			3
City of Phoenix	JP		4		4
Clinca Adelante (2006)	PH			1	1
Clinca Adelante (2005)	PH		2		2
Ebony House	WFMD			2	2
FSLA (Weatherization)	HS		1		1
FSLA (Programs)	HS		1		1
Goodwill Industries	HS	5	5		10
MIHS (2007)	WFMD		1	6	7
MIHS (2006)	PH		9	14	23
RPTA (Valley Metro)	AQ	3			3
Santa Cruz County	HS		4	6	10
Save the Family Foundation	HS	6	1		7
Town of Buckeye	HS		6		6
Totals		17	47	30	94

We also identified discrepancies between the amounts reported by County agencies and the amounts reflected as expenditures in 23 of the subrecipients *Schedule of Expenditure of Federal Awards* (with the same fiscal year end). These discrepancies totaled over \$3.5 million and listed on the following page.

Differences in Reported Expenditures Between Maricopa County and Subrecipients

Subrecipient	Amount Reported Passed Through by Agency \$	Amount Reported Expended by Subrecipient \$	Absolute Difference \$	County Agency
AZ Call A Teen	700,600	597,518	103,082	HS
Area Agency on Aging	1,091,149	1,400,891	309,742	WFMD
Catholic Healthcare West	101,922	0	101,922	PH
Central Arizona Shelter Services	275,000	50,000	225,000	PH, HS
City of Avondale	139,845	103,714	36,131	HS
City of El Mirage	112,670	77,967	34,703	HS
City of Glendale	328,235	309,216	19,019	JP, EM
City of Mesa	83,197	1,124,633	1,041,436	JP, PH, EM
City of Peoria	1,139	15,329	14,190	EM
City of Phoenix	493,647	648,885	155,238	JP
City of Surprise	187,768	18,092	169,676	MCDOT
Community Services of AZ	264,771	96,759	168,012	HS
Community Information and Referral	26,668	22,435	4,233	WFMD
Coconino County (2006)	50,000	0	50,000	HS
Ebony House	124,402	0	124,402	WFMD
FSLA Weatherization	1,247,126	435,405	811,721	HS
Phoenix Children's Hospital	267,527	251,102	16,425	PH
RPTA (Valley Metro)	395,685	382,320	13,365	AQ
Save the Family Foundation of AZ	27,000	0	27,000	HS
Santa Cruz County (2006)	22,732	0	22,732	HS
Town of Buckeye	94,105	0	94,105	HS
Town of Gilbert	2,444	0	2,444	EM
Town of Guadalupe	79,598	54,438	25,160	HS
Totals			3,569,738	

We reported these findings to the appropriate County agencies so they could determine whether the findings impacted any of the grant funds passed through. These agencies then are required to issue a management decision related to the audit findings and ensure that the subrecipients take appropriate and timely corrective action.

Appendix

FY 2007 Review Findings

Subrecipient	Finding Type	Description
Catholic Charities	Significant Deficiency	<ul style="list-style-type: none"> • Three oral quotes were not obtained for three equipment purchases priced between \$300 and \$1,000.
Catholic Health Care West	Significant Deficiency	<ul style="list-style-type: none"> • Federal Awards for various federal programs were incorrectly reported or not included on the <i>Schedule of Expenditures of Federal Award</i>.
Central Arizona Services	Significant Deficiency	<ul style="list-style-type: none"> • The financial statements required two adjusting entries before they could be presented in accordance with Generally Accepted Accounting Principles.
Chicanos Por La Causa	Significant Deficiency	<ul style="list-style-type: none"> • A significant pledge was not properly recognized as contribution revenue and pledges receivables. • Accrual based accounting was not used for payroll costs. • Several invoices were not recorded in the proper accounting period. • Subrecipient failed to meet the required non-federal match of federal funds.
	Material Weakness	<ul style="list-style-type: none"> • A \$2,800,000 land purchase was not recorded in the financial statements.
City of El Mirage	Significant Deficiency	<ul style="list-style-type: none"> • The city had not established written procedures to properly account for capital assets. • Several adjusting entries were needed to properly state the city's capital assets balance. • The accounting systems lack controls to prevent unauthorized deletion of general ledger journal entries. • The city's IT personnel have access to initiate and authorize transactions.
City of Peoria	Control Deficiency	<ul style="list-style-type: none"> • For 2 of 55 disbursements, the expenditures were not recorded to the appropriate account. • For 1 of 40 payroll records, the employee was underpaid \$46 because hours worked were not transferred from the employee's time card to the payroll system correctly. • The city has not performed a physical inventory of capital assets in over 3 years.

Subrecipient	Finding Type	Description
City of Phoenix	Significant Deficiency	<ul style="list-style-type: none"> • Several invoices were identified which were not accrued as of June 30, 2007. • Several deficiencies surrounding open directory and files exist within the A/X system's controls and processes. • A lack of staff caused limited segregation of duties between system administrators and security administrators. • The city is not monitoring subrecipients of the Home Investment Partnership Program. (CFDA # 41.239)
Ebony House	Material Weakness	<ul style="list-style-type: none"> • Cash balances held in financial institutions of over \$840,998 were not insured. The FDIC only insures amounts up to \$100,000. • The general ledger accounts on payroll and other liabilities were not reconciled.
Foundation for Senior Living - Programs	Significant Deficiency	<ul style="list-style-type: none"> • The organization does not have an internal control system designed to provide for the preparation of the financial statements.
Foundation for Senior Living - Weatherization	Significant Deficiency	<ul style="list-style-type: none"> • The organization does not have an internal control designed to provide for the preparation of the financial statements.
MIHS (2007)	Significant Deficiency	<ul style="list-style-type: none"> • Requests for reimbursement are not properly reviewed and approved by the program manager. (CFDA # 93.914)
	Material Weakness	<ul style="list-style-type: none"> • Interest earned on federal advances was not accounted for properly. • Inventory records for fixed assets were incomplete and do not reconcile to the general ledger. • Journal entries were not properly reviewed and approved for allowability of the cost. (CFDA # 93.153) • Journal entries were not properly reviewed and approved for period of availability of federal funds. (CFDA # 93.153) • Journal entries were not properly reviewed and approved for cost allowability. (CFDA # 93.914) • Journal entries were not properly reviewed and approved for period of availability of federal fund. (CFDA 93.914)
Regional Public Transportation Authority	Control Deficiency	<ul style="list-style-type: none"> • Medicare and Social Security taxes were not properly withheld. • Purchase requisitions were not always prepared, signed, and approved prior to the date of the invoice. • Credit card receipts are not maintained to support purchases of goods and services.

Subrecipient	Finding Type	Description
Save the Family Foundation	Control Deficiency	<ul style="list-style-type: none"> • Cash Disbursements: The general ledger coding was not documented when entering invoices into QuickBooks. • Petty Cash: Checks written to replenish petty cash were issued to cash. • Bank Statement Reconciliations: There is a lack of segregation of duties when performing bank statement reconciliations. • In-Kind Contributions: Donated goods and services were not valued using standard valuation rates for accounting purposes. • In-Kind Contributions: Differences between the monthly journal entries to record in-kind donations in QuickBooks and the subrecipients fund raising software reports exist. • Whistle Blower Policy: The subrecipient does not have a formal written policy informing employees, contractors, and volunteers of its position on this subject.
	Significant Deficiency	<ul style="list-style-type: none"> • Cash receipts could be misappropriated during the mail opening process and go undetected by the system of internal controls.
Town of Buckeye	Significant Deficiency	<ul style="list-style-type: none"> • The town's general ledger required numerous adjustments in order to prepare the financial statement in accordance with GAAP. • The town's accounts receivable detail contained numerous credit balances totaling \$231,591, resulting in an understatement at year end. • Proper bidding procedures were not followed. For all purchases, tested competitive bid and quotes were not obtained. • Receipts for 10 of 35 credit card purchases were not maintained. • The financial statements and related disclosures were not prepared by management. • Documentation did not always exist to document cash receipts included in deposit amounts.
Body Positive (2006)	Reportable Condition	<ul style="list-style-type: none"> • Contracts did not include clauses required by Maricopa County (Finding in both the financial statement and questioned costs sections of the report).

Subrecipient	Finding Type	Description
Goodwill Industries of Central Arizona (2006)	Immaterial instance of non compliance	<ul style="list-style-type: none"> • Contract requirements had not been read thoroughly so as to have a full understanding of the compliance requirements. • In 2006, the federal awards schedule was based on revenues not expenditures. • Supporting documentation for \$730 could not be located. • Payroll Disbursements: Personnel files were missing or missing required payroll documentation. • Cash drawdowns were not requested based on expenses being incurred, but based on cash need.
	Reportable Condition	<ul style="list-style-type: none"> • \$135,000 of expenses were recorded in the improper year. • The quarterly financial status reports were not prepared accurately during 2006 and had to be resubmitted during 2007. • 2 of 25 participants did not contain documentation supporting the participant's involvement in the juvenile justice system. • Subrecipients were not monitored to determine if contract requirements were completed. • Checks of vendor suspensions and debarment from providing services were not performed.
MIHS (2006)	Reportable Condition	<ul style="list-style-type: none"> • An audit adjustment of \$190,000 was required to increase accounts receivable balances because not all current contract terms are loaded into computer systems used to calculate contractual adjustments. • The process used by management for estimating bad debt allowances was not based on appropriate historical information. • Management does not have an accounting policy to determine appropriate inventory obsolescence reserves. • Management did not perform a physical count of all significant inventory locations on June 30, 2006. • Management was not able to locate and provide the inventory detail for certain locations. • Management records certain pharmacy items at market value even when the value is higher than the cost. • Management is not able to reconcile specific assets between the old capital asset system used through December 31, 2004, and the new fixed asset system implemented January 1, 2005. • The MHIS financial statements required a net adjustment of approximately \$563,000 for adjustments to liabilities and insurance receivables. • An audit adjustment was required for approximately \$328,000 to decrease the capital lease balance on June 30, 2006.

Subrecipient	Finding Type	Description
MIHS (2006) (Cont.)	Material Weakness	<ul style="list-style-type: none"> • A portion of a \$5.6 million adjusting journal entry to increase cash included outstanding checks, which inappropriately adjusted the cash and accounts payable balances at month end. • Management does not estimate and record an accrual in the general ledger for the Medicare cost reports prior to filing the cost report. • Management is not recording the receipt of over \$83.7 million in payments from the state of Arizona and \$79.5 million in transfers to Maricopa County. • Management used an incorrect accounting method to record \$39.4 million of property taxes. • Management has not established a formal process to estimate the accrued liabilities for its self insured employee health and dental expenses. Also, there is no reconciliation to validate the information received from the third party administrator. • Management understated a settlement due to a contractor by \$165,000. • Twelve various accrued expense accounts required adjustments over \$5 million to increase accrued expenses. • An audit adjustment of \$360,000 was required to decrease an accrued balance in an accounts payable general ledger account. • An audit adjustment was required to record a \$1,546,000 liability for any asbestos remediation that may be required. • Two audit adjustments of \$1.7 million and \$3 million were required to properly state the value of Capital Assets. • Inventory records were incomplete and not reconciled to the general ledger. (CFDA # 93.887) • Invoices were not properly reviewed and approved for allowability of the cost activity. (CFDA# 93.153) • Invoices were not properly reviewed and approved for allowability of the cost and allowable activity. (CFDA # 93.314) • The <i>Schedule of Expenditure of Federal Awards</i> did not correctly state all equipment purchase expenditures.

Subrecipient	Finding Type	Description
Santa Cruz County (2006)	Reportable Condition	<ul style="list-style-type: none"> • Additional reconciliations should be performed of general ledger accounts relating to federal and state grants. • Santa Cruz County budgeted millions for cost expenditures in current year budget that were for future expenditures. • The Treasurer's Office has not established internal controls over reconciling cash journal balances and bank statements. • Reports submitted to federal awarding agency did not include all financial activity.
	Material Weakness	<ul style="list-style-type: none"> • There was insufficient segregation of duties over Santa Cruz County's accommodation school (Finding was in both the financial statements and questioned costs sections of the report). • Santa Cruz County's procurement polices were not followed for contract totaling \$633,415. • There were inadequate procedures to ensure that receivables from grantors are properly recorded and that receipt of funds from the grantor are made on a cost reimbursable basis. • 45 of 65 reports did not agree to monthly expenditures. Total questioned costs for WIA cluster were \$41,332. • Santa Cruz County's internal control system is not sufficient to achieve reasonable assurance that costs charged to the WIA cluster are allowable under contract provisions.
Clinica Adelante (2006)	Material Weakness	<ul style="list-style-type: none"> • For 40 of 40 sliding fee patient encounters tested, the Center did not maintain proper supporting documentation.
Clinica Adelante (2005)	Reportable Condition	<ul style="list-style-type: none"> • Bank reconciliations are not completed in a timely manner. • The accounts payable balance per the general ledger did not agree and was not reconciled to the accounts payable subsidiary ledger.