



A Report
to the
Board of
Supervisors

*Maricopa County
Internal Audit
Department*

Ross L. Tate
County Auditor

Compliance Review

Single Audit

*Grant-Funded Organizations:
Compliance with Federal
Audit Guidelines*

July ■ 2007

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The **County Auditor** is appointed by the Board of Supervisors. 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 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.

Audit Team Members

Richard Chard, Deputy County Auditor

Scott Jarrett, Staff Auditor

Copies of the Internal Auditor's reports are available by request.
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Many of our reports can be found in electronic format at:
www.maricopa.gov/internal_audit



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July 31, 2007

Fulton Brock, Chairman, Board of Supervisors
Don Stapley, Supervisor, District II
Andrew Kunasek, Supervisor, District III
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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 33 federal grant subrecipients to determine compliance with the federal Single Audit Act. We found that 12 of 33 audit reports contain 32 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 the 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

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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. These audits are performed as required by 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.

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 there were no procedures in place to ensure that grant subrecipients complied with audit requirements. Since then, the Board of Supervisors has authorized Internal Audit to determine which subrecipient entities must obtain independent audits and to report compliance with Single Audit reporting standards. In addition, Internal Audit has reported a summary of independent audit findings to applicable County agencies. Each agency makes final determinations of whether the findings impact the federal funds passed through the County and follows up with corrective action as needed.

Report Summary

We surveyed 60 organizations that received \$17.9 million in federal funds that were passed through the County to subrecipient non-profit and government organizations. Of the 60 organizations, we determined 43 subrecipients were required to comply with the Single Audit Act and submit their audited reports to Maricopa County. Our review found the following:

<u>Status</u>	<u>Single Audit Reports</u>
Examined by Maricopa County Internal Audit	33
Subrecipients Not in Compliance with Reporting Requirement	10

We noted that all 33 of the reports we reviewed comply with Single Audit Act reporting standards. However, we noted that 12 of 33 reviewed audit reports contained 32 findings related to federal grant compliance or internal controls over financial reporting.

<u>Reported Findings–Grant Compliance</u>	<u>Instances</u>
Immaterial Instances of Non-Compliance	14
Non-Compliance with Regulations, Contracts, Grant Agreements	3
 <u>Reported Findings–Internal Control Over Financial Reporting</u>	
Reportable Conditions	14
Internal Control Material Weakness	1
Total	32

The findings reported by the independent auditors do not appear to impact funds passed-through the County. Summaries of audit findings and audit reports not available for review have been forwarded to the 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.

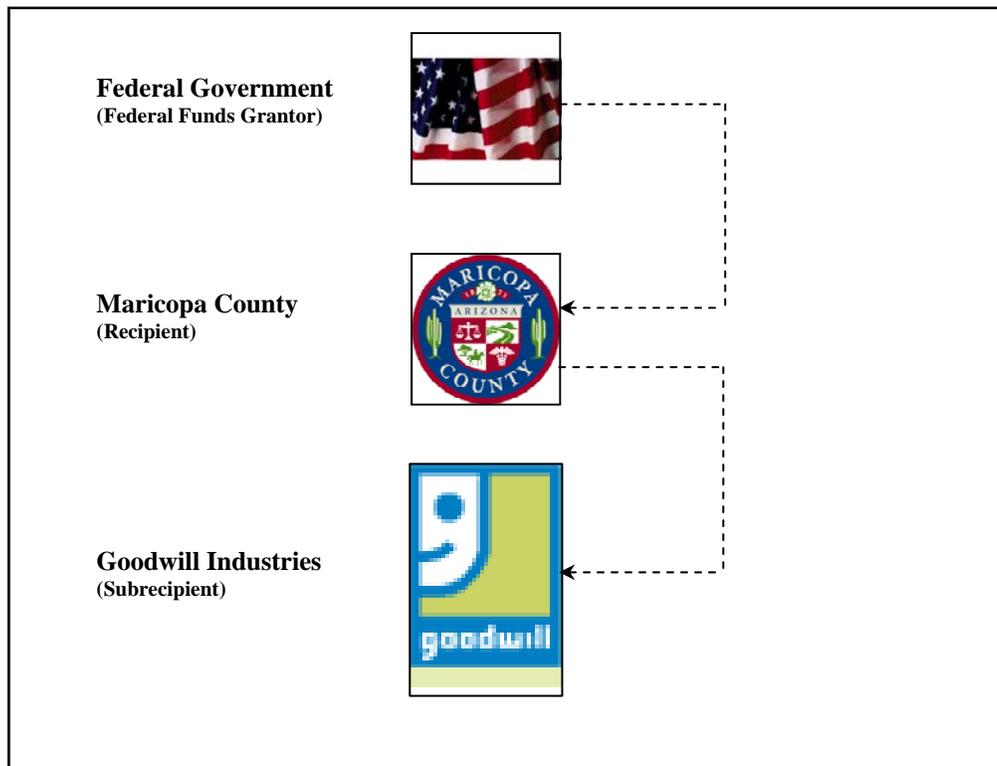
Introduction

Background

In 1984, the United States Congress passed the Single Audit Act to consolidate a previously 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 of federal assistance are required to undergo a comprehensive financial and compliance audit each year (a Single Audit).

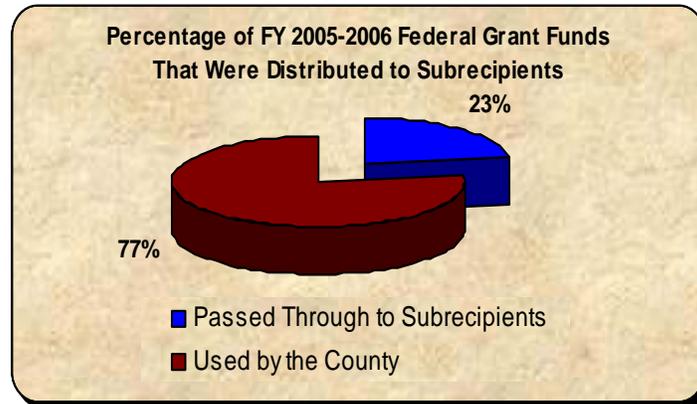
Circular A-133 defines a *subrecipient* as “an organization that receives federal financial assistance to carry out a program” from a primary recipient or other subrecipient. A *pass-through entity* is a primary recipient or subrecipient that passes federal grant funds through to subrecipients. The federal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

Federal Fund Distribution Process



The County expended \$112.1 million of federal grant funds in FY 2006 and passed through \$26.3 million to subrecipients including cities, charitable organizations, and service foundations within Maricopa County.

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 that subrecipients were audited. The Auditor General directed the County to ensure that subrecipients undergo audits, follow up on reported audit findings, and ensure corrective action is taken.

As a result, the Board of Supervisors 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

In recent years, Community Development and the Sheriff's Office have obtained Board approval to assume responsibility for ensuring subrecipient compliance with the Single Audit Act. Therefore, we did not review Community Development and the Sheriff's Office subrecipients for FY 2005-2006, which accounted for \$9.2 million and \$637 thousand, respectively, in pass-through grants. In addition, Maricopa Medical Center assumed responsibility for monitoring its subrecipients' compliance from FY 2005 forward when it transitioned to the Special Healthcare District in January 2005.

Specific Requirements

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

- 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, and ensure that the subrecipient takes appropriate corrective action.

Single Audit Reports Reviewed



Finding Classifications

The independent auditors report instances of noncompliance and weaknesses in internal control in the following documents:

- *The Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Basic Financial Statements Performed in Accordance with Government Auditing Standards*
- *The Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program*
- *Internal Control Over Compliance in Accordance with OMB Circular A-133*

Each report contains a section on compliance and a section on internal control over compliance. The classifications of the findings reported by the auditors are described in the following table:

Grant Compliance		Internal Control over Financial Reporting	
Immaterial Instances of Noncompliance	Noncompliance	Reportable Conditions	Material Weakness
Noncompliance that is not required to be reported. These findings represent areas for potential improvement that are typically communicated to the audited entity in a separate management letter and not included in the audit reports.	Noncompliance with certain provisions of laws, regulations, contracts, and grants, which could have a direct and material effect on financial statement amounts or major federal programs.	Reportable conditions are significant deficiencies in the design or operation of the internal control over financial reporting that could adversely affect the entity's ability to record, process, summarize, and report financial data.	A material weakness is a reportable condition significant enough that a material misstatement in the financial statements or material noncompliance with requirements of a major federal program may occur and not be detected by employees in the normal course of business.

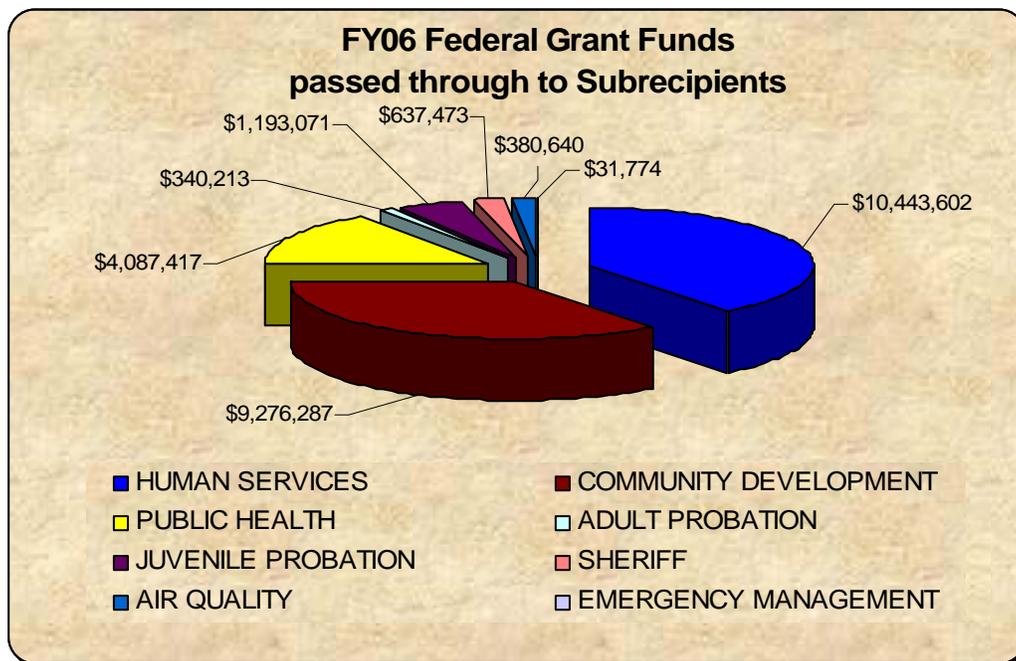
Details of findings and any associated costs are presented in the auditors' *Schedule of Findings and Questioned Costs*.

County Pass-Through Grantors

Maricopa County Department of Finance reported eight County organizations passing through \$26.3 million in federal grant monies to subrecipients in FY 2006:

- Adult Probation
- Community Development (not reviewed by Internal Audit)
- Emergency Management
- Air Quality
- Human Services
- Juvenile Probation
- Maricopa County Sheriff's Office (not reviewed by Internal Audit)
- Public Health

The chart below illustrates total grant dollars passed through each agency in FY 2006. Agency subrecipients, report status and dollar amounts passed through are listed in Appendices A and B.



Independent Auditors' Findings

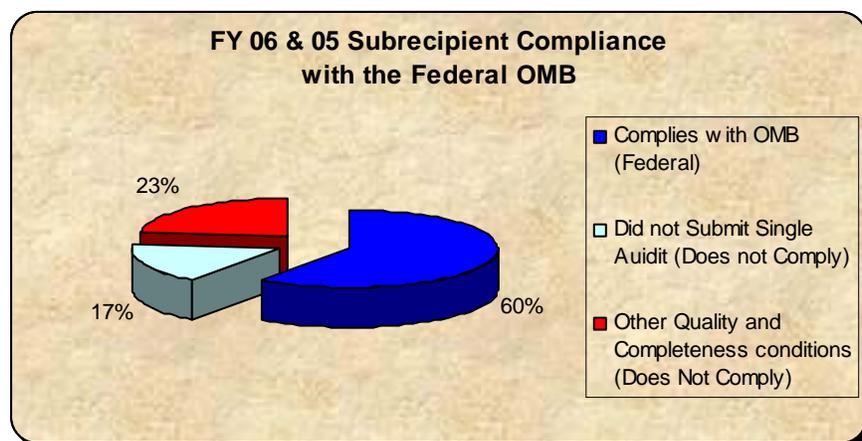
We reviewed 60 County subrecipients, comprised of 49 FY06 subrecipients and 11 FY05 reports which had not been previously reviewed. Sixteen subrecipients were not required to have a Single Audit, one did not return communication attempts, and 33 submitted Single Audits for review. Additionally, the following subrecipients had not completed required Single Audit reports at the time of our review.

Subrecipients which did not submit a Single Audit (Includes Maricopa County passed through amounts only)

Subrecipient	County Department	Year of Last Single Audit	Amount Passed Through
Apache County	Human Services	2004	75,000
Clinica Adelanta, Inc. (FY 2005)	Public Health	2003	11,540
Coconino County	Human Services	2005	50,000
Town of Gila Bend (FY 2006 & 2005)	Human Services	2003	50,188
Gila County	Human Services	2003	50,000
Las Paz County	Human Services	2003	44,597
Maricopa Special Health Care District	Public Health	2004	588,779
Navajo County	Human Services	2004	49,997
Santa Cruz County	Human Services	2005	22,732
Total Passed Through			\$ 942,833

We determined 24 of 60 (40 percent) County subrecipients are not in compliance with OMB Circular–A133, 14 subrecipients did not report all passed through monies expended in addition to the 10 subrecipients that did not submit a Single Audit.

County Subrecipient compliance and noncompliance



A review of the 33 subrecipient audit reports identified 12 reports listing 32 issues required to be reported by Circular A-133, including one material weakness, 14 reportable conditions, 14 immaterial instances of non compliance, and three instances of noncompliance. Appendix A contains a listing of FY 2006 & 2005 findings. We reported these findings to the appropriate County departments so they could determine whether the findings affect any pass-through grant funds. Although the grantor departments must make the final determination, most of the findings do not appear to affect County grant funds. The table below presents the subrecipients that had findings and/or other conditions that could potentially impact funds passed through by County agencies:

FY06 Subrecipients	Department Reported Passing Through	Did not report expending grant funds passed through by Maricopa County	Adult Probation (AP)	Emergency Management (EM)	Air Quality (AQ)	Human Services (HS)	Juvenile Probation (JP)	Public Health (PH)
Area Agency on Aging	\$ 981,282							X
Arizona Call-A-Teen Resources	811,081					X		
ASU Community Health Services	126,082	X						X
Catholic Charities Community Services	6,972,998					X		X
Catholic Health Care West (St. Joseph's Hospital)	78,576	X						X
Chicanos Por La Causa, Inc.	281,325	X	X					X
City of Chandler	115,570	X		X		X		
City of Glendale	327,852	X		X		X	X	
City of Mesa	150,000	X					X	
City of Phoenix	893,101	X		X			X	
City of Tempe	262,326	X				X	X	
City of Tolleson	56,141					X		
Dr. Geof Wandry	28,988							X
Mohave County	39,111	X				X		
New Life Shelter	26,264					X		
Valley Metro	460,212				X			
Save the Family Shelter	26,264					X		
Town of Buckeye	62,793	X				X		
Town of Gilbert	64,210	X		X		X		
Total:	\$11,764,176	11	1	4	1	11	4	6

FY05 Subrecipients	Amount Passed through	Did not report expending grant funds passed through by Maricopa County	AP	EM	A Q	HS	JP	PH
ASU Community Health Services	\$ 78,217	X						X
Clinica Aldenta	13,184							X
Goodwill Industries	472,150					X		
Mountain Park Health Center	35,262	X						X
Phoenix Shanti Group	288,880							X
Town of Buckeye	2,500	X				X		
Town of Gila Bend	50,187					X		
Total:	\$ 940,380	3				3		4

If a pass-through agency determines audit findings impact the grant funds they provided, the agency should review the subrecipient’s corrective action plan and issue the subrecipient a management decision stating whether the plan is accepted or what other corrective action is required. The agency should follow-up on correction plans.

Circular A-133 does not require any specific action of pass-through entities when subrecipients’ audit reporting packages do not meet established criteria. However, A-133 does require pass-through entities to communicate certain information about the grant and the requirements imposed on them by federal law, regulations and contract agreements. Therefore, we reported this information to the agencies so they can work with their subrecipients to resolve these issues.

The following County subrecipients were either not required to submit a Single Audit report or did not have any Single Audit findings:

Single Audit not required

- AAHHERC
- AZ Opportunistic Industrialization Center
- Arizona Women’s Education & Employees
- Community Legal Services
- Concepts for Change
- Jewish Family and Children’s Services
- Family Transitions
- Mountain Valley Counseling
- Phoenix Indian Medical Center

Single Audit is due next review period

- Body Positive
- Clinical Aldenta
- Goodwill industries
- Mountain Park Health Center
- Phoenix Shanti Group
- Phoenix Children’s Hospital

No Single Audit Findings

- Central Arizona Shelter Services
- City of El Mirage
- City of Avondale
- Cochise County
- Foundation for Senior Living (FY05 & 06)
- Phoenix Children’s Hospital (FY05)

Reporting Presentation Complies with Generally Accepted Auditing Standards

We evaluated the 33 audit reports available for our review. All 33 reports comply with Single Audit Act reporting standards established by Government Auditing Standards and OMB Circular A-133.

Appendix A

Subrecipient Findings for FY 2005-2006

Subrecipient	Finding Type	Description
Town of Buckeye	Reportable Conditions	<ul style="list-style-type: none"> • Town's general ledger required adjustments in order to prepare the financial statements in accordance with General Accepted Accounting Practices (FY06 & FY05) • The accounts receivable balance was understated by \$266,712 at years end. • Proper bidding and procurement procedures were not always followed (FY06 & FY05) • Receipts for 9 of 35 credit card purchases tested were not maintained or submitted to their finance department (FY06 & FY05) • Current Year capital asset additions were not updated to listing (FY06 & FY05) • \$23,104 in duplicate requests for grant reimbursements were noted
Arizona Call-A-Teen Youth Services	Immaterial Instances of Noncompliance	<ul style="list-style-type: none"> • The year end Net Asset balance did not agree with the upcoming years beginning balance • Depreciation and other miscellaneous expenses were recorded in the fixed asset accounts • The general ledger did not reflect account balances related to life insurance policies and shares of stock owned
Catholic Health Care West	Instance of Noncompliance	<ul style="list-style-type: none"> • Federal awards for various programs were not included in the Schedule of Expenditures of Federal Awards

Catholic Charities Community Services	Reportable Condition	<ul style="list-style-type: none"> Failed to maintain grant required documentation for 8 of 15 files tested
	Immaterial Instances of Noncompliance	<ul style="list-style-type: none"> Failed to maintain grant required documentation Lack of accounting oversight for regional offices Inadequate segregation of accounting functions 15 adjusting journals entries were required to present the financials in compliance with (GAAP)
New Life Center	Immaterial Instances of Noncompliance	<ul style="list-style-type: none"> Lack of segregation of duties for payroll functions Allocation of functional expenses are based on estimates of percentages Confidentiality agreements are not maintained in employee personnel files The center does not have a formal reporting structure for employees to report suspicious activity
Chicanos Por La Casa	Reportable Conditions	<ul style="list-style-type: none"> Failed to submit grant required reports within the required time frames Failed to maintain a valid fingerprint card for employee working with youth activities
Goodwill Industries	Instances of Noncompliance	<ul style="list-style-type: none"> 19 of 25 billings were based on budgeted amounts causing under reimbursement of expenses 24 of 47 billings for the period tested were older than 45 days
City of Glendale	Reportable Condition	<ul style="list-style-type: none"> Failed to submit 9 of 20 quarterly reports to the applicable oversight agency within the required time frames
Mountain Park Health Center	Reportable Condition	<ul style="list-style-type: none"> Lack of compliance with procedures for determining and documenting patient eligibility for the sliding fee scale. (FY05)
	Material Weakness	<ul style="list-style-type: none"> The accounts receivable subsidiary ledger did not agree with the general ledgers account receivable balance. (FY05)

City of Phoenix	Reportable Conditions	<ul style="list-style-type: none"> • Housing quality deficiencies were not corrected within the 30 day time requirement • A management fee charged by the City's Engineer and Architectural Department was not based on actual costs. • Two of three Single Resident Occupancy programs required (HUD 40118 Annual progress reports) were not submitted
Save the Family Foundation of Arizona	Immaterial Instances of Noncompliance	<ul style="list-style-type: none"> • Accounts payable closing adjustments are not performed when required • Accounting entries do not reflect amortization of notes payable • Fund raising expenses are not properly classified