



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 Requirements*

April ■ 2010

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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 information on the County's system of internal controls to the Board of Supervisors so they can make informed decisions and protect the interests of 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.

Audit Team Members

Richard Chard, CPA, Deputy County Auditor

Christina Black, CGAP, Audit Supervisor

Ronda Jamieson, CPA, Associate Auditor

Maricopa County Internal Audit

301 West Jefferson, Suite 660

Phoenix, AZ 85003

(602) 506-1585

www.maricopa.gov/internal_audit

"Do the Right Things Right!"



Maricopa County

Internal Audit Department

301 West Jefferson St
Suite 660
Phx, AZ 85003-2148
Phone: 602-506-1585
Fax: 602-506-8957
www.maricopa.gov

April 14, 2010

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

We 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 audit plan.

We examined the audited financial and grant compliance reports (Single Audit reports) of 19 federal grant subrecipients to determine compliance with the Federal Single Audit Act. We found that 12 of 19 audit reports contained 46 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

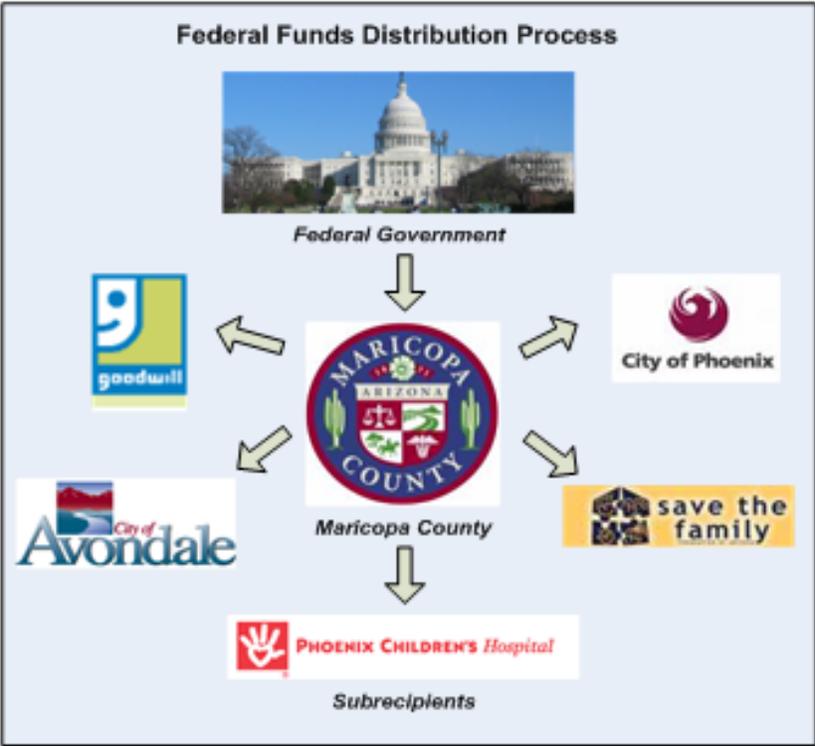
We reviewed 19 of 21 subrecipient organization Single Audit reports that were due in accordance with the Federal Single Audit Act. Two subrecipient audit reports were over a year past due. Twelve of the 19 audit reports contained 46 findings related to federal grant compliance or internal controls. In addition, there were 18 expenditure discrepancies ranging from \$1,000 to \$674,000 between County agency reports and subrecipient Single Audit reports. Internal Audit reported these findings and a listing of organizations that did not submit required audit reports to appropriate County agencies. These County agencies are required to issue a management decision related to the audit findings and ensure subrecipients take appropriate and timely corrective action.

Introduction

Background

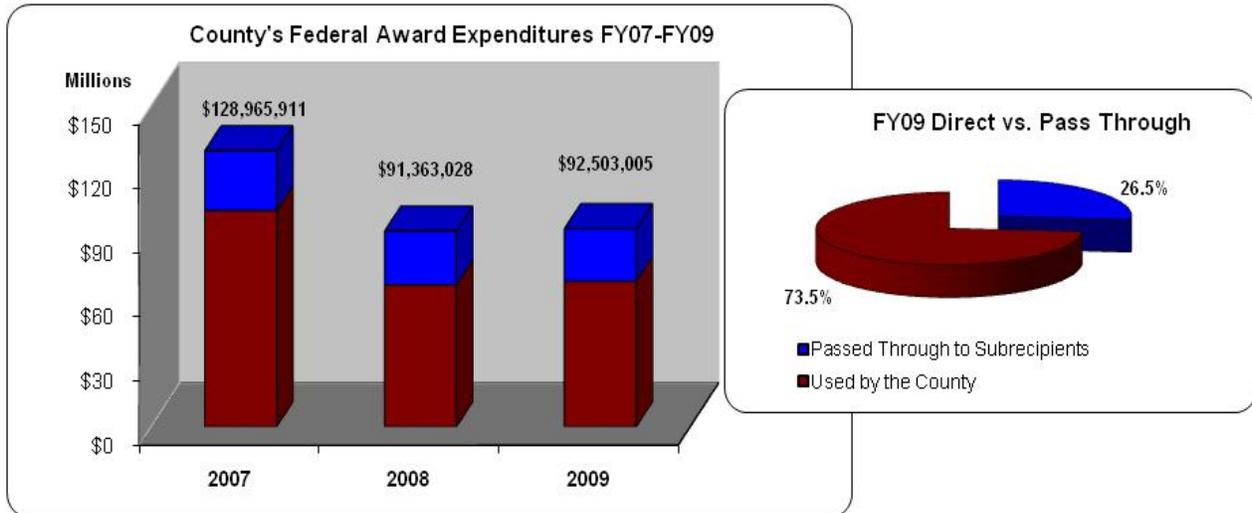
In 1984, the United States Congress passed the Single Audit Act to consolidate a fragmented and inefficient approach to auditing federal grants. The Federal Office of Management and Budget (OMB) issued Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, to implement the 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).

OMB 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. Shown on the right is the federal funds distribution process.



The County's expenditures of federal awards decreased from \$128.9 million in 2007, to \$92.5 million in FY09. Twenty-two County agencies spent over \$92.5 million in federally-awarded grant funds in FY09. The County passed through \$24.5 million, which is roughly 26.5 percent of all federal awards, to subrecipients that include cities, charitable organizations, and service foundations.

Federal Grant Funds Used and Distributed by the County



General Requirements

Annually, primary recipients and subrecipients that exceed the \$500,000 “grant funds expended” threshold must engage independent auditors to conduct 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)

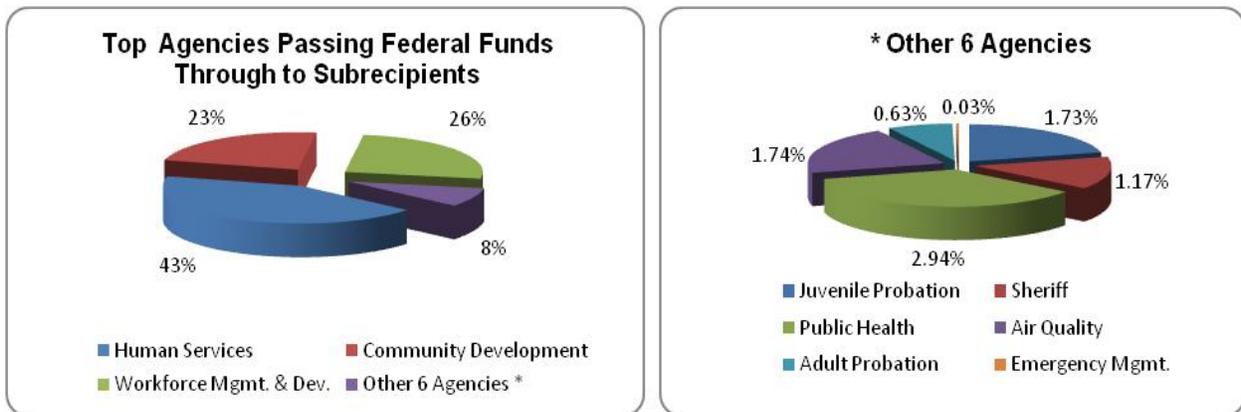
When an auditor's report identifies findings related to the federal award, the pass-through entity must issue a management decision on the findings within six months of receiving the reporting package. The entity also ensures that the subrecipient takes appropriate corrective action.

Agencies Reviewed

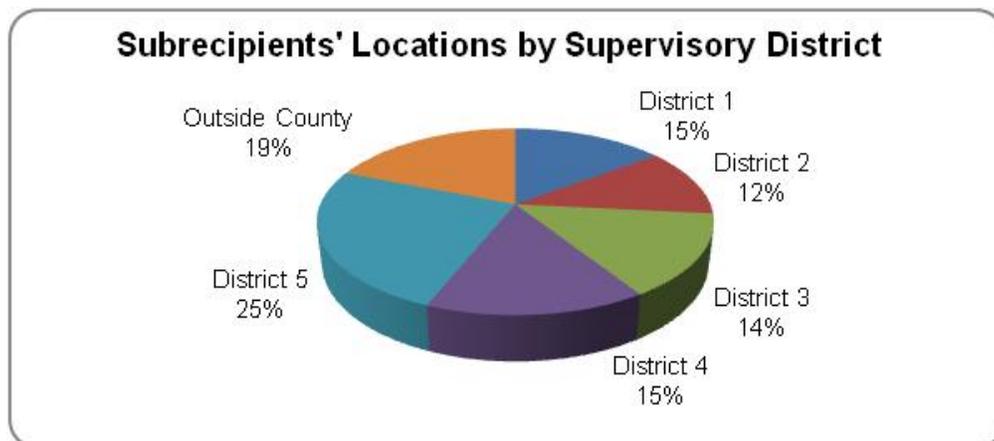
As reported by the County's financial system and unaudited *Schedule of Expenditures of Federal Award*, the following 9 County agencies passed through \$24.4 million in federal grant funds to subrecipients in FY09.

- Adult Probation
- Air Quality
- Community Development
- Emergency Management
- Human Services
- Juvenile Probation
- Public Health
- Sheriff
- Workforce Management & Development

The following charts show each agency's portion of total grant funds passed through to subrecipient organizations in FY09.



Subrecipient organizations spending federal funds passed through by the County had headquarter or satellite offices in the following Board of Supervisor districts.



Independent Auditors' Findings

Summary

We reviewed 19 of 21 subrecipient organization Single Audit reports that were due in accordance with the Federal Single Audit Act. Two subrecipient audit reports were over a year past due. Twelve of the 19 audit reports contained 46 findings related to federal grant compliance or internal controls. In addition, there were 18 expenditure discrepancies ranging from \$1,000 to \$674,000 between County agency reports and subrecipient Single Audit reports. Internal Audit reported these findings and a listing of organizations that did not submit required audit reports to appropriate County agencies. These County agencies are required to issue a management decision related to the audit findings and ensure 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 federal awards expenditure threshold to have a Single Audit report completed by an independent auditor.

The auditor is required to report financial control weaknesses or non-compliance as findings in a *Schedule of Findings and Questioned Costs*. In July of 2007, the Governmental Auditing Standards' finding classifications were updated to include the following three categories.

- A **Material Weakness** is a significant deficiency, or combination of deficiencies, that result 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.
- 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 to administer a federal program. If a significant deficiency exists, 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 **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.

Condition

We determined that 72 organizations received over \$24 million in federal funds from Maricopa County pass-through distributions. Of the 72 organizations, we determined 43 subrecipient organizations were required to comply with the Single Audit Act and submit their audited reports to

Maricopa County. At the time of our review, 19 organizations met the Single Audit reporting deadlines and 2 organizations were past due. Nineteen of the subrecipients submitted their reports to the County within our review period, which ended February 26, 2010. Audit reports due after our review will be included in our next Single Audit Compliance report. The following table displays the distribution of the subrecipient's Single Audit submittal status.

Status of Subrecipient Single Audit Reports		
<u>Year</u>	<u>Single Audit Status</u>	<u>Quantity</u>
FY09	Submitted a single audit report	13
	Due after reporting period	22
	Under federal threshold *	28
	Federal Agency *	1
FY09 Total		64
Prior Years	Submitted a single audit report	6
	Did not submit	2
	Prior Year Total	8
Grand Total		72

* Single Audit not required

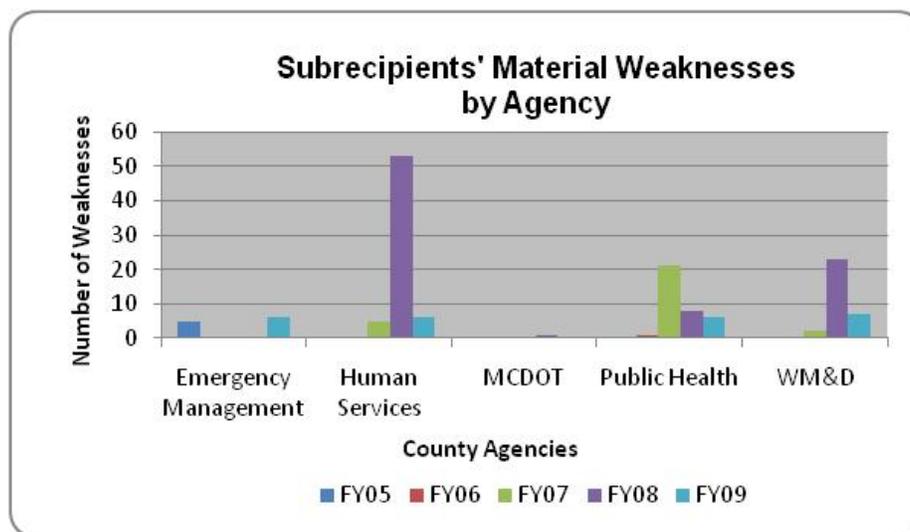
Two Subrecipient Audit Reports are Past Due

La Paz County has not completed its FY06 financial statements and Town of Gila Bend has not completed its FY08 financial statements; therefore, a Single Audit reporting package was not completed. We will follow-up with these agencies during the FY11 Single Audit review.

Nineteen Subrecipient Audit Reports Met Audit Requirements

Our review of 19 audit reports identified 12 reports that contained 46 findings as summarized in the following table. Of the 46 findings, 13 were material weaknesses. A description of each finding is available upon request. 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 (2009 unless indicated)	Agency Passing Through Funds	Material Weakness	Significant Deficiency	Control Deficiency	Total
AZ Dept of Corrections & ASU Community Health Services (Single Audit – State of Arizona) (2008)	EM, PH, WM&D	6	1	2	9
Catholic Charities Community Services, Inc	HSD	0	2	0	2
Chicanos por la Causa	WM&D	1	0	0	1
City of Avondale	EM, HS, PH	0	2	0	2
Community Services of Arizona (2008)	HS	2	2	0	4
Goodwill Industries (2008)	HS	0	1	2	3
Maricopa County Special Health Care District (MIHS)	PH, WM&D	0	2	2	4
Mountain Park Health Ctr (2008)	PH	0	5	9	14
Phoenix Children's Hospital (2008)	PH	0	1	0	1
Town of Buckeye	HS	2	0	0	2
Town of Guadalupe	HS	2	0	0	2
Valley of the Sun YMCA (2008)	HS	0	0	2	2
Totals		13	16	17	46



We also identified discrepancies between the amounts reported by County agencies and the amounts reflected as expenditures in 18 of the subrecipients' *Schedule of Expenditure of Federal Awards*. These discrepancies ranged from \$1,062 to \$674,418, as shown in the following table.

Differences in Reported Expenditures Between Maricopa County and Subrecipients				
Subrecipient Name	Amount Reported Passed Through by Agency \$	Amount Reported Expended by Subrecipient \$	Difference \$	County Agency
Area Agency on Aging	1,163,845	1,162,783	(1,062)	WM&D
Arizona Call-a-Teen	413,502	1,087,920	674,418	HS
AZ Dept of Corrections (2008)	68,861	0	(68,861)	WM&D
ASU Community Health Svcs (2008)	94,014	0	(94,014)	PH
ASU Police Department (2008)	1,778	0	(1,778)	EM
Catholic Charities Community Services	7,134,694	7,106,385	(28,309)	HS
Chicanos por la Causa, Inc	332,388	0	(332,388)	WM&D
City of Avondale	99,446	78,453	(20,993)	EM, HS, PH
City of Glendale	199,165	203,116	3,951	HS, JP
City of Mesa	125,174	62,621	(62,553)	EM, JP, PH
Community Information & Referral	48,038	58,037	9,999	WM&D
Community Services of Arizona (2008)	202,548	161,511	(41,037)	HS
Goodwill Industries (2008)	486,617	312,762	(173,855)	HS
Maricopa Integrated Health System	2,337,394	2,508,584	171,190	PH, WM&D
Mountain Park Health Svcs (2008)	105,561	0	(105,561)	PH
Phoenix Children's Hospital (2008)	132,762	149,419	16,657	PH
Town of Buckeye	76,322	0	(76,322)	HS
Valley of the Sun YMCA (2008)	336,500	441,233	104,733	PH
Net Underreported			(25,785)	

We reported these audit findings and discrepancies to the appropriate County agencies for appropriate follow-up. These agencies are required to issue a management decision related to the findings and ensure that the subrecipients take appropriate and timely corrective action.