



Internal Audit Report

**Grant Funded Organizations
Federal Audit Compliance Review
March 2004**



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March 5, 2004

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We have concluded the Grant Funded Organizations Federal Audit Compliance reviews for fiscal year (FY) 2001-02 and calendar year (CY) 2002. As required by federal guidelines, we reviewed 38 Single Audit reports of community-based organizations, which received \$14.6 million in County-distributed federal grants. This review was performed in accordance with the Board of Supervisors' approved annual audit plan.

Twelve of the audit reports contained 34 findings related to County-distributed federal dollars. Only 4 of the 34 findings were material, and none directly affected the County or specific County-funded programs.

This report includes:

- A summary of audit issues noted in the audit reports
- Background information on the Single Audit Act
- Internal Audit's role in the Single Audit reporting process
- Single Audit report data and a listing of the County's FY 2001-02 subrecipients

If you have any questions please contact Joe Seratte at 506-6092 or me at 506-1588.

Sincerely,

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

Ross L. Tate
County Auditor

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Summary of Findings

Summary

We reviewed 38 available subrecipient Single Audit Reports and found that 12 contained a total of 34 findings related to County-distributed federal dollars. Only 4 of 34 findings are material, and no findings directly affect the County or specific County-funded programs.

Finding Classifications

Single Audit findings, by definition, are classified into four categories (listed below) in order of increasing risk to the entity being audited. The CPA performing the Single Audit determines each finding's category based on the effect on the subrecipient's financial statements

<i>Immaterial Noncompliance</i>	<i>Noncompliance</i>	<i>Reportable</i>	<i>Material</i>
Lowest-risk findings that are not required to be reported in the Single Audit Report, and are reported in a separate management letter.	Noncompliance with laws, regulations, contracts, and grants, which could have a direct and material effect on the financial statements.	Significant deficiency over financial reporting controls that could affect the entity's ability to record, process, summarize, and report financial data.	A condition that could lead to material misstatements in the financial statements, which might be detected by employees in normal course of business.

The 34 Independent Auditor's Findings, summarized in the table below, and corresponding subrecipient corrective action plans, have been conveyed to appropriate County departments.

Subrecipient Findings for FY 2001-02, Calendar Year 2002

DEPARTMENT/ SUBRECIPIENT	FINDING TYPE	DESCRIPTION
Human Services		
Arizona Call-A-Teen Youth Services	Material	Inconsistent accounting for invoices submitted; improperly recorded cash receipts.
Chandler Unified School District	Reportable	Cash balances were not properly reconciled
	Reportable	Student files not maintained to support Title I students.
Community Services of Arizona	Reportable	Inadequate controls over disbursements and lack of segregation of duties.
	Material	Inadequate controls over Federal Award program. Control weakness over related entity transactions.
Foundation for Senior Living	Reportable	Contractor received unrecorded in-kind donations.
Gilbert Unified School District	Reportable	Special Education census was not monitored or reviewed.
		Claim forms not accurately based on expenditures.
Maricopa Community College	Reportable	No adequate security over external access to IT resources.
		No disaster recovery plan for some critical job functions.

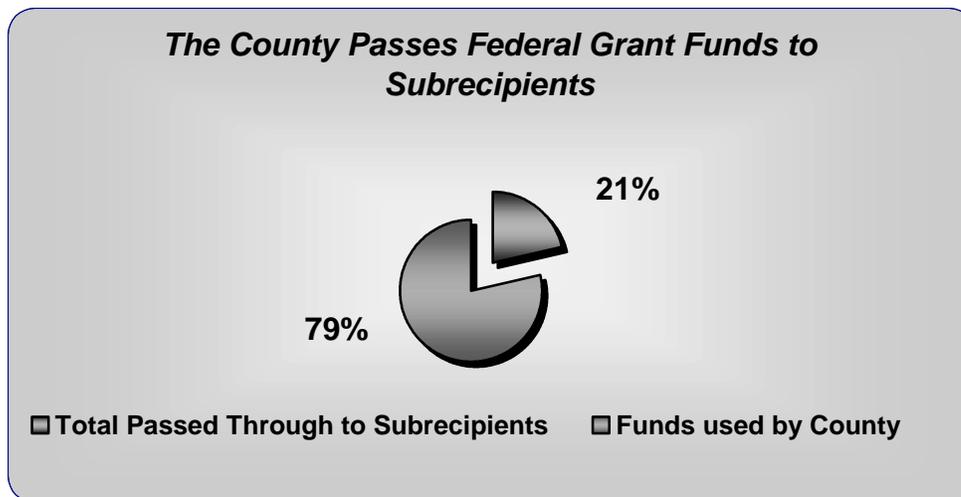
Subrecipient Findings for FY 2001-02, Calendar Year 2002, Cont'd.

DEPARTMENT/ SUBRECIPIENT	FINDING TYPE	DESCRIPTION
Human Services, Cont'd.		
Mesa Unified School District	Reportable	Student information not monitored and reviewed to ensure accuracy of eligibility listing.
Scottsdale Unified School District	Reportable	Attendance records not compared to absence reports.
		IGAs not filed with State Board of Education.
		Cash collections summaries not prepared to reconcile cash receipts to deposits.
		Daily reimbursable meals served reports not reconciled to amounts deposited on a daily basis.
		Inadequate controls over recording and depositing sales.
		Inadequate records retention to validate requirements met.
		Expenditures not included in Medicaid Reimbursement Fund.
		Review results not documented for Expenditure Summary.
Wages for another federal program incorrectly included in net expenditures for Medicaid outreach services.		
Town of Guadalupe	Material	Inadequate controls over Federal Award program reporting on Schedule of Expenditures of Federal Awards.
	Immaterial Noncompliance	Weak file documentation/recordation.
		Weakness in contingency budget expenditures.
		Weakness in Magistrate court accounting records.
		Inadequate security over vehicles and equipment.
		Weakness in stewardship over budgeted expenditures.
		Lack of timely signatures on legal documents.
Inadequate frequency of reimbursement requests.		
Juvenile Probation		
City of Phoenix	Immaterial Noncompliance	Files did not have completed rent reasonableness forms.
		Federal Transit reports did not agree with general ledger.
		Subrecipients did not submit reports of audits.
Maricopa Integrated Health Systems (MIHS)		
Ebony House	Reportable	Contract billings not properly supported or documented.
Public Health		
Clinic Adelante	Reportable	Procedures for determining and documenting patient eligibility for the Sliding Fee Scale not consistently applied.

Introduction

Background

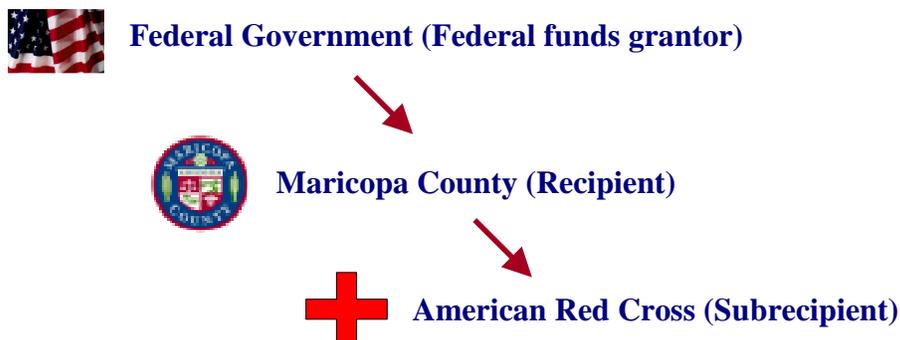
In 1984, the United States Congress passed the Single Audit Act to consolidate a previously fragmented and inefficient approach to auditing federal grants. The Federal Office of Management and Budget issued Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations* to implement the Single Audit Act. Recipients who annually receive \$300,000 or more of federal assistance are now required to undergo a comprehensive financial and compliance audit each year.



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. The County received \$99.3 million of federal grant funds in FY 2002. The County directed \$21.2 million of these funds to subrecipient cities, charitable organizations, and service foundations within Maricopa County. Internal Audit is charged with ensuring that each County subrecipient, that exceeds the \$300,000 threshold, undergoes a Single Audit review.

Federal Fund Distribution (Pass-Through Process)

A listing of the County’s 2002 subrecipients, required to undergo Single Audits, is shown as **Appendix A** on page 5. The federal fund distribution process is illustrated below:



Single Audit Report

Requirements

Subrecipients who exceed the \$300,000 “grant funds expended” threshold must hire an independent auditor, either the State Auditor General or an independent Certified Public Accountant (CPA), each year. The auditor performs uniform audit procedures established in 1996 by the Single Audit Amendment and produces a Single Audit Report, which includes:

- Independent Auditor's Report (cover letter)
- 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

In addition, recipients (e.g., Maricopa County) who pass federal funds through to subrecipients must monitor the subrecipients to ensure a Single Audit is performed.

Auditor General Findings and Internal Audit Role

The Arizona Auditor General's June 30, 1988 *Report on Supplemental Data, Internal Controls, and Compliance for Single Audit*, found Maricopa County to be in noncompliance 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.

In 1989, the Board of Supervisors directed Internal Audit to establish and maintain a Countywide subrecipient audit management program. Accordingly, each year Internal Audit identifies County subrecipients, reviews Single Audit reports, and follows up on findings affecting the County. The Internal Audit Department ensures that:

- Subrecipients engage an independent auditor and have a Single Audit conducted
- Single Audits are performed and reported on a timely basis, which maintains the flow of grant funds to the County
- Findings affecting the County are communicated to appropriate departments

With Board approval, Community Development and the Sheriff's Office are responsible for maintaining grant subrecipient monitoring. In addition to Single Audit reviews, Internal Audit, in conjunction with the Department of Finance, has provided OMB A-133 Grant Training classes since April 1999. The training is available through the County's course catalog.

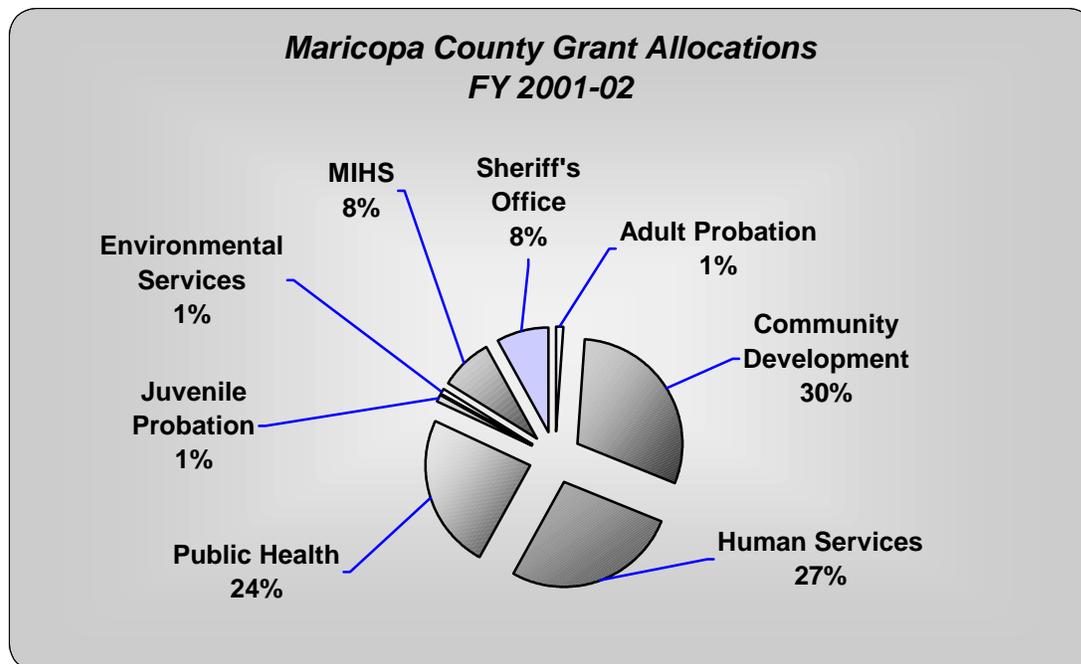
County Pass-Through Grantors

County Departments

Federal grant monies provided to County subrecipients in FY 2001-02 and CY 2002 passed through the following departments:

- Adult Probation
- Community Development
- Environmental Services
- Human Services
- Juvenile Probation
- Maricopa Integrated Health System (MIHS)
- Public Health
- Sheriff's Office

The chart below illustrates the percentage of total grant dollars passed through each department.



Internal Audit completed 38 of 39 Single Audit report reviews; one subrecipient has not yet submitted their audit report. Our review of the Federal OMB Circular A-133 and discussion with the Auditor General's Office indicated that no penalties exist for late reports, but Internal Audit will follow up on the unsubmitted report. **Appendix A** lists all County subrecipient Single Audit Reports for FY 2001-02 and CY 2002 that we reviewed. The one unsubmitted report is listed as having unknown dollar amounts. Community Development and Sheriff's Office are conducting their own reviews.

Appendix A

Maricopa County Subrecipients: FY 2001-02, CY 2002

Subrecipients Requiring Single Audits (Although amounts shown may be less than \$300,000, each subrecipient received \$300,000 or more in total federal grant funds from all sources.)	Amount (per subrecipient report)	Adult Probation	Environ. Services	Human Services	Juvenile Probation	MIHS	Public Health
AIDS Project AZ	\$ 1,142,927					✓	✓
American Red Cross	276,234			✓			
Area Agency on Aging	1,181,000					✓	✓
Arizona Call-A-Teen Youth Resources	830,476			✓			
ASU-Community Health Services	30,978						✓
Body Positive	656,686					✓	✓
Catholic Social Service	5,955,100			✓			✓
City of Avondale	69,296			✓			
City of El Mirage	66,560			✓			
City of Glendale	163,856			✓	✓		
City of Phoenix	1,007,760				✓		
City of Scottsdale	98,751			✓			
City of Tempe	142,757			✓			
City of Tolleson	53,690			✓			
Clinic Adelante	14,778						✓
Community Services of Arizona	160,908			✓			
East Valley Institute of Technology	319,235			✓			
Ebony House	57,721					✓	
Foundation for Senior Living	374,561			✓			
Maricopa County Community College	4,773			✓			
Mountain Park Health Center	24,390						✓
New Life Center	27,111			✓			
Phoenix Children's Hospital	Unknown					✓	✓
Phoenix Shanti Group	204,927						✓
Regional Public Transportation Authority	585,505		✓	✓			
Save the Family	27,111			✓			
Tempe Community Action Agency	746,229			✓			
Town of Buckeye	72,736			✓			
Town of Gila Bend	47,997			✓			
Town of Guadalupe	246,623			✓			
TOTAL:	\$14,590,676						

Note: Due to misunderstanding of subrecipient status versus vendor relationship, and timing of expenditures and reimbursements, only 29 of 39 subrecipients' Single Audit reports identified Maricopa County monies as a source of pass-through federal funds. These 29 are listed above.