Maricopa County

Report on Internal Control
and on Compliance

Year Ended June 30, 2024

A Report to the Arizona Legislature

Lindsey A. Perry
Auditor General

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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
Maricopa County, Arizona

We have audited, in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the U.S. Comptroller General, the financial statements of the governmental activities, aggregate discretely presented component units, each major fund, and aggregate remaining fund information of Maricopa County as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated December 19, 2024. Our report includes a reference to other auditors who audited the financial statements of the Stadium District, Risk Management, Employee Benefits Trust, Housing Authority, and Industrial Development Authority, 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.

Report on internal control over financial reporting

In planning and performing our audit of the financial statements, we considered the County's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we and the other auditors did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and recommendations as items 2024-01, 2024-02, and 2024-03, that we consider to be significant deficiencies.

Report on compliance and other matters

As part of obtaining reasonable assurance about whether the County's basic financial statements are free from 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 financial statements. 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 disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* and that is described in the accompanying schedule of findings and recommendations as item 2024-04.

County response to findings

Government Auditing Standards requires the auditor to perform limited procedures on the County's responses to the findings identified in our audit that are presented in its corrective action plan at the end of this report. The County is responsible for preparing a corrective action plan to address each finding. The County's responses and corrective action plan were not subjected to the other auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on them.

Purpose of this report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the County's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Lindsey A. Perry

Lindsey A. Perry, CPA, CFE
Auditor General

December 19, 2024

Financial statement findings

2024-01

The County's deficiencies in its process for managing and documenting its risks may put its operations and IT systems and data at unintended and unnecessary risk of potential harm

Condition—The County's process for managing and documenting its risks did not include identifying, classifying, and inventorying sensitive information that might need stronger access and security controls.

Effect—The County's administration and Information Technology (IT) management may put the County's operations and IT systems and data at unintended and unnecessary risk of potential harm.

Cause—The County's administration and IT management developed new policies and procedures and related training during fiscal year 2024; however, these were not approved by the Board of Supervisors nor implemented during the fiscal year. Specifically, County administration and IT management reported a delay finalizing the policies and procedures because of the quantity of data and challenges disseminating information and gaining leadership support, and that they submitted draft policies to County department directors for review and comment in June 2024 and plans to request the Board of Supervisors' approval in fiscal year 2025.

Criteria—Establishing a process for managing risk that follows a credible industry source, such as the National Institute of Standards and Technology, helps the County to effectively manage risk related to IT systems and data. Effectively managing risk includes the County's process for identifying, classifying, and inventorying sensitive information that might need stronger access and security controls to address the risk of unauthorized access and use, modification, or loss of that sensitive information.

Recommendations—The County's administration and IT management should:

1. Continue to ask responsible administrative officials and management over finance, IT, and County departments for input on the County's draft policies and procedures for managing risk.
2. Implement policies and procedures and train County departments to effectively manage risk related to IT systems and data.
3. Evaluate and manage the risks of holding sensitive information by identifying, classifying, and inventorying the information the County holds to assess where stronger access and security controls may be needed to protect data in accordance with State statutes and federal regulations.

The County's corrective action plan at the end of this report includes the views and planned corrective action of its responsible officials. We are not required to audit and have not audited these responses and planned corrective actions and therefore provide no assurances as to their accuracy.

This finding is similar to prior-year finding 2023-02 and was initially reported in fiscal year 2017.

2024-02

The County's control procedures over IT systems and data were not sufficient, which increases the risk that the County may not adequately protect those systems and data

Condition—The County's control procedures were not sufficiently developed, documented, and implemented to respond to risks associated with its IT systems and data. The County lacked sufficient procedures over the following:

- **Restricting access—**Procedures did not consistently help prevent or detect unauthorized or inappropriate access to its IT systems and data.
- **Managing system configurations and changes—**Procedures did not ensure configuration settings were securely maintained and all IT system changes were adequately managed.
- **Securing systems and data—**IT security policies and procedures lacked controls to prevent unauthorized or inappropriate access or use, manipulation, damage, or loss.

Effect—There is an increased risk that the County may not adequately protect its IT systems and data, which could result in unauthorized or inappropriate access and/or the loss of confidentiality or integrity of systems and data.

Cause—The County's administration and IT management reported that it did not prioritize developing a process to ensure its IT policies and procedures for restricting logical and physical access to IT systems and data were consistently followed. Additionally, the County's administration and IT management reported they did not prioritize developing policies and procedures to manage configurations and changes and log and monitor system activity for users with administrative access privileges.

Criteria—Implementing effective internal controls that follow a credible industry source, such as the National Institute of Standards and Technology, help the County to protect its IT systems and ensure the integrity and accuracy of the data it maintains as it seeks to achieve its financial reporting, compliance, and operational objectives. Effective internal controls include the following:

- **Restrict access through logical and physical access controls—**Help to ensure systems and data are accessed by users who have a need, systems and data access granted is appropriate, key systems and data access is monitored and reviewed, and physical access to its system infrastructure is protected.
- **Manage system configurations and changes through a well-defined, documented configuration-management process—**Ensures the County's IT system configurations changes are documented, evaluated for security implications, and tested before implementation. This helps limit the possibility of an adverse impact on the system's security or operation.
- **Secure systems and data through IT security internal control policies and procedures—**Help prevent, detect, and respond to instances of unauthorized or inappropriate access or use, manipulation, damage, or loss to its IT systems and data.

Recommendations—The County should:

1. Make it a priority to:
    a. Monitor County employees' adherence to the logical and physical access IT policies and procedures on a periodic basis to ensure they are consistently followed.

b. Develop and document IT policies and procedures for configuration and change management and logging and monitoring of users with administrative access, and train employees on new procedures.

Restrict access—To restrict access to its IT systems and data, implement processes to:

2. Assign and periodically review employee user access ensuring appropriateness and compatibility with job responsibilities.
3. Remove terminated employees' access to IT systems and data.
4. Review all other account access to ensure it remains appropriate and necessary.
5. Enhance authentication requirements for IT systems.
6. Review data center physical access periodically to determine appropriateness.

Manage system configurations and changes—To configure IT systems securely and manage system changes, develop, document, and implement processes to:

7. Establish and follow a documented change-management process.
8. Review proposed changes for appropriateness and security impact.
9. Document a plan to roll back changes in the event of a negative impact to IT systems.
10. Document testing procedures and results.

Secure systems and data—To secure IT systems and data, develop, document, and implement processes to:

11. Perform proactive key user and system activity logging and log monitoring, particularly for users with administrative access privileges.

The County's corrective action plan at the end of this report includes the views and planned corrective action of its responsible officials. We are not required to audit and have not audited these responses and planned corrective actions and therefore provide no assurances as to their accuracy.

This finding is similar to prior-year finding 2023-03 and was initially reported in fiscal year 2023.

2024-03

The County's initial financial statements contained a $6.6 million inventory misstatement, which increased the risk that those relying on the reported financial information could be misinformed

Condition—Contrary to U.S. generally accepted accounting principles (GAAP), the County's initial financial statements contained an error we identified that required correction so that the County's financial statements would contain accurate information. Specifically, the Detention Operations Fund was overstated by $6.6 million of inventory as of June 30, 2024, and likewise, overstated nonspendable fund balance by the same amount. The County's Office of Budget and Finance (OBF), which is responsible for the financial statement preparation, subsequently corrected the error after we questioned the large inventory variance.

Effect—Although the OBF corrected the error after we questioned the large inventory variance and before issuing the County's final financial statements, there is an increased risk that the County's financial statements could contain significant errors and misinform those who are relying on the information.

Cause—The County Sheriff's Office (MCSO) incorrectly recorded over 600,000 inmate sack lunches in its inventory management system during its physical inventory count at fiscal year-end. MCSO staff who performed a supervisory review and approval failed to detect the error because they did not verify that the physical inventory count was correct before approving the inventory management system adjustment. Further, the MCSO did not properly investigate the variance noted when OBF requested MCSO to validate the large adjustment to the inventory management system, as part of the County's procedures for year-end physical inventory.

Criteria—The Governmental Accounting Standards Board sets the accounting and financial reporting standards that require the County to prepare its financial statements in accordance with GAAP. Accurate financial statements provide valuable information to those charged with the County's governance and management, and others who rely on the reported financial information to make important decisions about the County's financial operations. In addition, County policy requires supervisory review and approval for inventory transactions.[1] Further, designing, implementing, and maintaining effective policies and procedures over inventory is necessary to achieve the County's objectives, which include safeguarding public monies and other assets, and is an essential part of internal control standards, such as the *Standards for Internal Control in the Federal Government* issued by the Comptroller General of the United States.[2]

Recommendations—The County should:

1. Ensure the financial statements are accurate and prepared in accordance with GAAP prior to providing these statements to auditors.
2. Ensure physical inventory counts and valuations are accurate and agree to its inventory management system, and if discrepancies are found, investigate counts and valuations to rectify those discrepancies prior to making an adjustment in the inventory management system.
3. Ensure employees responsible for physical inventory counts and inventory management system adjustments follow all County policies.

The County's corrective action plan at the end of this report includes the views and planned corrective action of its responsible officials. We are not required to audit and have not audited these responses and planned corrective actions and therefore provide no assurances as to their accuracy.

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[1] Maricopa County. (January 2024). *Maricopa County Inventory Procedures Manual*.

[2] U.S. Government Accountability Office (GAO). (2014). Standards for internal control in the federal government. Washington, DC. Retrieved 11/8/2024 from https://www.gao.gov/assets/670/665712.pdf

2024-04

The County School Superintendent's Office risks receiving more or less State funding than statutorily allowed to support juvenile detention center education program operations because it did not accurately report program operations to the Arizona Department of Education (ADE)

Condition—Despite the County School Superintendent's Office (Office) reporting to ADE that it had separated its juvenile detention center education program operations from its accommodation school, the Office had never fully done so. Specifically, in June 2019, the Office reported to ADE that it had separated program operations from its accommodation school beginning in fiscal year 2020, qualifying it for alternative funding that became effective in State law starting in fiscal year 2020 for counties that operate their juvenile detention center education programs separately from an existing accommodation school.[1]

However, the Office never fully separated its program from its accommodation school. For example, the Office continued to direct State payments for program operations to the accommodation school, which controlled the funds; maintained the program's accounting records; and processed the program's payroll and other expenditures. For fiscal year 2024, the accommodation school no longer reported the program's activity in its annual financial report submitted to ADE. However, the accommodation school continued to record some of the program's expenditures in its fiscal year 2024 accounting records.

Effect—The Office received a total of $4.5 million from ADE for program operations for fiscal years 2020 through 2024, which may be more or less than it would have received if it had accurately reported to ADE that it continued to operate the program through its accommodation school. In December 2023, ADE management informed the Office that it is not able to calculate what the program's funding would have been if the Office had reported the program's operations through its accommodation school, as different data is used to calculate funding for programs operated through existing accommodation schools, and that data was not captured for the Office's reportedly separated program. Because the Office inaccurately reported its program's operations, it risks receiving less State funding to support program operations. However, if the Office's inaccurate reporting resulted in it receiving more State funding than it was statutorily entitled to, the State overpaid for the program.

Cause—After reporting to ADE in June 2019 that beginning in fiscal year 2020, program operations were being separated from the accommodation school and operated under a new name, the Maricopa County Juvenile Detention Center, the Office did not develop and follow a process to separate program operations from its accommodation school. Further, according to Office and other County staff, in January 2020, when the Office requested a separate fund to record the program's revenues beginning in fiscal year 2021, the County did not approve the Office's request. In fiscal year 2024, action was further delayed as the County contracted to have a performance audit and financial reconstruction of the accommodation school district and juvenile detention education program and wanted to consider that work in deciding on detention education operations going forward.

Criteria—State law allows counties to operate a juvenile detention center education program either through or separate from an existing accommodation school and prescribes different funding provisions depending on the method of operation. Further, the county school superintendent may establish a detention center education fund to provide financial support to the program, if not operated through an existing accommodation school, and shall deposit State payments into it. Any excess monies in the fund shall be used to supplement classroom spending (Arizona Revised Statutes [A.R.S.] §15-913). Programs operated through an existing accommodation school are included in the apportionment of State aid to accommodation schools (A.R.S. §15-909).

Recommendations—The Office should:

1. Either develop and follow a process for separating program operations from the accommodation school in accordance with its reporting to ADE or inform ADE that it is not separating program operations from the accommodation school.
2. Ensure that the program receives the correct statutory funding based on whether or not program operations are separated from the accommodation school.

The County's corrective action plan at the end of this report includes the views and planned corrective action of its responsible officials. We are not required to audit and have not audited these responses and planned corrective actions and therefore provide no assurances as to their accuracy.

This finding is similar to prior-year finding 2023-05 and was initially reported in fiscal year 2022.

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[1] Laws 2019, Ch. 265.

COUNTY RESPONSE

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BUDGET & FINANCE

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Maricopa.gov

January 23, 2025

Lindsey Perry
Auditor General
2910 North 44th Street, Suite 410
Phoenix, AZ 85018

Dear Ms. Perry:

We have prepared the accompanying corrective action plan as required by the standards applicable to financial audits contained in Government Auditing Standards and by the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Specifically, for each finding we are providing you with our responsible officials' views, the names of the contact people responsible for corrective action, the corrective action planned, and the anticipated completion date.

Sincerely,

Michael McGee

Michael McGee
Chief Financial Officer

2024-01 The County's deficiencies in its process for managing and documenting its risks may put its operations and IT systems and data at unintended and unnecessary risk of potential harm.
Contact person(s): Kevin Westover, Customer Experience Officer, Enterprise Technology and Innovation
Anticipated Completion Date: June 30, 2025

Concur. Maricopa County takes all IT audit findings seriously and will make efforts to resolve any deficiencies. The County will work to implement the policies and procedures for managing and documenting risks.

2024-02 The County's control procedures over IT systems and data were not sufficient, which increases the risk that the county may not adequately protect those systems and data.
Contact person(s): Kevin Westover, Customer Experience Officer, Enterprise Technology and Innovation; James Moore, Chief Information Officer, Maricopa County Treasurer's Office; Bridget Harper, Deputy Finance Director, Office of Budget and Finance; and Emily Parish, Director, Human Resources
Anticipated Completion Date: June 30, 2025

Concur. Maricopa County takes all IT audit findings seriously and will make efforts to resolve any deficiencies. The County will improve access controls over its IT resources.

2024-03 The County's initial financial statements contained a $6.6 million inventory misstatement, which increased the risk that those relying on the reported financial information could be misinformed
Contact person(s): Bridget Harper, Deputy Finance Director, Office of Budget and Finance
Anticipated Completion Date: June 30, 2025

Concur. Maricopa County recognizes the significance of accurately accounting for its inventory and will work to improve County-wide policies and procedures to ensure the identified issues and risks are addressed.

2024-04 The County School Superintendent's Office risks receiving more or less State funding than statutorily allowed to support juvenile detention center education program operations because it did not accurately report program operations to the Arizona Department of Education (ADE).
Contact person(s): Heather Mock, Assistant Superintendent Economic Management, Maricopa County School Superintendent's Office
Anticipated Completion Date: July 1, 2024

Concur: In coordination with the County Board of Supervisors, the County School Superintendent's Office (Office) evaluated operations of the juvenile detention center education program to ensure that the accounting aligns with the funding requirements. The Office and the Juvenile Court Presiding Judge established a memorandum of understanding for the detention center education program pursuant to A.R.S. §15-913 that went into effect July 1, 2024.

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