



MEMORANDUM

Date: September 30, 2024

To: The Honorable Chair and Members
Pima County Board of Supervisors

From: Jan Leshner 
County Administrator

Re: **A Review of Existing Financial Policies, Procedures and Internal Controls Following the Alleged Theft Incident in Santa Cruz County**

Earlier this year, Santa Cruz County learned that \$39,472,100 was transferred by at least 182 unauthorized wire transfers from the County Treasurer's Office to external business bank accounts. An August 26, 2024 report by the Auditor General stated, in part, apparent numerous false financial statements and reconciliations.

In a September 5, 2024 Memorandum to Finance Director Ellen Moulton, I noted Pima County also relies on the annual audit and reviews done by the Arizona Auditor General to provide invaluable information to the Board of Supervisors and the people of Pima County regarding the financial operations of the County.

I asked Ms. Moulton:

- What policies, procedures and internal controls are in place in Pima County that guarantee that this does not happen in Pima County?
- Are there any additional steps or enhanced requirements to the current system that might be necessary to ensure that the Arizona Auditor General is not provided with false or inaccurate information?

The attached Memorandum from Ms. Moulton outlines our existing policies, procedures and internal controls in Pima County. Ms. Moulton also consulted with County Treasurer Chris Ackerley regarding recommendations of enhanced or modified requirements to ensure the Arizona Auditor General is not provided with false or inaccurate information.

It is important to note that with the implementation of Workday, the County and the Treasurer's Office have been working together in a unique partnership to ensure that the two separate systems are passing data through interfaces to eliminate manual entries into either system. These integrations and ongoing collaboration over the past several months have strengthened the partnership between the Treasurer's Office and Finance, ensuring the processes function smoothly and the systems remain aligned.

The Honorable Chair and Members, Pima County Board of Supervisors
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It is also important to note that the Auditor General does not audit the County Treasurer's systems in the same way they audit the County. Ms. Moulton's Memorandum suggests that a more robust audit of the Treasurer's accounting systems would provide additional assurances to the various elected boards that are required by statute to use the Treasurer.

Ms. Moulton recommends:

1. Enhanced Audit Procedures:

- Periodic Independent Audits of the Treasurer's systems: Conduct audits of the Treasurer's systems beyond the current annual audits to bolster compliance and accuracy. These audits should include a review of internal controls, reconciliation processes, and adherence to accounting standards.
- Provide the Auditor General the ability to receive statements directly from financial institutions.

2. Increased Transparency:

- Regular Reporting to the Board of Supervisors: Establish a routine board agenda item where the Treasurer provides updates on financial activities, reconciliations, and any audit findings to the Board of Supervisors.

I will work with Treasurer Ackerley to report progress on the implementation of these recommendations.

Pima County has a strong framework of internal controls for its financial systems, which are audited annually by the Auditor General. To prevent the risk of any one individual compromising these systems, it is essential to adhere to accounting standards and maintain adequate segregation of duties, ensuring the protection of public funds.

JKL/anc

Attachment

c: The Honorable Chris Ackerley, Pima County Treasurer
Carmine DeBonis, Jr., Deputy County Administrator
Francisco García, MD, MPH, Deputy County Administrator and Chief Medical Officer
Steve Holmes, Deputy County Administrator
Sam Brown, Chief Civil Deputy County Attorney
Ellen Moulton, Director, Finance & Risk Management



Date: September 30, 2024

To: Jan Leshar

County Administrator

From: Ellen Moulton *Moulton*

Director, Finance and Risk Management

Re: **Response to Annual Financial Audit Memo Dated September 5, 2024**

In response to your memo dated September 5, 2024, regarding the Annual Financial Audit and the alleged theft incident in Santa Cruz County, I have outlined our existing policies, procedures and internal controls in Pima County.

The Treasurer is an elected County official with specific duties as defined by the Arizona Revised Statutes (A.R.S. Title 11, Chapter 3, Article 4, Sections 11-491 through 11-505). As such, the Board of Supervisors and County Administration has limited oversight and control over the Treasurer.

What policies, procedures and internal controls are in place in Pima County that guarantee that this does not happen in Pima County?

Per A.R.S. 11-491, the Treasurer serves as the custodian of public funds. This statute, along with others in this same section, mandates that the County use the Treasurer's Office as its primary banking entity. All deposit transactions are made into the Treasurer's system and all disbursements are recorded there as well. Additionally, the Treasurer's Office maintains the direct relationship with the County's servicing bank, Bank of America. Finance and Risk Management (Finance) does not interact directly with Bank of America; all communication with the bank is coordinated through the Treasurer's Office.

All deposits and disbursements are also recorded in the County's financial systems. This dual accounting structure creates a system of checks and balances with the Treasurer's Office. Finance works directly with the Treasurer daily to ensure both systems remain aligned. Deposits are reconciled between the two systems, and any discrepancies on either side are identified and resolved. Warrants issued through the County's financial system are transmitted to the Treasurer at the same time the warrants are sent to vendors. Bank of America clears the warrants, which are then reconciled against the issued warrants, with any discrepancies addressed. These reconciliations serve as key procedures and internal controls to maintain accuracy and alignment between the two systems.

Finance has limited, read-only access to the Treasurer's system for County transactions, minimizing the risk associated with direct manipulation of financial data. Since the

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Treasurer functions as the bank for all the municipalities, jurisdictions, and special districts, handling the collection and disbursement of all tax revenues within the County, it is appropriate that this access remains limited.

The processes and procedures used by the Treasurer's Office and Finance align with the accounting standards defined by the Governmental Accounting Standards Board (GASB) and General Accounting Accepted Accounting Principles (GAAP). Finance staff receive annual training on new accounting standards as they are issued and become effective so that they can practically apply the updated standards. Finance also ensures that all cash handling and reporting areas have sufficient segregation of duties to reduce the risk of errors and fraud.

With the implementation of Workday, the County and the Treasurer's Office have been working together in a unique partnership to ensure that the two separate systems are passing data through interfaces to eliminate manual entries into either system. These integrations and ongoing collaboration over the past several months have strengthened the partnership between the Treasurer's Office and Finance, ensuring the processes function smoothly and the systems remain aligned.

Are there any additional steps or enhanced requirements to the current system that might be necessary to ensure that the Arizona Auditor General is not provided with false or inaccurate information?

The Auditor General does not audit the County Treasurer's systems in the same way they audit the County. Perhaps a more robust audit of the Treasurer's accounting systems would provide additional assurances to the various elected boards that are required by statute to use the Treasurer.

These are some suggestions that could be discussed with the Treasurer.

1. Enhanced Audit Procedures:

- Periodic Independent Audits of the Treasurer's systems: Conduct audits of the Treasurer's systems beyond the current annual audits to bolster compliance and accuracy. These audits should include a review of internal controls, reconciliation processes, and adherence to accounting standards.
- Provide the Auditor General the ability to receive statements directly from financial institutions.

2. Increased Transparency:

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- Regular Reporting to the Board of Supervisors: Establish a routine board agenda item where the Treasurer provides updates on financial activities, reconciliations, and any audit findings to the Board of Supervisors.

Pima County has a strong framework of internal controls for its financial systems, which are audited annually by the Auditor General. As you noted in your memo, the County has consistently received clean audit opinions, with few exceptions, over many years. To prevent the risk of any one individual compromising these systems, it is essential to adhere to accounting standards and maintain adequate segregation of duties, ensuring the protection of public funds.

I have had preliminary discussions with the Treasurer, Chris Ackerley regarding these recommendations.

Attachment

Attachment 1



MEMORANDUM

Date: September 5, 2024

To: Ellen Moulton, Director
Finance and Risk Management

From: Jan Leshar 
County Administrator

Re: **Annual Financial Audit**

Each year, the Arizona Auditor General conducts a financial audit of Pima County in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards. Following the completion of the audit, the Auditor General presents the findings at a public meeting of the Board of Supervisors.

By law, the Arizona Auditor General serves as an "independent source of impartial information concerning State and local governmental entities and provides specific recommendations to improve the operations of those entities." The statutory duties of the Office include the following:

- Ascertain whether public entities are making wise use of their resources—public money, personnel, property, equipment, and space; and
- Determine whether public entities are complying with applicable laws, regulations, and governmental accounting and financial and reporting standards.

When Pima County receives the Report from the Auditor General, it includes three separate audit reports, which are the Financial Statement Auditor Report, the Financial Statement Internal Control and Compliance Audit Report, and a Single Audit Report. A transmittal letter to the Board of Supervisors accompanies the three reports when they are sent to the Board of Supervisors. Language in previous transmittal letters include statements such as:

"Based on our audit and the other auditors' audits, we found that the information in the County's financial statements is fairly presented in all material respects and the financial statements are reliable."

"We noted no transactions the County entered into during the year for which there is a lack of authoritative guidance or consensus."

As I'm sure you are aware, Santa Cruz County recently learned that \$39,472,100 was transferred by at least 182 unauthorized wire transfers from the County Treasurer's Office

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to business bank accounts connected to the Treasurer. An August 26, 2024 report conducted by the Auditor General on the alleged financial misconduct noted that ...*"the Treasurer allegedly failed to record her unauthorized wire transfers in the County Treasurer's accounting system and lied to and/or provided numerous false investment statements, cash reconciliations, and Treasurer's Reports to County entities, officials, and employees; a County financial consultant; and/or the Arizona Auditor General."*

Pima County's Annual Comprehensive Financial Report and the annual financial audit conducted by the Arizona Auditor General provide invaluable information to the people of Pima County and the Board of Supervisors regarding the financial operations of the County. I assume that leadership in Santa Cruz County also relied on the annual audit and reports to ascertain the solvency and financial stability of the County and am therefore asking:

- What policies, procedures and internal controls are in place in Pima County that guarantee that this does not happen in Pima County?
- Are there any additional steps or enhanced requirements to the current system that might be necessary to ensure that the Arizona Auditor General is not provided with false or inaccurate information?

JKL/anc

c: The Honorable Chair and Members, Pima County Board of Supervisors
The Honorable Chris Ackerley, Pima County Treasurer
Carmine DeBonis, Jr., Deputy County Administrator
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