# Navajo County

## Report on Internal Control and on Compliance

Year Ended June 30, 2021

A Report to the Arizona Legislature


**Lindsey A. Perry**
Auditor General


ARIZONA
AuditorGeneral
Making a Positive Difference

The Arizona Auditor General's mission is to provide independent and impartial information and specific recommendations to improve the operations of State and local government entities. To this end, the Office provides financial audits and accounting services to the State and political subdivisions, investigates possible misuse of public monies, and conducts performance audits and special reviews of school districts, State agencies, and the programs they administer.

## The Joint Legislative Audit Committee

Representative **Joanne Osborne**, Chair
Representative **Tim Dunn**
Representative **Steve Kaiser**
Representative **Jennifer L. Longdon**
Representative **Pamela Powers Hannley**
Representative **Rusty Bowers** (ex officio)

Senator **Nancy Barto**, Vice Chair
Senator **Rosanna Gabaldon**
Senator **David Livingston**
Senator **Martin Quezada**
Senator **Kelly Townsend**
Senator **Karen Fann** (ex officio)

## Audit Staff

**Stephanie Gerber**, Director
**Taryn Stangle**, Manager

## Contact Information

**Arizona Auditor General**
**2910 N. 44th St., Ste. 410**
**Phoenix, AZ  85018-7271**

**(602) 553-0333**

**contact@azauditor.gov**

**www.azauditor.gov**

# TABLE OF CONTENTS

LINDSEY A. PERRY
AUDITOR GENERAL

ARIZONA
AUDITOR GENERAL

MELANIE M. CHESNEY
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
Navajo 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 Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and aggregate remaining fund information of Navajo County as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated April 28, 2022.

## 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.

Our consideration of internal control was for the limited purpose described in the preceding 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 have not been identified. However, as described in the accompanying schedule of findings and recommendations, we did identify certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and recommendations as items 2021-01 and 2021-04 to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings and recommendations as items 2021-02 and 2021-03 to be significant deficiencies.

## 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## County response to findings

The County's responses to the findings identified in our audit 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 auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on them. However, we commented on the County's response and corrective action related to finding 2021-01 because the County disagreed with certain elements of the finding and parts of its response are inaccurate or misleading, which necessitate clarification. See pages a-1 through a-2 for the Auditor General's comments on the County's response.

## 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

April 28, 2022

## Financial statement findings

### 2021-01

### The County's initial financial statements contained misstatements and misclassifications, which delayed their issuance and increased the risk that those relying on the reported financial information could be misinformed

**Condition—**Contrary to generally accepted accounting principles (GAAP), the County's initial financial statements contained errors we identified that required correction so that the County's financial statements would contain accurate information. The County's Finance Department subsequently corrected these errors, which included the following misstatements and misclassifications:

- $10.7 million of unearned revenues that were misclassified as intergovernmental revenues on the American Rescue Plan Act Fund's financial statements.
- $7.8 million of charges for services revenue and $6.8 million of expenditures were overstated and $1 million of transfers were understated related to misstatements of Employee Health Benefit Trust activity on the General Fund's financial statements.
- $2.0 million of interfund reimbursements for indirect costs were misclassified as interfund transfers.
- $1.8 million of operating expenditures were misclassified between several functional expense categories on the other governmental funds' financial statements.

**Effect—** The County corrected the errors before issuing its final financial statements. However, without implementing corrective action to improve its financial reporting process, there is an increased risk that the County's financial statements could contain significant errors and misinform those who are relying on the information. Additionally, the County delayed the issuance of the County's Annual Comprehensive Financial Report (ACFR) for the year ended June 30, 2021, which included its financial statements, by 1 month, and did not provide timely financial information to its Board of Supervisors and others who rely on it to make important decisions about the County's operations. Additionally, because the County had not issued timely financial statements, its Annual Expenditure Limitation Report (AELR), which relies on information from the financial statements and was due 9 months after fiscal year-end, will also be issued late.

**Cause—**The County's finance staff prepared the financial statements for the first time in over 15 years, as this function was previously outsourced to third parties. This year, the County began using a web-based application to compile its financial statements but had not developed written procedures for preparing the financial statements and supporting schedules to ensure they are accurate and prepared in accordance with GAAP. Additionally, management did not review the financial statements to ensure they were accurate, properly supported, and presented in accordance with GAAP to detect and correct errors in the financial statements before providing them for audit.

**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, management, and others who are relying on the reported financial information to make important decisions about the County's financial operations. Further, State law requires the County to issue its audited financial statements and AELR within 9 months after fiscal year-end, or by March 31, 2022 (Arizona Revised Statutes §41-1279.07[C]).

**Recommendations—**The County should develop and implement written procedures for:

1. Preparing the financial statements and supporting schedules to ensure they are accurate and prepared in accordance with GAAP.
2. Requiring management to perform detailed supervisory reviews to ensure that the financial statements are accurate, properly supported, and presented in accordance with GAAP and to detect and correct errors in the financial statements before providing them for audit. This review should be performed by an individual who is independent of the financial statements' preparation and knowledgeable of GAAP reporting requirements to review the financial statements and related note disclosures.

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. However, we commented on the County's response and corrective action related to this finding on pages a-1 through a-2 because the County disagreed with certain elements of this finding and parts of its response are inaccurate or misleading, which necessitate clarification.

## 2021-02

### The County paid nearly $20,000 for employees' fuel purchases but did not ensure the fuel was used in County vehicles, contrary to County policies, placing the County at risk of misusing public monies and violating the Arizona Constitution

**Condition—**Contrary to County policies, in fiscal year 2021, the County paid nearly $20,000 for employees' purchasing card fuel purchases but did not ensure the fuel was used in County vehicles. Specifically, we estimated that the County paid for approximately 655 purchasing card fuel purchases made by over 100 employees. We and the County could not determine whether these fuel purchases were for official County business purposes because the supporting documentation was not readily available and sufficient to conduct an in-depth review prior to issuing this report.

**Effect—**The County spent nearly $20,000 of public monies for fuel that may not have been for County purposes, elevating the County's risk of misusing public monies and violating the Arizona Constitution.

**Cause—**The County does not have procedures to ensure that fuel purchases are for official County business. Specifically, the County does not have procedures to reconcile that fuel purchases were solely used for an authorized County vehicle, including maintaining County vehicle logs with mileage driven, trip purpose, fuel purchased, and responsible employee name and requiring employees to document the County vehicle number or license plate number on the purchasing card fuel receipt and, when applicable, on the County travel form.

**Criteria—**County policies prohibit employees from using their purchasing cards to buy fuel for their personal vehicles even if used for County purposes and requires County vehicles to be used for travel when possible.[1] Further, the Arizona Constitution, Art. IX, Sec. 7, bans gifts or loans of public monies to individuals, including employees, by counties.

**Recommendations—**To ensure the County uses its public monies for official County business and complies with the Arizona Constitution, the County should:

1. Ensure all employees approved to use County purchasing cards follow County policy, which does not allow them to use their card to purchase fuel for personal vehicles, even when using a personal vehicle for official County business, by improving its procedures over purchasing card fuel purchases. Specifically, the County should:

    a. Create and maintain vehicle logs for all County vehicles and require employees to document the date and vehicle odometer readings at the time of check-out and check-in, the public purpose for using the County vehicle, and any fuel purchased.
    b. Require employees to record the County vehicle and license plate number on the purchasing card fuel receipt and, when applicable, the travel form when purchasing fuel.
    c. Require the travel form approver to reconcile purchasing card fuel purchases to County vehicle logs.
    d. Periodically review purchasing card fuel costs to evaluate whether employees followed policy and purchasing card fuel purchases appear reasonable, and investigate and take appropriate action for any questionable purchases.

2. Conduct an in-depth review of all employees' fuel purchases made during the fiscal year to determine whether they are reasonable and appropriate, investigate any questionable purchases, and take action such as seeking reimbursement from employees, as appropriate.

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 2020-02.

## 2021-03

### 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.

[1] When a County vehicle is not available, employees may obtain preapproval to use a personal vehicle for County purposes and are required to request mileage reimbursement on an approved travel form rather than using their purchasing card for fuel costs. Further, employees are required to include documentation of odometer readings or map or internet mileage calculations for each authorized trip to support the mileage reimbursement request (Navajo County Purchasing Card Program Policy [2021], Section I, Subsection E; Navajo County Fiscal Policy Manual [2021], Section 12, Subsection 12.6; and Navajo County Personnel Policies Manual [2021], Section 6, Subsection 6.6).

**Effect—**The County's administration and IT management may put the County's operations and IT systems and data at unintended and unnecessary risk.

**Cause—**The County's administration and IT management developed written policies and procedures to manage risk related to the sensitive information it maintains but had not yet implemented them due to limited resources.

**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, including the risk of unauthorized access and use, modification, or loss of sensitive information.

**Recommendations—**The County should:

1. Plan for where to allocate resources for implementing policies and procedures to manage risk related to sensitive information the County maintains.
2. 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 2020-03.

## 2021-04

### 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—**Procedures did not ensure configuration settings were securely maintained.

**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 focused its resources on continued operations and IT security controls but still needs to prioritize developing, documenting, and implementing policies and procedures over access to and configuration management of its IT systems and data.

**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 follows:

- **Restrict access through logical access controls—**Help to ensure systems and data are accessed by users who have a need, systems and data access granted is appropriate, and key systems and data access is monitored and reviewed.
- **Manage system configurations through well-defined, documented configuration management process—**Ensures the County's IT system configurations are documented. This helps limit the possibility of an adverse impact on the system's security or operation.

**Recommendations—**The County should:

1. Make it a priority to develop and document comprehensive IT policies and procedures and develop a process to ensure the procedures are being consistently followed.

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

2. Evaluate the use and appropriateness of accounts shared by 2 or more users and manage the credentials for such accounts.
3. Enhance authentication requirements for IT systems.

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

4. Maintain configurations for all system services, assets, and infrastructure; manage configuration changes; and monitor the system for unauthorized or unintended configuration changes.

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 2020-04.

# AUDITOR GENERAL'S COMMENTS ON COUNTY RESPONSE

We appreciate the County's response, including its agreement with most of the findings and planned corrective action for the recommendations. However, the County's response and corrective action plan to finding 2021-01 contain certain inaccurate or misleading statements that necessitate the following comments and clarifications:

1. The County stated that it "…disagrees that the misstatements and misclassifications delayed the issuance of the financial statements." The County also stated that the "…delayed issuance of the County's financial statements is directly correlated to determining the necessary procedures and to the implementation/training on the new web-based application [for its financial statement preparation process]."

   Our finding acknowledged that the County's new web-based process for preparing its financial statements contributed, in part, to the financial statements' delayed issuance. Our identifying errors in the County's initial financial statements, performing additional audit work as a result, and coordinating with the County's management to correct them also contributed to the delayed issuance. However, the financial statements' delayed issuance is not the finding's focus; the errors we detected in them are. The County did not disagree with this aspect of the finding.

   Specifically, we identified misstatements in the initial financial statements the County provided to us for audit. The misstatements were significant enough to be considered material misstatements that would have resulted in modified opinions had the County not made the necessary corrections to its final financial statements before they were issued. Although the County made the necessary corrections, there remains an internal control weakness in the County's financial statement preparation process that could result in County management's inability to prevent or detect and correct material misstatements from occurring in the financial statements unless or until the County improves its financial reporting process, which is the goal of our recommendations. The County did not disagree with our recommendations for this finding.

   The County is responsible for designing, implementing, and maintaining internal control over its financial reporting process and for adjusting its financial statements to correct any misstatements that are identified. The auditors are not part of the County's internal control process, and the audit of the financial statements does not relieve the County of these responsibilities.[2]

[2] As noted in our independent auditors' report dated April 28, 2022, on the Navajo County fiscal year ended June 30, 2021, Annual Comprehensive Financial Report, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The independent auditors' report describes management's responsibilities for the financial statements. Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. In addition, the independent auditors' report describes the auditors' responsibilities for the audit of the financial statements. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement, whether due to fraud or error. Reasonable assurance is a high, but not an absolute, level of assurance. Also, an audit involves the auditors' performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements; selecting procedures based on professional judgment, considering the assessed risks of material misstatement of the financial statements, whether due to fraud or error, and the auditee's internal control relevant to the preparation and fair presentation of the financial statements; and evaluating the overall presentation of the financial statements as being part of the auditors' responsibilities.

2. The County stated that it "…also disagrees with the statement that the financial statements could contain significant errors and misinform those who rely on this information as these statements are more correctly stated than those issued previously due to the correction of these misclassifications and to other reporting changes implemented in this year's financial report."

   Our finding acknowledged that the County made the necessary adjustments to correct the misstatements and misclassifications in the final 2021 financial statements it issued. However, as we commented previously, there remains an internal control weakness in the County's financial statement preparation process that could result in County management's inability to prevent or detect and correct material misstatements from occurring in the financial statements unless or until the County improves its financial reporting process. Our statement in the finding's Effect is speaking to the future risk of the County misinforming stakeholders and other financial statement users if the County does not take the corrective action outlined in our recommendations.

   In addition, the County's response suggested that its 2021 financial statements are more accurate than its 2020 and other previously issued financial statements as a result of making the corrections. As required by auditing standards, we evaluated the effect of these errors on the previously issued prior-year financial statements and concluded that the errors were not material and, therefore, did not impact the opinions we previously expressed on them.[2] Had the previously issued financial statements contained material misstatements, we would have requested that the County reissue its previously issued prior-year financial statements with corrections. Accordingly, we would have had to reissue our opinions on those prior-year financial statements, had the County reissued them. This was not the case. Ultimately, it is the County's responsibility to ensure that its financial statements are accurate and fairly presented. The County could have but did not correct any prior-year errors by restating amounts it previously reported in its financial statements. The County could have done this by restating the affected beginning balances reported within its 2021 financial statements and disclosing such restatement adjustments as corrections of prior-year amounts in the notes to financial statements. However, the County did not make any correcting adjustments to beginning balances in its 2021 financial statements, making the County's suggestion that its previously issued financial statements contain errors confusing and misleading.

3. The County stated that the "…classification adjustments can be attributed to….the subjective process of reviewing and determining classification of functional expense categories."

   The County's characterization of the classification errors we identified as being subjective is inaccurate. The County is required to prepare its financial statements in accordance with generally accepted accounting principles, the foundation of which is based on the presumption of using accounting policies and practices to classify and report financial information that is consistent and comparable. If the County changes its accounting policies and practices, including changes to its classification of functional expense categories, the nature and reason for the changes and their effect should be objective, accurate, supported and, if appropriate, disclosed.

COUNTY RESPONSE

June 24, 2022

Lindsey Perry
Auditor General
2910 N. 44th St., Ste. 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,

Jayson Vowell

Jayson Vowell
Finance Director

# Navajo County
## Corrective Action Plan
## Year ended June 30, 2021

### Financial Statement Findings

**2021-01**
Financial Statement Preparation
Contact Person(s): Jayson Vowell, Finance Director
Anticipated completion date: June 30, 2022

The County disagrees that the misstatements and misclassifications delayed the issuance of the financial statements. The County also disagrees with the statement that the financial statements could contain significant errors and misinform those who rely on this information as these statements are more correctly stated than those issued previously due to the correction of these misclassifications and to other reporting changes implemented in this year's financial report. In previous fiscal years, the financial statement preparation was outsourced to a consultant. Starting with the fiscal year ended June 30, 2021, the County assigned the financial statement preparation responsibilities to internal staff due to the retirement of the consultant. As part of the financial statement preparation process occurring internally for the first time in recent history, the County realized the need to both identify and document procedures for preparing the financial statements and supporting schedules. In addition, the County recognized the need for a web-based application that would enhance the financial statement preparation process. The delayed issuance of the County's financial statements is directly correlated to determining the necessary procedures and to the implementation/training on the new web-based application. During the process of implementing the new procedures for the financial statement preparation, the County recognizes that the initial drafts of the statements contained some misclassifications, which were remedied by staff in a timely manner. These classification adjustments can be attributed to the process of determining proper procedures which included incorporating procedures used previously and to the subjective process of reviewing and determining classification of functional expense categories. As the finding states, the errors have been identified and corrected. The County will continue to refine and implement procedures for the financial statement preparation and supporting schedules to ensure they are accurate and prepared in accordance with GAAP.

**2021-02**
P-Card Fuel Purchases
Contact Person(s): Bryan Layton, Assistant County Manager & Jayson Vowell, Finance Director
Anticipated completion date: June 30, 2023

The County realizes the need to implement a fuel tracking process that is affordable and reasonable to better track fuel purchased with County purchasing cards. County Administration does not believe there was any intentional abuse of County P-Card fuel purchases or any misuse of County funds during fiscal year 20-21. The County will ensure fuel purchases comply with County policies and procedures and that proper documentation is maintained. The County is in the process of evaluating fuel management programs that would eliminate the use of employee purchasing card fuel purchases, implement spending controls and provide online management tools/reports. The program would be implemented to ensure fuel purchases are for county vehicles only and have a public purpose.

**2021-03**
Information Technology - Managing Risk
Contact Person(s): Ken Dewitt, Information Technology Director
Anticipated completion date: June 30, 2023

Navajo County takes all IT audit findings seriously and will make efforts to resolve any deficiencies. County Administration and IT have identified resources that will allow us to further mitigate potential risks to sensitive information. The County will continue the process of evaluating and managing the risks of holding sensitive information by identifying, classifying, and inventorying the information the County holds.

**2021-04**
Information Technology - Controls
Contact Person(s): Ken Dewitt, Information Technology Director
Anticipated completion date: June 30, 2023

Navajo County takes all IT audit findings seriously and will make efforts to resolve any deficiencies. A policy and procedure review is scheduled for the next fiscal year. Financial system access has been reviewed each year during the audit for the past few years. An annual review has been performed and issues identified by the auditors have been corrected. Multi-factor authentication process will be implemented on all users with elevated rights. IT is planning on installing new programs that will monitor for unauthorized or unintended configuration changes on our systems.

ARIZONA
Auditor General
Making a Positive Difference