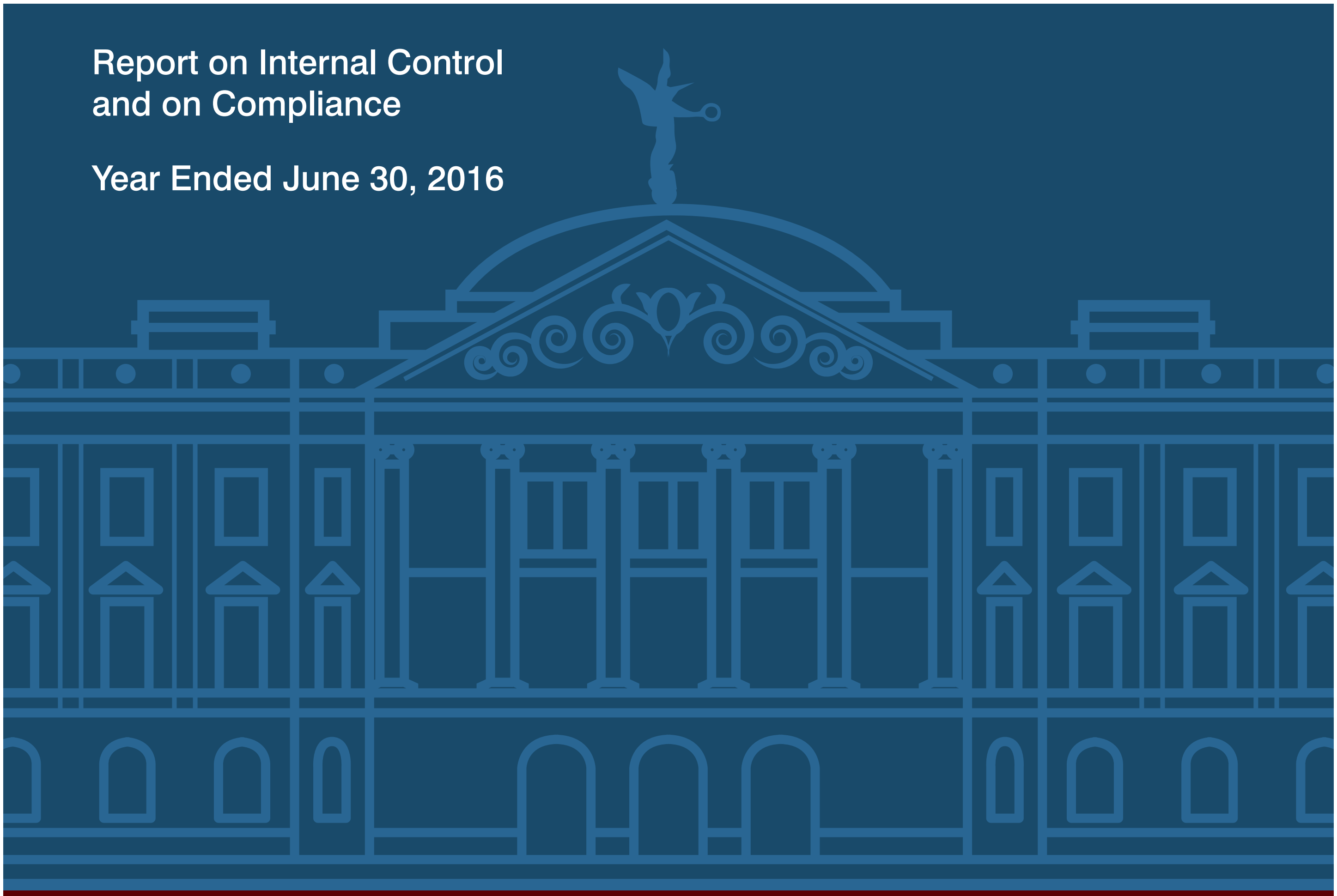
Navajo County



Report on Internal Control and on Compliance

Year Ended June 30, 2016

A Report to the Arizona Legislature

Debra K. Davenport
Auditor General

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The Auditor General is appointed by the Joint Legislative Audit Committee, a bipartisan committee composed of five senators and five representatives. Her mission is to provide independent and impartial information and specific recommendations to improve the operations of state and local government entities. To this end, she 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.

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STATE OF ARIZONA

OFFICE OF THE

AUDITOR GENERAL

DEBRA K. DAVENPORT, CPA
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, 2016, 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, 2016.

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) to determine the 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 were not identified. However, as described in the accompanying schedule of findings and recommendations, we identified 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 2016-01, 2016-02, 2016-03, 2016-04, and 2016-05 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 2016-06 and 2016-07 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 determination of financial statement amounts. 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*.

Navajo County response to findings

Navajo 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's responses were not subjected to the 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.

Jay Zsorey, CPA
Financial Audit Director

December 19, 2016

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

Financial statement findings

2016-01

The County should improve policies and procedures for processing journal entries and preparing financial statements

Criteria—The County should maintain effective internal control policies and procedures to help ensure that journal entries are properly processed and reviewed for accuracy and that its financial statements are prepared in accordance with U.S. generally accepted accounting principles (GAAP).

Condition and context—The County did not have adequate internal control policies and procedures in place for processing year-end journal entries and ensuring that its financial statements were prepared in accordance with GAAP. Specifically, the County:

- Included the Public Health District Fund as a nonmajor fund, rather than a major fund, and excluded deferred outflows and inflows of resources in its major fund calculation.
- Overstated the Public Health District Fund's intergovernmental revenue and due from other governments by $201,000 because it incorrectly processed a transaction that had been previously voided.
- Overstated the Public Health District Fund's expenditures by $88,000 because it recorded expenditures in the wrong fiscal year.

Effect—The County's initial financial statements and note disclosures related to the Public Health District Fund were not accurate. The County made the necessary adjustments to correct all significant errors.

Cause—The County did not have comprehensive policies and procedures for its financial statements preparation that included a detailed review of all data and schedules used in the process to ensure that the financial statements were accurate, complete, and in accordance with GAAP.

Recommendations—To help ensure that its financial statements are accurate, complete, and follow GAAP, someone other than the preparer should review and approve all journal entries. Also, the County should require someone who is independent of the person preparing the financial statements and knowledgeable of the County's operations and GAAP reporting requirements to perform a detailed review of all data and schedules used in the financial statements preparation process.

The County's responsible officials' views and planned corrective action are in its corrective action plan included at the end of this report.

2016-02

The County should improve policies and procedures for processing interfund reimbursements

Criteria—U.S. generally accepted accounting principles (GAAP) require interfund payments of indirect costs to be recorded as interfund reimbursements. Interfund reimbursements increase expenditures of the funds responsible for the expenditures and decrease expenditures of the funds that initially paid for the indirect costs.

Condition and context—The County did not comply with GAAP when recording $1.8 million of interfund payments for indirect costs. Specifically, the County incorrectly recorded these transactions as interfund transfers rather than interfund reimbursements.

Effect—The County's journal entries to allocate indirect costs were not in accordance with GAAP. The County made the necessary adjustments to correct all significant errors.

Cause—The County did not have documented procedures for preparing journal entries to properly record interfund payments of indirect costs as interfund reimbursements.

Recommendation—To help ensure that indirect costs are recorded in accordance with GAAP, the County should develop and implement documented procedures to properly record interfund payments of indirect costs as interfund reimbursements that include having someone other than the preparer review and approve all journal entries.

The County's responsible officials' views and planned corrective action are in its corrective action plan included at the end of this report.

2016-03

The County should improve its risk-assessment process to include information technology security

Criteria—The County faces risks of reporting inaccurate financial information and exposing sensitive data. An effective internal control system should include an entity-wide risk-assessment process that involves members of the County's administration and IT management to determine the risks the County faces as it seeks to achieve its objectives to report accurate financial information and protect sensitive data. An effective risk-assessment process provides the basis for developing appropriate risk responses and should include defining objectives to better identify risks and define risk tolerances; and identifying, analyzing, and responding to identified risks.

Condition and context—The County's risk-assessment policies required its annual risk-assessment process to include an information technology (IT) security risk assessment over the County's IT resources, which include its systems, network, infrastructure, and data. However, the County did not perform a risk assessment that included a entity-wide IT security risk assessment over its IT resources. Also, the County did not identify and classify sensitive information.

Effect—There is an increased risk that the County's administration and IT management may not effectively identify, analyze, and respond to risks that may impact its IT resources.

Cause—The County previously relied on an informal process to perform risk-assessment procedures that did not include IT security. In June, the County developed written policies and procedures over its risk-assessment process but did not compare these policies to IT standards and best practices and fully implement them during the year.

Recommendations—To help ensure the County has effective policies and procedures to identify, analyze, and respond to risks that may impact its IT resources, the County needs to implement a county-wide IT risk-assessment process. The information below provides guidance and best practices to help the County achieve this objective.

- **Conduct an IT security risk-assessment process at least annually—**A risk-assessment process should include the identification of risk scenarios, including the scenarios' likelihood and magnitude; documentation and dissemination of results; review by appropriate personnel; and prioritization of risks identified for remediation. An IT risk assessment could also incorporate any unremediated threats identified as part of an entity's security-vulnerability scans.
- **Identify, classify, inventory, and protect sensitive information—**Security measures should be developed to identify, classify, and inventory sensitive information and protect it, such as implementing controls to prevent unauthorized access to that information. Policies and procedures should include the security categories into which information should be classified, as well as any state statutes and federal regulations that could apply, and require disclosure to affected parties if sensitive information covered by state statutes or federal regulations is compromised.

The County's responsible officials' views and planned corrective action are in its corrective action plan included at the end of this report.

This finding is similar to prior-year finding 2015-01.

2016-04

The County should improve security over its information technology resources

Criteria—The selection and implementation of security controls for the County's information technology (IT) resources, which include its systems, network, infrastructure, and data, are important as they reduce the risks that arise from the loss of confidentiality, integrity, or availability of information that could adversely impact the County's operations or assets. Therefore, the County should implement internal control policies and procedures for an effective IT security process that include practices to help prevent, detect, and respond to instances of unauthorized or inappropriate access or use, manipulation, damage, or loss to its IT resources.

Condition and context—The County did not document and implement sufficient IT security policies and procedures over its IT resources.

Effect—There is an increased risk that the County may not prevent or detect the loss of confidentiality, integrity, or availability of systems and data.

Cause—The County had some policies and procedures in place, but was unaware its policies and procedures lacked critical elements related to its IT security and did not evaluate its policies and procedures against current IT standards and best practices.

Recommendations—To help prevent, detect, and respond to instances of unauthorized or inappropriate access or use, manipulation, damage, or loss to its IT resources, the County needs to further develop policies and procedures over IT security. The information below provides guidance and best practices to help the County achieve this objective.

- **Perform proactive logging and log monitoring**—Key user and system activity should be logged and monitored, particularly for users with administrative access privileges and remote access, along with other activities that could result in potential security incidents such as unauthorized or inappropriate access. An entity should determine what events to log, configure the system to generate the logs, and decide how often to monitor these logs for indicators of potential attacks or misuse of IT resources. Finally, activity logs should be maintained where users with administrative access privileges cannot alter them.
- **Prepare and implement an incident response plan**—An incident response plan should be developed, tested, and implemented for an entity's IT resources, and staff responsible for the plan should be trained. The plan should coordinate incident-handling activities with contingency-planning activities and incorporate lessons learned from ongoing incident handling in the incident response procedures. The incident response plan should be distributed to incident response personnel and updated as necessary. Security incidents should be reported to incident response personnel so they can be tracked and documented. Policies and procedures should also follow regulatory and statutory requirements, provide a mechanism for assisting users in handling and reporting security incidents, and make disclosures to affected individuals and appropriate authorities if an incident occurs.
- **Secure unsupported software**—Establish a strategy for assessing and securing any software that the manufacturer no longer updates and supports.
- **Provide training on IT security risks**—A plan should be developed to provide continuous training on IT security risks, including a security awareness training program for all employees that provides a basic understanding of information security, user actions to maintain security, and how to recognize and report potential indicators of security threats, including threats employees generate. Security awareness training should be provided to new and existing employees and on an ongoing basis.
- **Perform IT vulnerability scans**—A formal process should be developed for vulnerability scans that includes performing vulnerability scans of IT resources on a periodic basis and utilizing tools and techniques to automate parts of the process by using standards for software flaws and improper configuration, formatting procedures to test for the presence of vulnerabilities, measuring the impact of identified vulnerabilities, and approving privileged access while scanning systems containing highly sensitive data. In addition, vulnerability scan reports and results should be analyzed and legitimate vulnerabilities remediated as appropriate, and information obtained from the vulnerability-scanning process should be shared with other departments of the entity to help eliminate similar vulnerabilities.

- **Protect sensitive or restricted data—**Restrict access to media containing data the entity, federal regulation, or state statute identifies as sensitive or restricted. Such media should be appropriately marked indicating the distribution limitations and handling criteria for data included on the media. In addition, media should be physically controlled and secured until it can be destroyed or sanitized using sanitization mechanisms with the strength and integrity consistent with the data's security classification.
- **Implement IT standards and best practices—**IT policies and procedures should be reviewed against current IT standards and best practices, updated where needed, and implemented entity-wide, as appropriate. Further, staff should be trained on IT policies and procedures.

The County's responsible officials' views and planned corrective action are in its corrective action plan included at the end of this report.

This finding is similar to prior-year finding 2015-01.

2016-05

The County should improve access controls over its information technology resources

Criteria—Logical and physical access controls help to protect the County's information technology (IT) resources, which include its systems, network, infrastructure, and data, from unauthorized or inappropriate access or use, manipulation, damage, or loss. Logical access controls also help to ensure that authenticated users access only what they are authorized to. Therefore, the County should have effective internal control policies and procedures to control access to its IT resources.

Condition and context—The County did not have adequate policies and procedures to help prevent or detect unauthorized or inappropriate access to its IT resources.

Effect—There is an increased risk that the County may not prevent or detect unauthorized or inappropriate access or use, manipulation, damage, or loss of its IT resources, including sensitive and confidential information.

Cause—The County was in the process of developing policies and procedures for granting and reviewing access to its IT resources, and had not fully implemented them and reviewed them against IT standards and best practices.

Recommendations—To help prevent and detect unauthorized access or use, manipulation, damage, or loss to its IT resources, the County needs to develop and implement effective logical and physical access policies and procedures over its IT resources. The information below provides guidance and best practices to help the County achieve this objective.

- **Review user access—**A periodic, comprehensive review should be performed of all existing employee accounts to help ensure that network and system access granted is needed and compatible with job responsibilities.

- **Remove terminated employees' access to IT resources—**Employees' network and systems access should immediately be removed upon their terminations.
- **Review shared and administrator accounts—**Shared and administrator accounts should be reviewed and eliminated or minimized when possible.
- **Manage shared accounts—**Shared accounts should be used only when appropriate and in accordance with an established policy authorizing the use of shared accounts. In addition, account credentials should be reissued on shared accounts when a group member leaves.
- **Review contractor and other nonentity accounts—**A periodic review should be performed on contractor and other nonentity accounts with access to an entity's IT resources to help ensure their access remains necessary and appropriate.
- **Review and monitor key activity of users—**Key activities of users and those with elevated access should be reviewed for propriety.
- **Improve password policies—**Password policies should be improved and should address all accounts.
- **Restrict data center access—**Physical access to the data center should be restricted to those individuals who need it for their job responsibilities and periodically reviewed to ensure that access granted continues to be needed.
- **Protect infrastructure—**The data center and network closets should be protected from unauthorized access and physical damage by securing them and employing fire suppression and other physical safeguards.
- **Manage employee-owned electronic devices—**The use of employee-owned electronic devices connecting to an entity's IT resources should be managed, including specifying the information appropriate to access and informing employees of the policies and precautions for this type of access.

The County's responsible officials' views and planned corrective action are in its corrective action plan included at the end of this report.

This finding is similar to prior-year finding 2015-02.

2016-06

The County should improve its configuration management processes over its information technology resources

Criteria—A well-defined configuration management process, including a change management process, is needed to ensure that the County's information technology (IT) resources, which include its systems, network, infrastructure, and data, are configured securely and that changes to IT resources do not adversely affect security or operations. IT resources are typically constantly changing in response to new, enhanced, corrected, or updated hardware and software capabilities and new security threats. The County should have effective written configuration management internal control policies and procedures to track and document changes made to its IT resources.

Condition and context—While the County had written policies and procedures for managing changes to its IT resources, the County did not always follow its policies and procedures for changes made. Also, the policies and procedures did not include a change management process for each type of change. In addition, the policies and procedures lacked certain critical elements, including ensuring changes were properly documented and tested and IT resources were configured securely.

Effect—There is an increased risk that the County's IT resources may not be configured appropriately and securely and that changes to those resources could be unauthorized or inappropriate or could have unintended results without proper documentation, authorization, review, testing, and approval prior to being applied.

Cause—The County modeled its policies and procedures for making changes to its IT resources on another entity's policies and procedures. The County was unaware that its implementation of those policies and procedures lacked critical elements. Further, the County did not evaluate its policies and procedures against current IT standards and best practices.

Recommendations—To help prevent and detect unauthorized, inappropriate, and unintended changes to its IT resources, the County needs to update its policies and procedures over its configuration management process. The information below provides guidance and best practices to help the County achieve this objective.

- **Establish and follow change management processes—**For changes to IT resources, a change management process should be established for each type of change, including emergency changes and other changes that might not follow the normal change management process. Further, all changes should follow the applicable change management process and should be appropriately documented.
- **Document changes—**Changes made to IT resources should be logged and documented and a record should be retained of all change details, including the individuals responsible for making the change, test procedures performed and the test results, security impact analysis results, change approvals at each appropriate phase of the change management process, and a post-change review.
- **Roll back changes—**Rollback procedures should be established and include documentation necessary to back out changes that negatively impact IT resources.
- **Configure IT resources appropriately and securely—**Policies and procedures should require that IT resources are configured securely and that configurations settings are recorded.
- **Manage software installed on employee computer workstations—**For software installed on employee workstations, policies and procedures should be developed to address what software is appropriate and the process for requesting, approving, installing, monitoring, and removing software on employee computer workstations.

The County's responsible officials' views and planned corrective action are in its corrective action plan included at the end of this report.

This finding is similar to prior-year finding 2015-03.

2016-07

The County should improve its contingency planning procedures for its information technology resources

Criteria—It is critical that the County have contingency planning procedures in place to provide for the continuity of operations and to help ensure that vital information technology (IT) resources, which includes its systems, network, infrastructure, and data, can be recovered in the event of a disaster, system or equipment failure, or other system interruption. Contingency planning procedures include having a comprehensive, up-to-date contingency plan; taking steps to facilitate activation of the plan; and having system and data backup policies and procedures.

Condition and context—The County's contingency plan lacked certain key elements and testing for restoring operations in the event of a disaster or other system interruption of its IT resources. Additionally, although the County was performing system and data backups, it did not have documented policies and procedures for securing and testing them to ensure they were operational and could be used to restore its IT systems.

Effect—The County risks not being able to provide for the continuity of operations, recover vital systems and data, and conduct daily operations in the event of a disaster, system or equipment failure, or other interruption, which could cause inaccurate or incomplete system and data recovery.

Cause—The County had a contingency plan and some contingency planning processes in place. However, the County's contingency plan and contingency planning policies and procedures had not been reviewed against current IT standards and best practices.

Recommendations—To help ensure county operations continue in the event of a disaster, system or equipment failure, or other interruption, the County needs to further develop its contingency planning procedures. The information below provides guidance and best practices to help the County achieve this objective.

- **Update the contingency plan—**The contingency plan should be updated at least annually for all critical information or when changes are made to IT resources, and updates to the plan should be communicated to key personnel.
- **Test the contingency plan—**A process should be developed and documented to perform regularly scheduled tests of the contingency plan and document the tests performed and results. This process should include updating and testing the contingency plan at least annually or as changes necessitate, and coordinating testing with any other plans of the entity, such as its continuity of operations, cyber incident response, and emergency response plans. Plan testing may include actual tests, simulations, or table top discussions and should be comprehensive enough to evaluate whether the plan can be successfully carried out. The test results should be used to update or change the plan.
- **Backup systems and data—**Establish and document policies and procedures for testing IT system software and data backups to help ensure they could be recovered if needed.

The County's responsible officials' views and planned corrective action are in its Corrective Action Plan included at the end of this report.

This finding is similar to prior-year finding 2015-04.

COUNTY RESPONSE

NAVAJO COUNTY

Administrative Services

Bryan Layton, Assistant County Manager
Paige M. Peterson, Interim Finance Director
Eric Scott, Risk/Benefits Manager

• 928.524.4000 • Fax: 928.524.4052 • P.O. Box 668 • Holbrook, AZ 86025-0668 •

February 9, 2017

Debbie Davenport
Auditor General
2910 North 44th Street, Suite 410
Phoenix, Arizona 85018

Dear Ms. Davenport,

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* (Uniform Guidance). Specifically, for each finding we are providing you with the names of the contact people responsible for corrective action, the corrective action planned, and the anticipated completion date.

Sincerely,

Paige M. Peterson
Interim Director of Finance

Navajo County
Corrective Action Plan
Year Ended June 30, 2016

Financial Statement Findings

2016-01
The County should improve policies and procedures for processing journal entries and preparing financial statements.

Contact: Paige Peterson, Interim Director of Finance
Anticipated Completion Date: June 30, 2017

Corrective Action Plan: Concur. To help ensure that the County maintains effective internal control policies and procedures to help ensure that journal entries are properly processed and reviewed for accuracy and that its financial statements are prepared in accordance with U.S. generally accepted accounting principles (GAAP), we will require someone other than the preparer to review and approve journal entries. We will also require someone independent of the person preparing the financial statements perform a detailed review of all data and schedules used in the financial statements preparation process.

2016-02
The County should improve policies and procedures for processing interfund reimbursements

Contact person: Paige Peterson, Interim Director of Finance
Anticipated Completion Date: June 30, 2017

Corrective Action Plan: Concur. To help ensure that the County properly records interfund reimbursements, we will not post them as interfund transfers. We will document the procedure to ensure interfund reimbursements are in accordance with GAAP.

2016-03
The County should improve its risk-assessment process to include information technology security

Contact person: Ken Dewitt, IT Director
Anticipated Completion Date: June 30, 2017

Corrective Action Plan: Concur. To ensure that the County has adequate policies and procedures to identify, analyze, and respond to risks that may impact our IT resources, we will develop a county-wide IT risk-assessment process that incorporates NIST best practices.

2016-04
The County should improve security over its information technology resources

Contact person: Ken Dewitt, IT Director
Anticipated Completion Date: June 30, 2017

Corrective Action Plan: Concur. To help prevent, detect, and respond to instances of unauthorized or inappropriate access or use, manipulation, damage, or loss to our IT resources, we will further develop policies and procedures over IT security.

2016-05
The County should improve access controls over its information technology resources

Contact person: Ken Dewitt, IT Director
Anticipated Completion Date: June 30, 2017

Corrective Action Plan: Concur. To help prevent and detect unauthorized access or use, manipulation, damage, or loss to our IT resources, we will develop and implement effective logical and physical access policies and procedures over its IT resources.

2016-06
The County should improve its configuration management processes over its information technology resources

Contact person: Ken Dewitt, IT Director
Anticipated Completion Date: June 30, 2017

Corrective Action Plan: Concur. To help prevent and detect unauthorized, inappropriate, and unintended changes to its IT resources, we will improve our policies and procedures over our configuration management process.

2016-07
The County should improve its contingency planning procedures for its information technology resources

Contact person: Ken Dewitt, IT Director
Anticipated Completion Date: June 30, 2017

Corrective Action Plan: Concur. To help ensure the County operations continue in the event of a disaster, system or equipment failure, or other interruption, we will further develop our contingency planning procedures.

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