

## Navajo County

**CONCLUSION:** Navajo County is responsible for preparing its annual financial report and a federal expenditure schedule, maintaining effective internal controls, and being accountable for its use of public monies. Our Office is responsible for auditing the County's financial statements, schedule, and major federal programs annually. A summary of the County's financial statements and federal expenditure schedule is presented below.

Based on our audits, we issued opinions on the County's financial statements and federal expenditure schedule and issued reports on internal control and on compliance over financial reporting and major federal programs. The information in the County's fiscal year 2017 financial statements and schedule is reliable. Our Office identified internal control weaknesses over financial reporting and internal control weaknesses and an instance of noncompliance over major federal programs. The most significant findings are summarized on the next page.

## Condensed financial information

**Statement of net position**—This statement reports all of the County's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Net position is reported in three major categories:

- **Net investment in capital assets**—shows the equity in land, buildings, equipment, and infrastructure.
- **Restricted**—shows the resources that must be used for restricted purposes as specified by donors and other external entities, such as the federal government.
- **Unrestricted**—shows the remaining net position balance after allocating the net investment in capital assets and restricted balances.

**Statement of activities**—This statement reports all revenues, expenses, and other changes in net position. Revenues include program revenues—those generated by or dedicated to a specific program—and general revenues, such as taxes raised for general purposes. Net position decreased by approximately \$5 million, or 15 percent, in fiscal year 2017.

**Federal expenditure schedule**—During fiscal year 2017, the County expended nearly \$5.4 million in federal awards. The County's federal award expenditures decreased by \$1 million, or 15.9 percent, compared to fiscal year 2016.

### Statement of net position

As of June 30, 2017 (In thousands)

<b>Assets and deferred outflows</b>	
Current and other assets	\$ 37,559
Capital assets, net of depreciation	74,746
Deferred outflows of resources	14,742
<b>Total assets and deferred outflows</b>	<b>127,047</b>
<b>Liabilities and deferred inflows</b>	
Current liabilities	2,610
Noncurrent liabilities:	
Net pension liability	69,439
Other	18,891
Deferred inflows of resources	6,905
<b>Total liabilities and deferred inflows</b>	<b>97,845</b>
<b>Net position</b>	
Net investment in capital assets	60,217
Restricted	26,973
Unrestricted	(57,988)
<b>Total net position</b>	<b>\$ 29,202</b>

### Statement of activities

Year ended June 30, 2017 (In thousands)

<b>Program revenues</b>	
Charges for services	\$ 6,867
Operating grants and contributions	15,562
Capital grants and contributions	12,241
<b>General revenues</b>	
Property taxes	12,132
Sales tax	6,535
State shared revenue	13,730
Other	3,372
<b>Total revenues</b>	<b>70,439</b>
<b>Expenses</b>	
General government	32,717
Public safety	17,730
Highways and streets	10,711
Other	14,380
<b>Total expenses</b>	<b>75,538</b>
Decrease in net position	(5,099)
Net position—beginning	34,301
<b>Net position—ending</b>	<b>\$29,202</b>

### Federal expenditure schedule

Year ended June 30, 2017 (In thousands)

<b>Federal grantor agency</b>	
Department of Interior	\$1,516
Department of Health and Human Services	966
Department of Labor	805
Department of Agriculture	643
Department of Housing and Urban Development	459
Department of Justice	304
Other	652
<b>Total federal expenditures</b>	<b>\$5,345</b>

## Understanding the County's financial report

Understanding how to extract information from the County's financial report is important when reviewing financial performance and evaluating future financial decisions. As described below, our Office's financial report user guide and internal control and compliance reports user guide, available at [azauditor.gov](http://azauditor.gov), help users identify and understand important and useful information in the County's financial report and in our reports on internal control and on compliance over financial reporting and federal programs. Specifically:

- **Financial report user guide**—describes key financial information contained in county financial reports and indicates where to find this information. Key components in a financial report include the independent auditors' report, management's discussion and analysis, government-wide financial statements, fund financial statements, notes to financial statements, and other required supplementary information.
- **Internal control and compliance reports user guide**—describes our internal control and compliance reports over financial reporting and federal programs. Those reports, which are included in our single audit report, provide information about whether the County has effective internal control procedures and whether it has complied with certain financial- and federal-related laws and regulations.

## Summary of audit findings and recommendations

For the financial statement audit, we found internal control weaknesses over the County's financial reporting related to its procedures for processing journal entries and payroll, and securing its information technology (IT) resources. For the federal compliance audit, we tested six federal programs under the major program guidelines established by the Single Audit Act and found that the County did not always have adequate internal controls and did not always comply with federal program requirements for one of its federal programs. Our separately issued report on internal control and on compliance and our single audit report include further details to help the County correct the internal control weaknesses and instances of noncompliance. The most significant findings and recommendations are summarized below.

**County should improve policies and procedures for processing journal entries**—The County should record transactions in the correct accounting period in accordance with U.S. generally accepted accounting principles. However, the County incorrectly recorded \$546,000 in Public Health District revenues as due from other governments at year-end that were either already recorded and collected for the year or not earned until the subsequent fiscal year. The County made the necessary adjustments to correct all significant errors.

### Recommendations

The County should follow its existing policies and procedures for preparing year-end adjusting journal entries, which require a detailed review of all data and schedules used in the journal entry preparation process to help ensure that journal entries are accurate, complete, and in accordance with generally accepted accounting principles.

**County should improve internal controls over its IT resources**—The County's IT resources, which include its systems, network, infrastructure, and data, are vital to its daily operations. However, the County did not have adequate policies and procedures over its IT resources to effectively identify, analyze, and respond to risks and protect sensitive information; sufficiently manage access, including preventing, detecting, and responding to unauthorized or inappropriate access or use, manipulation, damage, or loss; and ensure changes to its IT resources do not adversely affect security or operations.

### Recommendations

To help identify, analyze, and respond to risks and protect sensitive information; prevent, detect, and respond to unauthorized or inappropriate access or use, manipulation, damage, or loss to its IT resources; and ensure changes to its IT resources do not adversely affect security or operations, the County needs to update and implement policies and procedures over its IT resources. Our report provides guidance and best practices to help the County implement these recommendations.