



REPORT HIGHLIGHTS

FINANCIAL STATEMENT AND SINGLE AUDITS

Our Conclusion

Navajo County is responsible for preparing annual financial statements and a schedule of expenditures of federal awards, 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 financial statements and schedule of expenditures of federal awards is presented to the right.

Based on our audits, we issued opinions on the County's financial statements and its schedule of expenditures of federal awards and reports on its internal control and compliance over financial reporting and major federal programs. The information in the County's fiscal year 2014 financial statements and schedule of federal awards is reliable. Our Office identified internal control deficiencies over financial reporting and internal control deficiencies and instances of noncompliance over federal programs. These findings are summarized on the next page.



2014

Year Ended June 30, 2014

Condensed financial information

Statement of net position—This statement reports all of the County's assets, liabilities, and net position using the accrual basis of accounting. 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 external entities, such as the federal government.
- **Unrestricted**—shows the resources available for general operations.

Statement of activities—This statement reports all revenues, expenses, and the year's change 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. During fiscal year 2014, net position increased by \$813,000, or 0.9 percent, as compared to a decrease of \$4 million, or 4.6 percent, in fiscal year 2013.

Schedule of expenditures of federal awards—During fiscal year 2014, the County expended \$6.7 million in federal awards. The County's federal award expenditures decreased by approximately \$58,000, or 0.9 percent, compared to fiscal year 2013.

Condensed statement of net position Governmental activities As of June 30, 2014 (In thousands)

Assets	
Current and other assets	\$ 41,103
Capital assets, net of depreciation	79,020
Total assets	<u>120,123</u>
Liabilities	
Current liabilities	3,881
Noncurrent liabilities	<u>22,672</u>
Total liabilities	<u>26,553</u>
Net position	
Net investment in capital assets	65,059
Restricted	24,057
Unrestricted	<u>4,454</u>
Total net position	<u>\$ 93,570</u>

Condensed statement of activities Governmental activities For the year ended June 30, 2014 (In thousands)

Program revenues	
Charges for services	\$ 5,040
Operating grants and contributions	15,826
Capital grants and contributions	<u>9,565</u>
Total program revenues	<u>30,431</u>
General revenues	
Property taxes	11,705
Sales taxes	17,431
Other	<u>6,097</u>
Total general revenues	<u>35,233</u>
Total revenues	<u>65,664</u>
Expenses	
Change in net position	813
Net position—beginning, as restated	<u>92,757</u>
Net position—ending	<u>\$ 93,570</u>

Condensed schedule of expenditures of federal awards by grantor agency For the year ended June 30, 2014 (In thousands)

Department of Agriculture	\$ 1,796
Department of the Interior	1,519
Department of Health and Human Services	1,028
Department of Labor	771
Department of Justice	379
Department of Housing and Urban Development	357
Department of Transportation	239
Other	<u>590</u>
Total federal expenditures	<u>\$ 6,679</u>

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 information technology (IT) systems. 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 four of its federal programs. Our report on Internal Control and Compliance over financial reporting and our Single Audit Report contain further details to help the County correct these deficiencies. The most significant deficiencies are summarized below.

Inadequate IT system policies and procedures

The County lacked adequate IT security policies and procedures to help prevent and detect unauthorized access or use, manipulation, damage, or loss of its sensitive and confidential financial data. In addition, the County did not have adequate policies and procedures for making system changes and performing backup and recovery for its IT systems and data.

Recommendation

The County should improve its policies and procedures over IT security as well as over making system changes and performing backup and recovery for its IT systems to protect its sensitive and confidential financial data.

County failed to comply with federal program requirements

The County did not properly identify federal monies in its accounting records; therefore, it could not prepare an accurate and complete schedule of federal expenditures, which is required by federal guidelines. Auditors found that the County's schedule had nearly \$1.2 million in errors and included incorrect federal program identifying information. The County had to correct these errors so that its schedule would be reliable.

The County did not appropriately spend over \$59,000 of Schools and Roads federal program monies that were to be spent to provide education, assistance, and plans for wildfire protection and emergency wildfire services. Instead, the County incorrectly disbursed the monies to schools within the County.

The County may have inappropriately charged two federal programs. Specifically, the County paid employees' salaries and wages totaling \$180,000 who worked on the Public Health Emergency Preparedness and \$303,000 who worked on the Supplemental Nutrition Assistance federal programs but did not obtain certifications or timesheets to demonstrate that the employees worked on these programs' activities.

Recommendations

To improve controls over the County's federal programs, the County should develop and implement policies and procedures to help ensure:

- Federal monies are properly identified in its accounting records to allow for the preparation of an accurate schedule of federal expenditures.
- Federal program monies are spent on allowable activities and employees are knowledgeable of federal program requirements.
- Salaries and wages charged to federal programs represent the actual time and effort an employee spent working on the program.