



A REPORT  
TO THE  
**ARIZONA LEGISLATURE**

Financial Audit Division

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Management Letter

# Navajo County

Year Ended June 30, 2004

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**Debra K. Davenport**  
Auditor General

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DEBRA K. DAVENPORT, CPA  
AUDITOR GENERAL

**STATE OF ARIZONA  
OFFICE OF THE  
AUDITOR GENERAL**

WILLIAM THOMSON  
DEPUTY AUDITOR GENERAL

August 1, 2007

Board of Supervisors  
Navajo County  
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Holbrook, AZ 86025

Members of the Board:

In planning and conducting our single audit of Navajo County for the year ended June 30, 2004, we performed the following as required by *Government Auditing Standards* (GAS) and Office of Management and Budget (OMB) Circular A-133:

- Considered the County's internal controls over financial reporting,
- Tested its internal controls over major federal programs, and
- Tested its compliance with laws and regulations that could have a direct and material effect on its financial statements and major federal programs.

All audit findings that are required to be reported in the GAS and OMB Circular A-133 reports have been included in the County's Single Audit Reporting Package for the year ended June 30, 2004. In addition, our audit disclosed internal control weaknesses and instances of noncompliance with laws and regulations that do not meet the reporting criteria. Management should correct these deficiencies to ensure that it fulfills its responsibility to establish and maintain adequate internal controls and comply with laws and regulations. Our recommendations are described in the accompanying summary.

In addition, as required by Arizona Revised Statutes §41-1279.21(A)(1), we reviewed the County's financial records to evaluate whether the County used Highway User Revenue Fund monies and any other dedicated state transportation monies solely for authorized transportation purposes for the year ended June 30, 2004. Our review identified certain instances of noncompliance, which are described in the accompanying summary as Recommendation 3.

This letter is intended solely for the information of the Navajo County Board of Supervisors and is not intended to be and should not be used by anyone other than the specified party. However, this letter is a matter of public record, and its distribution is not limited.

Should you have any questions concerning its contents, please let us know.

Sincerely,

Debbie Davenport  
Auditor General

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## The County should improve controls over its transactions

To minimize the risk of theft, fraud, and misuse of county monies, it is essential that the County have effective internal controls over all financial transactions. However, the County did not establish, monitor, and enforce effective controls over journal entry, payroll and disbursement transactions, and cash receipt computer system access. For example, the County did not separate employee responsibilities for journal entries, payroll, and disbursements. In addition, the County did not retain documentation to support overtime pay and temporary wages for 18 of 89 employees who received these types of payments. Also, the County overpaid an employee almost \$500 because it paid the employee for the entire pay period even though the employee worked only 5 of the 11 days in the pay period.

Furthermore, the County did not numerically control journal entries, and did not establish an additional approval process for journal entry transactions exceeding a specific dollar limit. Finally, one employee was solely responsible for granting and modifying employee access to the cash receipts computer application.

To strengthen internal controls over journal entries, payroll, disbursements, and computer access, the County should establish written procedures that include the following:

- Establish an additional approval process for journal entry transactions exceeding a specific dollar limit.
- Separate responsibilities for journal entries, payroll, and disbursements among employees. If one employee is responsible for multiple functions, a supervisor should review and approve summary reports and reconciliations.
- Maintain all supporting documentation to support wages paid to employees.
- Establish a delayed payroll system to prevent overpayments.
- Adjust payroll expense when employees are unable to work their full schedule and do not have the annual leave accrued to cover the time not worked.
- Control all journal entries by using prenumbered forms.

- Require one employee to approve computer access granted to each employee while another employee modifies employee access on the system. In addition, the County should monitor departments periodically to help ensure that they're following established procedures.

## The County should properly administer and report federal financial assistance

The County received over \$5.5 million in federal financial assistance during fiscal year 2004. Consequently, the County needs to ensure that departments administer federal programs in accordance with federal laws and regulations to make certain that these monies are used only for their intended purposes so that the County does not lose some of its federal funding or have to repay the federal government for unallowable costs. Specifically, the County did not establish, monitor, and enforce policies and procedures for reporting its federal expenditures to the federal government or pass-through entity and, as a result, did not comply with federal laws and regulations, as follows:

Schedule of Expenditures of Federal Awards (SEFA) reporting—OMB Circular A-133 requires the County to prepare a SEFA each year showing the federal programs the County administered and the corresponding expenditures along with any related pass-through grantors and numbers. However, the County incorrectly reported Catalog of Federal Domestic Assistance (CFDA) numbers, program titles, pass-through grantors, and expenditures. Auditors noted the following errors that were subsequently corrected by the County:

- Four federal programs were omitted from the SEFA.
- Expenditures for three programs were not accurately reported.
- CFDA numbers were incorrect for four programs.
- Incorrect titles were presented for 11 programs.
- Pass-through grantors were not correctly identified for seven programs.

**Reporting**—During fiscal year 2004, the County received approximately \$1.3 million in federal financial assistance from the Arizona Department of Economic Security and the Arizona Department of Health Services. Therefore, the County must follow the reporting requirements specified by the pass-through grantors in the grant agreements. However, for 3 of 8 reports tested, the County did not follow the reporting requirements and submitted the reports between 10-85 days late for the Workforce Investment Act Cluster and Special Supplemental Nutrition Program for Women, Infants, and Children and reported inaccurate expenditures for three of four reports tested for the Child Support Enforcement program. The late report filing was isolated to a specific individual for that timeframe and did not affect federal funding

for the following fiscal year. Report expenditures omitted were immaterial to the program and ranged from \$46 to \$640.

The County should establish the necessary procedures to help ensure that it administers federal programs and that it reports federal expenditures in accordance with federal laws and regulations. These procedures should include the following:

- Monitor all departments administering federal programs to ensure that program expenditures are properly recorded on the financial accounting system.
- Require the Finance Department to confirm program information reported on the SEFA with the department responsible for administering the program, reconcile SEFA expenditures to the financial accounting system, and review the information for completeness and accuracy.
- Require a second employee to review federal financial reports for accuracy before submitting them to the grantor or pass-through grantor.
- Require each department to prepare a checklist of federal financial report deadlines to help ensure they are submitted in a timely manner.

## The County should spend highway user and vehicle license tax monies in accordance with state laws

Each year, the State distributes Highway User Revenue Fund (HURF) monies and a portion of the vehicle license tax (VLT) monies to the County, and has mandated that the County use these monies solely for highway and street purposes, as specified in the Constitution of Arizona, Article IX, §14, and Arizona Revised Statutes (A.R.S.) §§28-5801(B)(1)(c) and (2)(c), and 28-5808(A)(2)(b) and (B)(2)(b). The County received \$12.2 million in HURF and VLT monies in fiscal year 2004. The County's Public Works department operated primarily from these monies.

Auditors reviewed county expenditures of HURF and restricted VLT monies, and noted insurance premiums of \$253,735 and air conditioning purchases of \$299,375 that appeared to be unallowable based on the Arizona Constitution, A.R.S., and Attorney General Opinion No. 105-003. The Attorney General opinion specifically stated that HURF monies may not be used to pay insurance premiums. In addition, the County did not have written policies and procedures to ensure that HURF and restricted VLT monies are spent for allowable items.

The County should develop written policies and procedures to ensure that HURF and restricted VLT monies are spent in accordance with the Arizona Constitution, A.R.S., and the Attorney General's opinion, and ensure that its Public Works department

follows these policies and procedures. These policies should include a written description of the types of expenditures that are allowable and unallowable. In addition, management should review and approve expenditures to ensure that all expenditures charged to HURF and restricted VLT monies are only for allowable charges. Finally, the County should allocate local revenues for highway and street purposes to replenish the monies it spent inappropriately during fiscal year 2004.

## The County should improve departmental controls over bank accounts

Because cash is highly susceptible to potential theft or misuse, county management should establish, monitor, and enforce effective controls over department bank accounts. However, the County did not have written policies and procedures to establish effective controls over bank accounts, particularly with respect to reconciliation procedures. Specifically, county departments prepared inaccurate bank reconciliations and were unable to support many reconciling items. As a result, it appeared that the County's cash balances were overstated by more than \$62,000 when compared to amounts confirmed by banks adjusted for known reconciling items. Also, the reconciliations, including the Treasurer's servicing account reconciliations, identified checks totaling more than \$26,000 that had been outstanding for more than 1 year. Department employees had not investigated these checks to determine the appropriate action to be taken. The County adjusted its financial statements for all significant errors the auditors noted; however, because of the County's inadequate accounting records, auditors could not determine whether all errors were accounted for.

To help strengthen controls over departmental bank accounts, the County should establish written procedures for making deposits into, writing checks from, and reconciling the bank accounts and periodically monitor that departments are following them. The reconciliation procedures should include the following:

- Prepare written reconciliations for each bank account within 15 days of the bank statement date.
- Identify all reconciling items with references to supporting documentation.
- Propose correcting entries or request the bank to make any necessary corrections for all errors detected in the reconciliation process.
- Require a supervisor not involved in the reconciliation process to review and approve each reconciliation and the resulting correcting entries.
- Investigate all outstanding checks and other reconciling items outstanding for more than 6 months and take appropriate action to eliminate the reconciling item.



# Navajo County Board of Supervisors

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June 6, 2007

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Debra K. Davenport  
Office of the Auditor General  
2910 N. 44<sup>th</sup> Street, Suite 410  
Phoenix, Arizona 85018

Dear Ms. Davenport

Navajo County management has chosen to respond to the Management Letter for the fiscal year ended June 30, 2004. Our responses to the Management Letter which are based on the County's Single Audit for the year then ended are attached.

Sincerely,

James Menlove  
Finance Director

**NAVAJO COUNTY  
MANAGEMENT LETTER CORRECTIVE ACTION PLAN  
YEAR ENDED JUNE 30, 2004**

***The County should improve controls over its transactions***

To minimize the risk of theft, fraud, and misuse of county monies, it is essential that the County have effective internal controls over all financial transactions. However, the County did not establish, monitor and enforce effective controls over journal entry, payroll and disbursement transactions, and cash receipt computer system access.

**Corrective Action Plan:** Concur. The County will implement the following procedures to improve internal controls over transactions.

- Establish an additional approval process for journal entries exceeding a specific dollar limit.
- Segregate duties for journal entries, payroll, and disbursements among employees. When necessary a supervisor will review and approve summary reports and reconciliations.
- Establish a delayed payroll system to prevent overpayments. The County will convert to a bi-weekly payroll system with a one week delay beginning October 16, 2007.
- Establish procedures to ensure that all supporting documentation is maintained.
- Control all journal entries by using prenumbered forms.
- Require one employee to approve computer access granted to each employee while another employee establishes security access to the system.

These procedures will be implemented by the County during fiscal year 2006-07.

***The County should properly administer and report federal financial assistance***

The County needs to ensure that departments administer federal programs in accordance with federal laws and regulations to make certain that these monies are used only for their intended purposes so that the County does not lose any federal funding or have to repay the federal government for unallowable costs.

**Navajo County FY 2003-04 Management Letter Response (cont'd)**  
**Page 2**

**Corrective Action Plan:** Concur. The County will establish, monitor and enforce policies and procedures for reporting applicable expenditures to the federal government or pass-through entities to ensure compliance with federal laws and regulations as follows.

- Monitor all departments administering federal programs to ensure that program expenditures are properly recorded on the financial accounting system.
- Require the Finance Department to confirm program information reported on the SEFA with the department responsible for administering the program, reconcile SEFA expenditures to the financial accounting system, and review the information for completeness and accuracy.
- Require a second employee to review federal financial reports for accuracy before submitting them to the grantor or pass-through grantor.
- Require each department to prepare a checklist of federal financial report deadlines to help ensure they are submitted in a timely manner.

These procedures will be implemented by the County during fiscal year 2006-07.

***The County should spend highway user and vehicle license tax monies in accordance with state laws***

The County should develop written policies and procedures to ensure that HURF and restricted VLT monies are spent in accordance with the Arizona Constitution, A.R.S., and the Attorney General's opinion, and ensure that its Public Works department follows these policies and procedures.

**Corrective Action Plan:** Concur for the air conditioner purchased with HURF monies. The County repaid HURF for the air conditioner purchase during fiscal year 2003-04.

**County Response:** For the expenditure of HURF monies for liability insurance premiums the County does not concur. Additionally, the Department of Transportation does not concur that general and automobile liability insurance premiums are not an allowable expenditure. Risk Management charges are ordinary and necessary expenditures to operate and maintain a County road system. The Navajo County Attorney's Office advises that these charges are within the scope of expenditures allowed by Article IX, §14 of the Arizona Constitution for the maintenance of County highways.

**Navajo County FY 2003-04 Management Letter Response (concl'd)**  
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***The County should improve departmental controls over bank accounts***

To help strengthen controls over departmental bank accounts, the County should establish written procedures for making deposits into, writing checks from, and reconciling the bank accounts and periodically monitor that departments are following them.

**Corrective Action Plan:** Concur. The County will establish policies and procedures to ensure adequate controls are implemented over bank accounts as follows.

- Prepare written reconciliations for each bank account within 15 days of the bank statement date.
- Identify all reconciling items with references to supporting documentation.
- Propose correcting entries or request the bank to make any necessary corrections for all errors detected in the reconciliation process.
- Require a supervisor not involved in the reconciliation process to review and approve each reconciliation and the resulting correcting entries.
- Investigate all outstanding checks and other reconciling items outstanding for more than 6 months and take appropriate action to eliminate the reconciling item.

These procedures will be implemented by the County during fiscal year 2006-07.