



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Single Audit

Navajo County

Year Ended June 30, 2004



Debra K. Davenport
Auditor General

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Navajo County
Single Audit Reporting Package
Year Ended June 30, 2004

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

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

WILLIAM THOMSON
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 were engaged to audit 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, 2004, which collectively comprise the County's basic financial statements, and have issued our report thereon dated January 26, 2007. Our report was modified for a disclaimer of opinion on the basic financial statements of Navajo County taken as a whole.

Internal Control over Financial Reporting

In planning the engagement, we considered the County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements and not to provide an opinion on internal control over financial reporting. However, we noted certain matters involving internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over financial reporting that, in our judgment, could adversely affect the County's ability to initiate, record, process, and report financial data consistent with the assertions of management in the basic financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 04-01 through 04-05.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control over financial reporting would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 04-01 through 04-05 to be material weaknesses.

Compliance and Other Matters

As part of the engagement to obtain reasonable assurance about whether the County's basic financial statements are free of 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings and Questioned Costs as items 04-01 and 04-05.

We also noted certain additional matters that we will report to the County's management in a separate letter at a future date.

This report is intended solely for the information and use of the members of the Arizona State Legislature, the Board of Supervisors, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Debbie Davenport
Auditor General

January 26, 2007



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

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

**Independent Auditors' Report on Compliance with Requirements
Applicable to Each Major Program and on Internal Control over Compliance in
Accordance with OMB Circular A-133**

Members of the Arizona State Legislature

The Board of Supervisors of
Navajo County, Arizona

Compliance

We have audited the compliance of Navajo County with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. The County's major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the County's compliance with those requirements.

As described in the following table, Navajo County did not comply with certain compliance requirements that are applicable to its major federal programs. Compliance with such requirements is necessary, in our opinion, for the County to comply with requirements applicable to those programs.

Program Title (CFDA No.)	Compliance Requirement	Finding Number
Special Supplemental Nutrition for Women, Infants, and Children (10.557)	Single audit report submission, Eligibility, Equipment and Real Property Management	04-101, 04-102, 04-103, 04-104
Payments in Lieu of Taxes (15.226)	Single audit report submission	04-101, 04-104
Byrne Formula Grant Program (16.579)	Single audit report submission	04-101, 04-104

Program Title (CFDA No.)	Compliance Requirement	Finding Number
WIA Cluster (17.258 & 17.259)	Single audit report submission, Equipment and Real Property Management	04-101, 04-103, 04-104
Election Reform Payments (39.011)	Single audit report submission, Equipment and Real Property Management	04-101, 04-103, 04-104
Child Support Enforcement (93.563)	Single audit report submission	04-101, 04-104
State Domestic Preparedness Equipment Support Program (97.004)	Single audit report submission, Equipment and Real Property Management	04-101, 04-103, 04-104

In our opinion, except for the noncompliance described in the preceding table, Navajo County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control over Compliance

The County's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the County's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 04-101 through 04-104.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control over compliance would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 04-101 through 04-104 to be material weaknesses.

Schedule of Expenditures of Federal Awards

We were engaged to audit 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, 2004, which collectively comprise the County's basic financial statements, and have issued our report thereon dated January 26, 2007. Our report was modified for a disclaimer of opinion on the basic financial statements of Navajo County taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the members of the Arizona State Legislature, the Board of Supervisors, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Debbie Davenport
Auditor General

March 31, 2007, except for the Schedule
of Expenditures of Federal Awards, for which
the date is January 26, 2007

Navajo County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2004

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Grantor's Number	Expenditures
U.S. Department of Agriculture			
Passed through the Arizona Department of Health Services			
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	HG361082, 261076	\$ 303,806
State Administrative Matching Grants for Food Stamp Program	10.561	HG361087, 261089	75,191
Passed through the Arizona State Land Department			
Cooperative Forestry Assistance	10.664	SFA1005	39,421
Passed through Arizona State Treasurer			
Schools and Roads—Grants to States	10.665	None	25,000
Water and Waste Disposal Systems for Rural Communities	10.760	281-00	229
Watershed Protection and Flood Prevention	10.904	0348-0004, 98-9457-2-415	6,661
Total U.S. Department of Agriculture			<u>450,308</u>
U.S. Department of Housing and Urban Development			
Passed through the Arizona Department of Housing			
Community Development Block Grants/State's Program	14.228	142-04	48,683
Total U.S. Department of Housing and Urban Development			<u>48,683</u>
U.S. Department of the Interior			
Payments in Lieu of Taxes			
National Fire Plan—Wildland Urban Interface Community Fire Assistance	15.226		826,810
Fire Assistance	15.228		7,524
Passed through Apache County			
U.S. Forest Service	15.unknown	03-LE11030121-003	5,000
Total U.S. Department of the Interior			<u>839,334</u>
U.S. Department of Justice			
RICO Funds			
Federal Bureau of Investigations	16.unknown		241,184
Federal Bureau of Investigations	16.unknown		7,325
Southwest Border Patrol Initiative	16.unknown		12,208
Passed through the Arizona Governor's Division for Children			
Juvenile Accountability Incentive Block Grants	16.523	01-JAIBG-09, JBGRA02418209, JBGRA023527308	19,434
Passed through the Arizona Department of Public Safety			
Crime Victim Assistance	16.575	2001-VA-GX-00 04	122,279
Passed Through the Arizona Criminal Justice Commission			
Byrne Formula Grant Program	16.579	AC 180-03, PC-140-03	407,365
Passed through the Arizona Drug Enforcement Administration			
Cannabis Eradication	16.unknown	2002-09	6,665
Local Law Enforcement Block Grant Program	16.592	2001-LB-BX-1689, 2000-LB-BX-0816, 2000-LB-BX-1460, 2002-LB-BX-2876	27,721
Community Prosecution and Project Safe Neighborhoods	16.609	2002-GP-CS-0114	52,398
Total U.S. Department of Justice			<u>896,579</u>

(Continued)

See accompanying notes to schedule.

Navajo County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2004
(Continued)

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Grantor's Number	Expenditures
U.S. Department of Labor			
Passed through Arizona Department of Economic Security			
WIA Cluster			
WIA Adult Program	17.258	E5702009, E5703009, E5704009	\$ 157,022
WIA Youth Activities	17.259	E5704009, E5702009, E5703009	<u>243,838</u>
Total U.S. Department of Labor			<u>400,860</u>
U.S. Department of Transportation			
Passed through the Arizona Department of Transportation			
Highway Planning and Construction	20.205	AG1N00000501	<u>137,299</u>
Total U.S. Department of Transportation			<u>137,299</u>
General Services Administration			
Passed through the Arizona Secretary of State			
Election Reform Payments	39.011	None	<u>552,717</u>
Total U.S. General Services Administration			<u>552,717</u>
Institute of Museum and Library Services			
Passed through Arizona Department of Library, Archives, and Public Records			
State Library Program	45.310	221311, 221-3-2-(3), 231-1-5-(11), 231-1-5-(12), 231-2-2-(2), 231-3-2-(07), 981-1-/(7)	<u>82,544</u>
Total U.S. Institute of Museum and Library Services			<u>82,544</u>
U.S. Department of Education			
Passed through Arizona Department of Economic Security			
Special Education—Grants for Infants and Families with Disabilities	84.181	E1800031, E1800032	24,555
Passed through Arizona Department of Education			
Reading First State Grants	84.357	S57A020003	25,462
English Language Acquisition Grants	84.365	T365A30003A	19,968
Improving Teacher Quality State Grants	84.367	S67A030049	<u>71,899</u>
Total U.S. Department of Education			<u>141,884</u>
U.S. Department of Health and Human Services			
Passed through Arizona Department of Health Services			
Immunization Grants	93.268	HG352200, 152045	23,264
Centers for Disease Control and Prevention—Investigations and Technical Assistance	93.283	252039	272,193
HIV Prevention Activities—Health Department Based	93.940	152016, HG352259	8,933
Preventive Health Services—Sexually Transmitted Diseases Control Grants	93.977	HG354250, 052003	1,482
Preventive Health and Health Services Block Grant	93.991	261109, HG354183	23,386

(Continued)

See accompanying notes to schedule.

Navajo County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2004
(Continued)

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Grantor's Number	Expenditures
Maternal and Child Health Services Block Grant to the States	93.994	961125, 761108, HG361315, 9610922	\$ 80,216
Passed through Arizona Department of Economic Security Child Support Enforcement	93.563	E7201017, E7202017, E7203317	<u>594,629</u>
Total U.S. Department of Health and Human Services			<u>1,004,103</u>
U.S. Department of Homeland Security			
Passed through State of Arizona Department of Emergency and Military Affairs			
State Domestic Preparedness Equipment Support Program	97.004	2001-TE-CX-0412, 2002-TE- CX-0412, 2003-TE-CX-0196	762,631
Emergency Food and Shelter National Board Program	97.024	EMF2004-GR-0401	63,989
Hazard Mitigation Grant	97.039	1422-5-6-F	3,231
Fire Management Assistance Grant	97.046	None	149,054
Citizen Corps	97.053	None	<u>38,400</u>
Total U.S. Department of Homeland Security			<u>1,017,305</u>
Total Expenditures of Federal Awards			<u>\$ 5,571,616</u>

See accompanying notes to schedule.

Navajo County
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2004

Note 1 - Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Navajo County and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

Note 2 - Catalog of Federal Domestic Assistance (CFDA) Number

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2004 *Catalog of Federal Domestic Assistance*. When there was no federal contract number assigned to a program, the two-digit federal agency identifier, a period, and the word "unknown" were used.

Note 3 - Subrecipients

Navajo County did not have any subrecipients for the year ended June 30, 2004.

Navajo County
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2004

Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:

Disclaimer of opinion on the basic financial statements taken as a whole

	Yes	No
Material weakness identified in internal control over financial reporting?	<u>X</u>	___
Reportable condition identified not considered to be a material weakness?	___	<u>X</u>
Noncompliance material to the financial statements noted?	<u>X</u>	___

Federal Awards

Material weaknesses identified in internal control over major programs?	<u>X</u>	___
Reportable condition identified not considered to be a material weakness?	___	<u>X</u>

Type of auditors' report issued on compliance for major programs:

Qualified for all major programs

Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (section .510[a])?	<u>X</u>	___
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Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
15.226	Payments in Lieu of Taxes
16.579	Byrne Formula Grant Program
17.258/17.259	WIA Cluster
39.011	Election Reform Payments
93.563	Child Support Enforcement
97.004	State Domestic Preparedness Equipment Support Program

Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
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Auditee qualified as low-risk auditee?	___	<u>X</u>
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Other Matters

Auditee's Summary Schedule of Prior Audit Findings required to be reported in accordance with Circular A-133 (section .315[b])?	<u>X</u>	___
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Navajo County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2004

Financial Statement Findings

04-01

The County should establish procedures to accurately record and report financial information

The County must issue accurate and timely financial statements to satisfy the audit requirements imposed by federal and state laws and regulations, grant contracts, and long-term debt covenants. In addition, the County's Governing Board depends on accurate information so it can fulfill its oversight responsibility and to report accurate information to the public and agencies from which it receives funding. To achieve these objectives management should ensure that transactions are recorded accurately, in the appropriate accounts, and in the proper fiscal year, and that financial statements are prepared and issued in a timely manner. However, the County did not accomplish these objectives since it took the County 2 years after year-end to prepare its financial statements. Further, the County's financial statements were not accurate and prepared in accordance with generally accepted accounting principles. Additionally, the County requested us not to audit its capital assets or Health Insurance Trust Fund because it did not have established controls over these balances and transactions. See finding 04-02 for detailed recommendations regarding capital assets and the Health Insurance Trust Fund.

Overall, the County lacked effective internal controls over financial reporting since the County did not record in its accounting system and supporting records year-end accruals for individual funds. Consequently, ending fund balances, year-end accruals, revenues, and expenditures for the individual funds were not accurately reported in the fund financial statements. In addition, employees were unable to obtain financial information from the accounting records to prepare financial statements in accordance with generally accepted accounting principles. As a result of these departures from generally accepted accounting principles, the auditors were unable to audit the County's financial statements.

These problems delayed the issuance of the County's Single Audit Reporting Package for the year ended June 30, 2004. The federal reporting deadline for the County's Single Audit Reporting Package was March 31, 2005; however, the County did not issue its Single Audit Reporting Package until August 2007.

To help ensure that financial statements are prepared accurately and issued in a timely manner, the County should allocate resources to:

- Research all accounting and reporting requirements to ensure the financial statements are properly presented in accordance with authoritative pronouncements.
- Obtain information from the accounting system necessary for financial statement preparation.
- Establish a process for obtaining information not readily available from the accounting system necessary for financial statement preparation.
- Establish a process for compiling the information and preparing financial statements and notes and assign employees and determine completion dates.

Navajo County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2004

- Have an employee who did not prepare the financial statements review them and the accompanying notes to help ensure that the amounts are accurate and properly supported and the statements are presented in accordance with authoritative pronouncements.

A similar finding was previously reported in the prior year's Single Audit Reporting Package.

04-02

The County should establish controls over capital assets and its health insurance trust fund

Capital Assets

The County's capital asset policies and procedures should be in compliance with the *Uniform Accounting Manual for Arizona Counties* (UAMAC), however, the County's procedures weren't in compliance. Existing county capital assets records did not include sufficient documentation to support account balances. As a result, auditors were unable to audit the County's capital assets balances.

In order to comply with the requirements of the UAMAC §VI-E and to properly report capital assets in accordance with generally accepted accounting principles, the County should prepare and maintain a complete and accurate listing of land, buildings, and related improvements costing \$5,000 or more, and machinery and equipment items with unit costs of \$1,000 or more and useful lives longer than 1 year. The listing should include the following for each item:

- Location
- Tag number, serial number, or other number that specifically identifies each furniture and equipment item and vehicles
- Description
- Method of acquisition
- Source of funding
- Month and year acquired
- Purchase document number
- Cost

The County should use actual costs, including ancillary costs such as sales tax, freight, and installation costs to record assets and should retain supporting documentation for these costs. If actual cost information is not available, the County may record purchased assets at estimated historical cost. Estimated fair market value at the date of acquisition should be used to record the costs of donated assets. Documentation, such as contracts, catalogs, working paper calculations, and the minutes of Board of Supervisors' meetings, should be retained to support estimated cost information.

In addition, to help ensure compliance with the requirements of the UAMAC §VI-E, the County should take a physical inventory at least every 2 years of capital assets purchased with federal monies and every 3 years for all other capital assets, and reconcile the inventory to the capital assets listing.

Navajo County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2004

Health Insurance Trust Fund

The County contracted with an administrator to process and pay all of the Fund's claims; however, it did not ensure that the administrator obtained an internal control audit. Therefore, auditors were unable to audit the Health Insurance Trust Fund since the County did not maintain documentation to support claims paid.

To strengthen controls over the claims payment process, the County should require the third-party administrator to obtain an independent annual audit of its claims processing controls to determine that controls have been placed in operation.

A similar finding was previously reported in the prior year's Single Audit Reporting Package.

04-03

The County should reconcile cash and investment balances in a timely manner

The Treasurer's Office is responsible for safeguarding and investing public monies for the County and other governmental entities within Navajo County. Since the Treasurer's Office acts as a bank for the County, the Finance Department should reconcile the County's cash and investments to the Treasurer's Report each month. However, the Finance Department failed to reconcile its cash and investments balances in the general ledger to the amounts recorded by the County Treasurer monthly or at year-end. As of August 2007, the County still has not provided evidence that these balances were reconciled. Consequently, the County was unable to prepare accurate financial statements in a timely manner.

To help ensure accurate accounting records, the Finance Department should prepare written reconciliations of each fund's cash and investment balances to the Treasurer's Report within 15 days of month-end. As part of these reconciliations, employees should identify and promptly investigate all reconciling items and, as necessary, propose appropriate correcting adjustments to the accounting records or instruct the Treasurer's Office to correct its records.

A similar finding was previously reported in the prior year's Single Audit Reporting Package.

04-04

The County should have a disaster recovery plan for its computer systems

The County's computer systems are vital to the County's daily operations since those systems process, record, and store critical financial information and other important data. Therefore, the County should ensure that it can continue to operate in the event of a system or equipment failure by developing and testing a disaster recovery plan. However, the County did not have a disaster recovery plan.

A properly designed disaster recovery plan helps ensure that proper procedures are in place to provide for the continuity of operations and help ensure that electronic data files are not lost in the event of a service interruption. The County should develop a disaster recovery plan that includes the following:

- A risk analysis identifying critical applications and exposures, and an assessment of the impact to the County.

Navajo County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2004

- Roles and responsibilities of employees assigned to disaster recovery teams, including emergency telephone numbers to reach them.
- Operating procedures.
- Details of off-site storage locations.
- Arrangements for a designated physical facility.
- Arrangements with vendors to support needed hardware and software requirements.
- A list of procedures for processing critical transactions, including forms or other documents to use.

Further, the disaster recovery plan should be stored off-site, and updated and tested annually.

04-05

The County should submit its Annual Expenditure Limitation Report in a timely manner

The County is required to submit an Annual Expenditure Limitation report (AELR) to the Auditor General of the State of Arizona by October 31, or February 28 if the Auditor General grants an extension, as required by Arizona Revised Statutes (A.R.S.) §41-1279.07(c). The AELR describes whether the County complied with constitutional spending limits established by the Economic Estimates Commission. However, the County has failed to submit its AELR for the year ended June 30, 2004 in a timely manner. The AELR is more than two years past the prescribed statutory deadline. As discussed in finding 04-01, several significant deficiencies in financial reporting have attributed to the late report submissions. The County could face legal implications if the County does not submit its AELR by the deadline.

To comply with A.R.S. §41-1279.07(c), the County should submit the reports required by the *Uniform Expenditure Reporting System* to the Auditor General of the State of Arizona by October 31, or by February 28 if a 120 day extension is granted.

A similar finding was previously reported in the prior year's Single Audit Reporting Package.

Navajo County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2004

Federal Award Findings and Questioned Costs

04-101

CFDA No.: 10.557 **Special Supplemental Nutrition Program for Women, Infants, and Children**
U.S. Department of Agriculture, passed through the Arizona Department of Health Services
Award Period: October 1, 2002 through September 30, 2007
Award Number: HG361082

CFDA No.: 15.226 **Payments in Lieu of Taxes**
U.S. Department of Interior
Award Period: October 1, 2003 through September 30, 2007
Direct Award

CFDA No.: 16.579 **Byrne Formula Grant Program**
U.S. Department of Justice, passed through the Arizona Criminal Justice Commission
Award Period: October 1, 2002 through September 30, 2004
Award Numbers: AC 180-03 and PC-140-03

WIA Cluster

CFDA No.: 17.258 **WIA Adult Program**
17.259 **WIA Youth Activities**
U.S. Department of Labor, passed through the Arizona Department of Economic Security
Award Period: October 1, 2002 through September 30, 2007
Award Numbers: E5702009, E5703009, and E5704009

CFDA No.: 39.011 **Election Reform Payments**
General Services Administration, passed through the Arizona Secretary of State
Award Period: April 25, 2003 through March 12, 2006
Award Number: None Stated

CFDA No.: 93.563 **Child Support Enforcement**
U.S. Department of Health and Human Services, passed through the Arizona Department of Economic Security
Award Period: October 1, 2002 through September 30, 2004
Award Numbers: E7201017, E7202017, and E7203317

CFDA No.: 97.004 **State Domestic Preparedness Equipment Support Program**
U.S. Department of Homeland Security, passed through the Arizona Department of Emergency and Military Affairs
Award Period: December 30, 2002 through July 31, 2004
Award Numbers: 2001-TE-CX-0412, 2002-TE-CX0142, and 2003-TE-CX-0196
OMB Circular A-133 Report Submission

Questioned Cost: None

As discussed in financial statement finding 04-01, Navajo County did not submit its Single Audit Reporting Package within 9 months of the County's fiscal year, which would have been March 31, 2005, as required

Navajo County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2004

by OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. The County will submit its Single Audit Reporting Package over 2 years late.

This finding is a material internal control weakness and material noncompliance with OMB Circular A-133 report submission requirements and impacts all federal programs administered by the County.

To comply with OMB Circular A-133, Subpart C, §.320, the County should submit its Single Audit Reporting Package to the federal clearinghouse no later than 9 months after the period subject to audit, unless the County's oversight agency extends this filing deadline.

04-102

CFDA No.: 10.557 **Special Supplemental Nutrition Program for Women, Infants, and Children**

U.S. Department of Agriculture, passed through the Arizona Department of Health Services

Award Period: October 1, 2002 through September 30, 2007

Award Number: HG361082

Eligibility

Questioned Cost: \$2,830

Navajo County did not adhere to its internal control policies and procedures to make eligibility determinations for Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) recipients and to retain all required data within the recipients' case files to ensure compliance with eligibility requirements. Specifically, the County was unable to locate the certification form and supporting documentation for 5 of 48 recipients during the specified certification period and did not fully complete the certification form for 3 other recipients. For the audit period July 1, 2003 through June 30, 2004, these 8 recipients were awarded \$2,830 in assistance. In addition, the County included 3 recipients of other Arizona counties on its listing of eligible recipients.

It was not practical to extend our auditing procedures sufficiently to determine if any additional questioned costs resulted from this finding. However, this finding is a material internal control weakness and material noncompliance with the program's eligibility requirements.

To comply with 7 Code of Federal Regulations (CFR) §246.7, the County should document its recipients' eligibility and retain documentation to support eligibility determinations in the case files. Each case file must contain a certification form signed by the recipient requesting assistance and Community Nutrition Worker, and documentation supporting each decision regarding eligibility. In addition, the County should be able to identify which recipients received assistance during a specified time period.

Navajo County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2004

04-103

CFDA No.: 10.557 **Special Supplemental Nutrition Program for Women, Infants, and Children**

U.S. Department of Agriculture, passed through the Arizona Department of Health Services

Award Period: October 1, 2002 through September 30, 2007

Award Number: HG361082

WIA Cluster

CFDA No.: 17.258 **WIA Adult Program**

17.259 **WIA Youth Activities**

U.S. Department of Labor, passed through the Arizona Department of Economic Security

Award Period: October 1, 2002 through September 30, 2007

Award Numbers: E5702009, E5703009, and E5704009

CFDA No.: 39.011 **Election Reform Payments**

General Services Administration, passed through the Arizona Secretary of State

Award Period: April 25, 2003 through March 12, 2006

Award Number: None Stated

CFDA No.: 97.004 **State Domestic Preparedness Equipment Support Program**

U.S. Department of Homeland Security, passed through the Arizona Department of Emergency and Military Affairs

Award Period: December 30, 2002 through July 31, 2004

Award Numbers: 2001-TE-CX-0412, 2002-TE-CX0142, and 2003-TE-CX-0196

Equipment and Real Property Management

Questioned Cost: Unknown

The County did not enforce its internal control policies and procedures to ensure compliance with the federal equipment and real property management requirements. Specifically, as discussed in financial statement finding 04-02, the County did not maintain and update its capital assets listing to record additions, deletions, and depreciation expense. In addition, a physical inventory was not performed for fiscal year 2004 or the prior two fiscal years. Further, adequate internal controls including management oversight, did not exist. Consequently, the County could not provide auditors with a complete listing of capital assets purchased with current and prior year federal monies by program.

It was not practical to extend our auditing procedures sufficiently to determine questioned costs if any, that may have resulted from this finding. This finding is a material internal control weakness and material noncompliance with the program's equipment and real property management requirements.

To comply with 7 CFR §3016.32, 29 CFR §97.32, 41 CFR §105-71.132, and 28 CFR §66.32, the County should ensure that all equipment with an acquisition cost of \$5,000 or more and a useful life of more than 1 year is capitalized and included on the County's capital assets listing. In addition, the County should update the listing annually, perform a physical inventory of federal equipment at least once every 2 years to ensure its accuracy and completeness, and establish oversight over capital assets.

Navajo County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2004

04-104

CFDA No.: 10.557 **Special Supplemental Nutrition Program for Women, Infants, and Children**
U.S. Department of Agriculture, passed through the Arizona Department of Health Services
Award Period: October 1, 2002 through September 30, 2007
Award Number: HG361082

CFDA No.: 15.226 **Payments in Lieu of Taxes**
U.S. Department of Interior
Award Period: October 1, 2003 through September 30, 2007
Direct Award

CFDA No.: 16.579 **Byrne Formula Grant Program**
U.S. Department of Justice, passed through the Arizona Criminal Justice Commission
Award Period: October 1, 2002 through September 30, 2004
Award Numbers: AC 180-03 and PC-140-03

WIA Cluster

CFDA No.: 17.258 **WIA Adult Program**
 17.259 **WIA Youth Activities**
U.S. Department of Labor, passed through the Arizona Department of Economic Security
Award Period: October 1, 2002 through September 30, 2007
Award Numbers: E5702009, E5703009, and E5704009

CFDA No.: 39.011 **Election Reform Payments**
General Services Administration, passed through the Arizona Secretary of State
Award Period: April 25, 2003 through March 12, 2006
Award Number: None Stated

CFDA No.: 93.563 **Child Support Enforcement**
U.S. Department of Health and Human Services, passed through the Arizona Department of Economic Security
Award Period: October 1, 2002 through September 30, 2004
Award Numbers: E7201017, E7202017, and E7203317

CFDA No.: 97.004 **State Domestic Preparedness Equipment Support Program**
U.S. Department of Homeland Security, passed through the Arizona Department of Emergency and Military Affairs
Award Period: December 30, 2002 through July 31, 2004
Award Numbers: 2001-TE-CX-0412, 2002-TE-CX0142, and 2003-TE-CX-0196
OMB Circular A-133 Report Submission

Questioned Cost: Unknown

As discussed in financial statement finding 04-01, Navajo County did not maintain its accounting records in a manner consistent with generally accepted accounting principles. Accordingly, there may have been errors in balances affecting federal award programs that were not corrected by the County in a timely

Navajo County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2004

manner. Specifically, the County did not record in its accounting system and supporting records year-end accruals by individual fund. Consequently, we were unable to determine the effects of this matter on beginning and ending fund balances, year-end accruals, and revenues and expenditures.

It was not practical to extend our auditing procedures sufficiently to determine questioned costs, if any, that may have resulted from this finding. This finding is a material internal control weakness and material noncompliance with OMB Circular A-133 report submission requirements.

To comply with 7 CFR §3016.20, 43 CFR §12.60, 28 CFR §66.20, 29 CFR §97.20, 41 CFR §105-71.20, and 45 CFR §92.20 as codified by the federal grantor agencies, the County should maintain its financial management system in a manner necessary to comply with federal award requirements. This includes recording transactions and balances in a manner consistent with generally accepted accounting principles.

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

Financial Statement Findings

04-01 The County should establish procedures to accurately record and report financial information

The County must issue accurate and timely financial statements to satisfy the audit requirements imposed by federal and state laws and regulations, grant contracts and long-term debt covenants.

Corrective Action Plan: Concur. The Navajo County Board of Supervisors and management are committed to allocating the necessary resources to ensure that all financial reports and statements are prepared accurately and timely. The County Manager and Finance Director have met on several occasions with the Arizona Auditor General and her senior management team. The purpose of these meetings with the Arizona Office of the Auditor General (OAG) are to (1) ensure that there is ongoing communication between the County and the OAG, (2) determine that adequate progress is being made by the County toward ensuring that our financial reports are prepared accurately and timely, and (3) to review steps the County has taken to correct various reporting deficiencies that currently exist. By reaching certain milestones the County will issue its audited financial statements and Single Audit reports as follows.

FY 2004-05	September 30, 2007
FY 2005-06	February 28, 2008
FY 2006-07	October 31, 2008

It is anticipated that the FY 2006-07 will require more time to complete the Single Audit due to additional test work that will be performed by the OAG for the County's beginning fund balances, capital assets and health insurance trust fund. Further, as of July 1, 2005, the County implemented a new financial management system that will allow the County to more easily obtain accurate and timely financial information. Finally, the County is actively recruiting to fill several positions in the County's Administrative and Finance Departments to ensure that the necessary internal resources have been committed so that our reporting and accountability requirements have been fully met in a timely and accurate manner.

Navajo County FY 2003-04 Corrective Action Plan (cont'd)
Page 2

04-02 The County should establish controls over capital assets and its health insurance trust fund

Capital Assets

The County's capital asset policies and procedures should be in compliance with the Uniform Accounting Manual for Arizona Counties (UAMAC), however, the County's procedures weren't in compliance.

Corrective Action Plan: Concur. The County has performed several key steps to correct this deficiency as noted below.

- We have contracted with an independent consultant for the valuation of the County's land, buildings, and infrastructure. This valuation work is complete including depreciation schedules where applicable.
- A physical inventory of machinery and equipment with a unit cost of \$1,000 or more and useful lives longer than 1 year has been completed by County Finance staff. Our physical inventory also included stewardship items such as information technology equipment with a unit cost less than \$1,000. A physical inventory of all capital assets will be performed biennially.
- The reconciliation of our physical capital asset inventory to the County's financial records will be complete by June 30, 2007. A full time employee has been dedicated solely to this reconciliation function to ensure that it is completed accurately and with the time allowed.

Completion of an accurate capital asset listing will be prepared for inclusion in the County's Single Audit Reporting package for the fiscal year ended June 30, 2007.

Health Insurance Trust

The County contracted with an administrator to process and pay all of the Fund's claims; however, it did not ensure that the administrator obtained an internal control audit.

Corrective Action Plan: Concur. The County changed third party administrators (TPA) for our Health Insurance Trust on July 1, 2006. The County will ensure that our new TPA has an internal control audit.

Navajo County FY 2003-04 Corrective Action Plan (cont'd)
Page 3

04-03 The County should reconcile cash and investment balances in a timely manner

The Treasurer's Office is responsible for safeguarding and investing public monies for the County and other governmental entities within Navajo County. Since the Treasurer's Office acts as a bank for the County, the Finance Department should reconcile the County's cash and investments to the Treasurer Report each month.

Corrective Action Plan: Concur. The County has implemented procedures to ensure that each fund's cash and investment balance are reconciled to the Treasurer's Report within 15 days of month-end.

04-04 Disaster Recovery Plan

The County's computer systems are vital to the County's daily operations since those systems process, record, and store critical financial information and other important data. Therefore the County should ensure that it can continue to operate in the event of a system or equipment failure by developing and testing a disaster recovery plan.

Corrective Action Plan: Concur. The Board of Supervisors formally adopted a Continuity of Operations Plan (COOP) on September 18, 2006, which will be reviewed and updated at least annually. The County will ensure that the COOP disaster recovery includes the following components and procedures.

- A risk analysis identifying critical applications and exposures, and an assessment of the impact to the County.
- Roles and responsibilities of employees assigned to disaster recovery teams, including emergency telephone numbers to reach them.
- Operating procedures.
- Details of off-site storage locations.
- Arrangements for a designated physical facility.
- Arrangements with vendors to support needed hardware and software requirements.
- A list of procedures for processing critical transactions, including forms or other documents to use.

Navajo County FY 2003-04 Corrective Action Plan (cont'd)
Page 4

04-05 The County should submit its Annual Expenditure Limitation Report in a timely manner

The County is required to submit an Annual Expenditure Limitation report (AELR) to the Auditor General of the State of Arizona (OAG) by October 31, or February 28 if the Auditor General grants an extension.

Corrective Action Plan: Concur. The County will implement procedures to ensure the AELR is submitted to the OAG as required by Arizona Revised Statutes §41-1279.07(c). In addition, the County has committed to completing the delinquent AELR reports for submission to the OAG within 30 days after the applicable fiscal years financial statements are issued. The corrective action plan for item #04-01 above includes our schedule to have the County's delinquent Single Audit Reporting Packages issued.

Federal Award Findings and Questioned Costs

04-101 U.S. Department of Agriculture – Special Supplemental Nutrition Program for Women, Infants, and Children
U.S. Department of Interior – Payments in Lieu of Taxes
U.S. Department of Justice – Byrne Formula Grant Program
U.S. Department of Labor – WIA Cluster
General Services Administration – Election Reform Payments
U.S. Department of Health and Human Services – Child Support Enforcement
U.S. Department of Homeland Security – State Domestic Preparedness Equipment Support Program

Navajo County did not submit its Single Audit Reporting Package within 9 months of the County's fiscal year.

Corrective Action Plan: Concur. The County will implement procedures to ensure the Single Audit Reporting Package is submitted to the Arizona OAG within 9 months of the County's fiscal year. By reaching certain milestones the County will issue its audited financial statements and Single Audit reports as follows.

FY 2004-05	September 30, 2007
FY 2005-06	February 28, 2008
FY 2006-07	October 31, 2008

Contact person: James Menlove, Finance Director
928-524-4000

04-102 U.S. Department of Agriculture – Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)

Navajo County did not adhere to its internal control policies and procedures to make eligibility determinations for WIC recipients and to retain all required data within the recipients' case files to ensure compliance with eligibility requirements.

Navajo County FY 2003-04 Corrective Action Plan (cont'd)
Page 6

Corrective Action Plan: Concur. The County has implement procedures to ensure that adequate documentation is included in the recipient's case files. These procedures include training and monitoring of case files to ensure compliance with 7 Code of Federal Regulations §246.7. Full implementation of these policies and procedures should occur no later than June 30, 2007.

Contact person: Mary Tyler, Deputy Health Director
928-524-4000

04-103 U.S. Department of Agriculture – Special Supplemental Nutrition Program for Women, Infants, and Children
U.S. Department of Labor – WIA Cluster
General Services Administration – Election Reform Payments
U.S. Department of Homeland Security – State Domestic Preparedness Equipment Support Program

The County did not enforce its internal control policies and procedures to ensure compliance with the federal equipment and real property management requirements.

Corrective Action Plan: Concur. The County has implement procedures to ensure compliance with OMB Circular A-110 §.34. As discussed in the corrective action plan for financial statement finding 04-02 the County will ensure that all equipment with an acquisition cost of \$5,000 or more and a useful life of more than 1 year is capitalized and included on the County's capital assets listing. Additionally, the County will update the listing annually, perform a physical inventory of all equipment at least once every 2 years to ensure its accuracy and completeness, and establish oversight over capital assets. The capital asset listing will be included in our FY 2006-07 Single Audit Reporting Package.

Contact person: James Menlove, Finance Director
928-524-4000

Navajo County FY 2003-04 Corrective Action Plan (concl'd)
Page 7

04-104 U.S. Department of Agriculture – Special Supplemental Nutrition Program for Women, Infants, and Children
U.S. Department of Interior – Payments in Lieu of Taxes
U.S. Department of Justice – Byrne Formula Grant Program
U.S. Department of Labor – WIA Cluster
General Services Administration – Election Reform Payments
U.S. Department of Health and Human Services – Child Support Enforcement
U.S. Department of Homeland Security – State Domestic Preparedness Equipment Support Program

Navajo County did not maintain its accounting records in a manner consistent with generally accepted accounting principles.

Corrective Action Plan: Concur. The County will implement procedures to ensure compliance with the Grants Management Common Rule as codified by the federal grantor agencies whereby the County will maintain its financial management system in a manner necessary to comply with federal award requirements. This deficiency will be corrected for our FY 2006-07 Single Audit Reporting Package.

Contact person: James Menlove, Finance Director
928-524-4000

Navajo County Board of Supervisors



November 30, 2006

(928) 524-4000
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P.O. Box 668
Holbrook, AZ 86025

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Debra K. Davenport
Arizona Auditor General
2910 N. 44th Street, Suite #410
Phoenix, AZ 85018

Dear Ms. Davenport

The accompanying Summary Schedule of Prior Audit Findings has been prepared as required by the U.S. Office of Management and Budget Circular A-133. Specifically, we are reporting the status of audit findings included in the prior year's audit Schedule of Findings and Questions Costs related to federal awards. This schedule also includes audit findings reported in the prior year's audit Summary Schedule of Prior Audit Findings that have not been corrected.

District I
Percy Deal

District II
Jesse Thompson

District III
J.R. DeSpain

District IV
David Tenney

District V
Jerry Brownlow

County Manager
James G. Jayne

Finance Director
James Menlove

Human Resources
Gail Calisen

Regards,

James Menlove
Finance Director

Navajo County
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2004

Status of Federal Award Finds and Questions Costs

03-101 U.S. Department of Health and Human Services

Child Support Enforcement
Contract Nos. E720.017 and E7201017
CFDA No. 93.563
Grant Period: July 1, 2002 to June 30, 2003
Questions Costs: None

Condition: As a result of testing monthly financial reports, it was determined that four of six reports were submitted between two and four months late to the Arizona Department of Health Services.

Status: Fully Corrected

03-102 U.S. Department of Health and Human Services

Child Support Enforcement
Contract Nos. E7202317, E7200017 and E7201017
CFDA No. 93.563
Grant Period: July 1, 2002 to June 30, 2003
Questions Costs: None

Condition: The Program did not update information within the database concerning health insurance coverage of participants on a timely basis

Status: Fully Corrected

03-103 10.557 Special Supplemental Nutrition Program for Women, Infants, and Children

10.904 Watershed Protection and Flood Prevention
14.228 Community Development Block Grant/State's Program
14.239 Home Investments Partnerships Program

Workforce Investment Act Cluster:

17.258 WIA Adult Program
17.529 WIA Youth Activities
17.260 Dislocated Workers

83.544 Public Assistant Grant
83.566 Fire Management Assistance Grant

93.563 Child Support Enforcement
CFDA No.: N/A
Grant Period: N/A
Questions Costs: N/A

Condition: As discussed in financial statement finding 03-03, the County does not maintain detailed property records of capital assets purchased with federal financial assistance. In addition, capital assets are not inventoried on a biennial basis.

Status: Not corrected. The County now maintains detailed property records of all capital assets. We are currently in the process of performing a physical inventory of all capital assets. Additionally, we have contracted with firm to perform a valuation of all county owned land and buildings. This asset inventory and valuation are expected to be complete February 28, 2007.

03-104 10.557 Special Supplemental Nutrition Program for Women, Infants, and Children
10.904 Watershed Protection and Flood Prevention
14.228 Community Development Block Grant/State's Program
14.239 Home Investments Partnerships Program
Workforce Investment Act Cluster:
17.258 WIA Adult Program
17.529 WIA Youth Activities
17.260 Dislocated Workers

83.544 Public Assistant Grant
83.566 Fire Management Assistance Grant
93.563 Child Support Enforcement
CFDA No.: N/A
Grant Period: N/A
Questions Costs: N/A

Condition: As discussed in financial statement finding 03-05 and 03-06, the County did not maintain its accounting records in a manner consistent with U.S. generally accepted accounting principles. Accordingly, errors in balances that affect the federal award programs may exist and not be corrected by the County in a timely manner.

Status: Not corrected for fiscal year 2003-04. Subsequently, the county has corrected these deficiencies and now maintains all financial records in accordance with U.S. GAAP.

03-105 10.557 Special Supplemental Nutrition Program for Women, Infants, and Children
10.904 Watershed Protection and Flood Prevention
14.228 Community Development Block Grant/State's Program
14.239 Home Investments Partnerships Program

Workforce Investment Act Cluster:

17.258 WIA Adult Program
17.529 WIA Youth Activities
17.260 Dislocated Workers

83.544 Public Assistant Grant
83.566 Fire Management Assistance Grant
93.563 Child Support Enforcement
CFDA No.: N/A
Grant Period: N/A
Questions Costs: N/A

Condition: The County did not complete and submit its single audit reporting package within nine months of the County's fiscal year, which would have been March 31, 2004, as required of organizations subject to the audit requirements OMB Circular A-122, Audits of States, Local Governments, and Nonprofit Organizations. The County is subject to this requirement as a recipient of federal funding.

Status: Not corrected. The Arizona Office of the Auditor General is working closely with Navajo County to help ensure that all required financial reports and audits are completed on a timely basis and in accordance with other federal and state requirements.