

**REPORT
HIGHLIGHTS**
FINANCIAL AND SINGLE AUDITS

Subject

Navajo County is responsible for preparing financial statements, maintaining strong internal controls, demonstrating accountability for its use of public monies, and complying with federal program requirements. As the auditors, our job is to determine whether the County has met its responsibilities.

Our Conclusion

The information in the financial statements is fairly stated in all material respects, and the financial statements can be relied on. However, auditors identified ten deficiencies in internal control over financial reporting and two instances of noncompliance and other matters. The County maintained adequate internal controls and complied with federal compliance requirements for one program tested. However, auditors found material internal control weaknesses for six programs and material noncompliance with program requirements for three programs.



2008

Year Ended June 30, 2008

Financial Statement Audit Summary— The County Continues to Improve Its Financial Accountability

The County has allocated resources to implement recommendations to correct deficiencies resulting from prior years' audits. For 2008, auditors identified ten deficiencies in internal control over financial reporting. Eight of these deficiencies were material weaknesses. A material weakness

is a weakness in internal controls that could lead to a material misstatement of the County's financial statements. Our recommendations to address the material weaknesses identified are summarized below.

Auditor recommendations to improve internal controls over financial accountability and reporting—

- Establish procedures to accurately record and report financial information in a timely manner.
- Reconcile cash and investments balances to the County Treasurer's records on a monthly basis.
- Maintain and review records to accurately identify, record, and value capital assets.
- Perform a detailed review of financial information maintained on separate general ledger systems by county departments to ensure it is properly recorded and classified.
- Develop written policies and procedures to ensure financial information is properly recorded and reported.
- Establish policies and procedures for identifying conflicts of interest and disclosing related party transactions.

Auditor recommendations to improve computer system controls—

To strengthen computer access controls:

- Limit access to those who are authorized and need the access.
- Document and approve requests for access and ensure access granted is compatible with users' job responsibilities.
- Eliminate access promptly for those persons who leave county employment.
- Require users to periodically change passwords.
- Implement system controls to lock out users after multiple failed attempts.

To strengthen computer change controls:

- Require requests for changes to be documented, authorized, tested, reviewed, and approved prior to being put into use.
- Separate the responsibilities for developing and implementing changes.
- Maintain documentation for testing changes and the results.

Condensed Financial Information

Statement of Net Assets—This statement reports all of the County's assets and liabilities with the difference between the two reported as net assets. Net assets are reported in three major categories:

- Invested in capital assets, net of related debt, shows the equity in property, plant, and equipment.
- Restricted net assets shows the net resources that must be used for restricted purposes as specified by external parties.
- Unrestricted net assets show the net resources available for general operations.

A condensed Statement of Net Assets is presented to the right.

Statement of Activities—This statement shows how net assets changed during the current fiscal year. Revenues are reported as either program revenues (those generated by or dedicated to a specific program) or general revenues (taxes and revenues not raised by or dedicated to a specific program). The change in net assets indicates whether financial health has improved or deteriorated as a result of current year activities. Net assets increased by \$1.7 million in the current year. A condensed Statement of Activities is presented to the right.

Condensed Statement of Net Assets June 30, 2008	
	Total Governmental Activities
Assets:	
Current and other assets	\$ 50,686,558
Capital assets, net	<u>70,055,062</u>
Total assets	<u>120,741,620</u>
Liabilities:	
Current liabilities	4,495,398
Noncurrent liabilities	<u>14,047,855</u>
Total liabilities	<u>18,543,253</u>
Net Assets:	
Invested in capital assets, net of related debt	61,704,323
Restricted	24,374,755
Unrestricted	<u>16,119,289</u>
Total net assets	<u>\$102,198,367</u>

Condensed Statement of Activities Year Ended June 30, 2008	
	Total Governmental Activities
Program revenues:	
Charges for services	\$ 4,448,992
Operating grants and contributions	14,053,207
Capital grants and contributions	<u>12,361,020</u>
Total program revenues	<u>30,863,219</u>
General revenues:	
Governmental activities	<u>36,860,156</u>
Total revenues	<u>67,723,375</u>
Expenses:	
Governmental activities	<u>66,024,558</u>
Total expenses	<u>66,024,558</u>
Change in net assets	1,698,817
Net assets—beginning, as restated	<u>100,499,550</u>
Net assets—ending	<u>\$102,198,367</u>

Single Audit Summary— The County Spent \$5.5 Million in Federal Awards

During the year, the County spent \$5.5 million of federal monies for 43 programs. The U.S. Department of Agriculture, U.S. Department of Health and Human Services, and U.S. Department of the Interior were the three largest federal grantors, with \$3.3 million of program expenditures spent from these federal awarding agencies.

Expenditures from the U.S. Department of Agriculture programs included approximately \$333,000 for the Special Supplemental Nutrition Program for Women, Infants, and Children Program. This program is designed to provide supplemental nutritious foods, nutrition education, and referrals to healthcare for low-income people during critical periods of growth and development.

Expenditures from the U.S. Department of Health and Human Services programs included approximately \$554,000 for the Child Support Enforcement Program. This program is designed to enforce the support obligations owed by absent parents, locate absent parents, and establish paternity. The County also spent approximately \$179,000 for the Public Health Emergency Preparedness Program. This program is designed to develop emergency preparedness and response efforts for terrorism, pandemic influenza, and other public health emergencies.

Expenditures from the U.S. Department of the Interior included approximately \$831,000 for the Payments in Lieu of Taxes Program. This program is designed to compensate local taxing units for taxes lost from federally owned and acquired lands and is used for general government purposes.

Federal Expenditures by Awarding Agency Total \$5.5 Million Year Ended June 30, 2008 (In Thousands)	
Agriculture	\$1,307
Health and Human Services	1,102
Interior	842
Labor	584
Transportation	581
Education	500
Justice	369
Other	184
Total federal expenditures	<u>\$5,469</u>

The County Did Not Always Comply with Federal Compliance Requirements

Auditors tested seven federal programs under the guidelines established by the Single Audit Act. Audit tests included evaluating the County's compliance with each program's federal regulations generally related to expending, determining eligibility, procuring, and reporting federal awards. Auditors reported material weaknesses in internal control over compliance and material instances of noncompliance with federal requirements for the following three programs:

- **Special Supplemental Nutrition Program for Women, Infants, and Children:** The County did not materially comply with federal eligibility requirements.
- **Cooperative Forestry Assistance:** The County did not materially comply with federal requirements for activities allowed or unallowed and allowable costs/cost principles.
- **Child Support Enforcement:** The County did not materially comply with federal requirements for allowable costs/cost principles and matching.

TO OBTAIN MORE INFORMATION

A copy of the full report is available at:

www.azauditor.gov

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Single Audit Fact Sheet

- Ten significant deficiencies in financial reporting internal controls, eight of which were material weaknesses.
- Eight weaknesses in federal compliance internal controls, six of which were material internal control weaknesses.
- Seven violations of federal compliance requirements, five of which were material noncompliance.
- Program costs totaling \$18,716 were questioned as a result of our audit.