

REPORT HIGHLIGHTS SINGLE AUDIT

Subject

Navajo County issues financial statements and a schedule of expenditures of federal awards annually. The County is responsible for preparing its statements and schedule, 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 County's financial statements is fairly stated in all material respects, and the Schedule of Expenditures of Federal Awards (SEFA) is fairly stated in all material respects in relation to these financial statements. A summary of this information is presented on page 2. However, auditors identified internal control weaknesses and instances of noncompliance with financial reporting and federal program requirements, the most significant of which are summarized on this page.



2011

Year Ended June 30, 2011

Summary of Audit Findings

The County has continued to make improvements over its financial reporting and federal compliance. This improvement includes issuing both the Comprehensive Annual Financial Report (CAFR) and Single Audit Reporting Package on time. However, the County still has some audit findings to correct. For the financial statement audit, auditors identified four internal control weaknesses over financial reporting, including three material weaknesses. For the federal compliance audit, auditors tested six federal programs under the guidelines established by the Single Audit Act and noted the County did not always have adequate internal controls and did not always comply with certain federal program requirements. The Report on Internal Control and Compliance and the Schedule of Findings and Questioned Costs presented in the Single Audit Report contains further details and auditor recommendations. The material weaknesses in internal control over financial reporting or over compliance and instances of material noncompliance with federal program requirements are summarized below.

Financial Statement Findings—

Lack of policies and procedures—The County lacked written policies and procedures over its transaction processing and financial statement preparation. As a result, auditors noted several revenue transactions that were misclassified and improper disclosures in the financial statements and notes. The County corrected all significant errors.

Information system access and change controls—The County lacked adequate internal controls over its general ledger, property tax, and county school information systems to ensure that users were granted the appropriate access rights for their job responsibilities and that all changes to the systems were proper. Without these controls, there was an increased risk that employees may have access to unauthorized information and perform unauthorized changes to the systems without being detected.

Federal Award Findings—

Schedule of Expenditures of Federal Awards (SEFA)—The County did not always properly identify and report federal award expenditures on its SEFA, as required by OMB Circular A-133.

Justice Assistance Grant Program Cluster—The County reimbursed three local government entities \$152,736 for services without having written agreements and without verifying that the entities were not excluded from receiving federal monies. Further, the County did not require the cluster's financial and compliance reports to be independently reviewed or approved for accuracy prior to submitting them to the federal agency or pass-through grantor.

Child Support Enforcement—The County did not monitor the program's matching requirement throughout the fiscal year, and lacked sufficient documentation to support \$62,407 of its matching expenditures. Consequently, the County was unable to demonstrate that it had met the program's matching requirements.

Summary of Financial Information

Navajo County combines and reports its financial balances and activities in two basic financial statements that provide readers with a broad overview of the County's finances in a manner similar to a private sector business. A condensed summary of these statements and the County's Schedule of Expenditures of Federal Awards follows:

Statement of Net Assets—This statement reports all of Navajo County's assets, liabilities, and net assets using the accrual basis of accounting. Net assets, the difference between assets and liabilities, are reported in three major categories:

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

Statement of Activities—This statement shows how net assets changed during the year. Revenues are reported as either program revenues (those generated by or dedicated to a specific purpose) or general revenues (taxes and revenues raised for general purposes). The County's net assets decreased by \$1.2 million during the fiscal year.

Schedule of Expenditures of Federal Awards—The County's expenses included \$8.2 million of federal awards expended. This is a \$683,000 increase from the prior year. The County's federal awards included \$1.1 million in American Reinvestment and Recovery Act monies.

Condensed Statement of Net Assets Governmental Activities June 30, 2011 (In Thousands)	
Assets:	
Current and other assets	\$ 41,099
Capital assets, net	80,892
Total assets	121,991
Liabilities:	
Current	3,306
Noncurrent	14,575
Total liabilities	17,881
Net Assets:	
Invested in capital assets, net of related debt	70,265
Restricted	27,364
Unrestricted	6,481
Total net assets	\$104,110

Condensed Statement of Activities Governmental Activities Year Ended June 30, 2011 (In Thousands)	
Program revenues:	
Charges for services	\$ 4,430
Operating grants and contributions	12,077
Capital grants and contributions	13,171
Total program revenues	29,678
General revenues:	
Property taxes	12,866
Sales tax	15,225
Other	8,642
Total general revenues	36,733
Total revenues	66,411
Expenses	
Decrease in net assets	(1,170)
Net assets—July 1, 2010	105,280
Net assets—June 30, 2011	\$104,110

Condensed Schedule of Expenditures of Federal Awards by Grantor Agency Year Ended June 30, 2011 (In Thousands)	
U.S. Department of Agriculture	\$2,977
U.S. Department of the Interior	1,348
U.S. Department of Health and Human Services	1,052
U.S. Department of Justice	901
U.S. Department of Homeland Security	705
U.S. Department of Education	381
U.S. Department of Energy	334
U.S. Department of Labor	288
Other	247
Total federal expenditures	\$8,233

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The County's Single
Audit Report
is available at:
www.azauditor.gov

Contact person:
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Year Ended June 30, 2011