



## REPORT HIGHLIGHTS

### FINANCIAL STATEMENT AND SINGLE AUDITS

### Our Conclusion

Navajo County is responsible for preparing annual financial statements and a schedule of expenditures of federal awards, maintaining effective internal controls, and being accountable for its use of public monies. Our Office is responsible for auditing the County's financial statements, schedule, and major federal programs annually. A summary of the financial statements and schedule of expenditures of federal awards is presented to the right.

Based on our audits, we issued reports that included our opinions on the County's financial statements and its schedule of expenditures of federal awards and reports on its internal control and compliance over financial reporting and major federal programs. The information in the County's fiscal year 2012 financial statements and schedule of expenditures of federal awards is reliable. Our reports identified internal control weaknesses and an instance of noncompliance over a major federal program. These findings are summarized on the next page.



2012

Year Ended June 30, 2012

## Condensed financial information

**Statement of net assets**—This statement reports all of Navajo County's assets, liabilities, and net assets. 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**—shows the resources that must be used for restricted purposes as specified by donors and external entities, such as the federal government.
- **Unrestricted**—shows the resources available for general operations.

**Statement of activities**—This statement reports all revenues, expenses, and the year's change in net assets. Revenues include program revenues—those generated by or dedicated to a specific program—and general revenues, such as taxes raised for general purposes. During fiscal year 2012, net assets decreased by \$358,000, or 0.3 percent, as compared to a decrease of \$1.2 million, or 1 percent, in fiscal year 2011.

**Schedule of expenditures of federal awards**—During fiscal year 2012, the County expended approximately \$6.9 million in federal awards. The County's federal award expenditures decreased by \$1.3 million, or 16 percent, compared to fiscal year 2011.

### Condensed statement of net assets governmental activities As of June 30, 2012 (In thousands)

<b>Assets</b>	
Current and other assets	\$ 39,378
Capital assets, net	82,115
Total assets	<u>121,493</u>
<b>Liabilities</b>	
Current	3,687
Noncurrent	14,055
Total liabilities	<u>17,742</u>
<b>Net assets</b>	
Invested in capital assets, net of related debt	70,769
Restricted	25,831
Unrestricted	7,152
Total net assets	<u>\$103,752</u>

### Condensed statement of activities governmental activities For the year ended June 30, 2012 (In thousands)

<b>Program revenues</b>	
Charges for services	\$ 4,963
Operating grants and contributions	12,153
Capital grants and contributions	9,804
Total program revenues	<u>26,920</u>
<b>General revenues</b>	
Property taxes	12,088
Sales tax	17,721
Other	4,562
Total general revenues	<u>34,371</u>
Total revenues	<u>61,291</u>
<b>Expenses</b>	
Decrease in net assets	(358)
Net assets—beginning	104,110
Net assets—ending	<u>\$103,752</u>

### Condensed schedule of expenditures of federal awards by grantor agency For the year ended June 30, 2012 (In thousands)

U.S. Department of Agriculture	\$1,912
U.S. Department of the Interior	1,459
U.S. Department of Health and Human Services	1,059
U.S. Department of Justice	851
U.S. Department of Education	649
U.S. Department of Labor	442
U.S. Department of Homeland Security	248
Other	297
Total federal expenditures	<u>\$6,917</u>

## Summary of audit findings and recommendations

For the financial statement audit, we found internal control weaknesses over the County's information systems. For the federal compliance audit, we tested six federal programs under the major program guidelines established by the Single Audit Act and noted that the County did not always have adequate internal controls and did not always comply with federal program requirements for one of its programs. Our Report on Internal Control and Compliance over financial reporting and our Single Audit Report over federal programs contain further details to help the County correct these deficiencies. The findings and recommendations are summarized below.

### Inadequate information system access, change, and recovery controls

The County lacked adequate internal controls over its major information systems to ensure that users' access rights were appropriate for their job responsibilities and that activity of system users with elevated access was monitored. In addition, user passwords were not changed on a regular basis and changes to systems and programs were not authorized, reviewed, tested, and approved before implementation. Further, the County did not have an updated and tested disaster recovery plan and backup process for its information systems that are vital to its operations.

#### Recommendations

To improve controls over its information systems, the County should:

- Perform a comprehensive review of all existing users annually to help ensure that access granted is needed and is compatible with job responsibilities.
- Document all requests and approvals of access granted, monitor the activity of users with elevated access, and require regular password changes.
- Require that all system and program changes be authorized, reviewed, tested, and approved prior to being implemented.
- Develop, implement, and test a disaster recovery plan and backup process.

### Noncompliance with federal program requirements

Financial reports were not reviewed for accuracy or approved by an employee independent of the report preparation process for the federal Edward Byrne Memorial Justice Assistance Grants Program Cluster and the American Recovery and Reinvestment Act (ARRA) 1512 reporting requirement. We noted that program expenditures reported on the ARRA 1512 report were understated by \$146,135 because the County reported quarterly expenditures instead of cumulative expenditures. This error may have been detected if the report was properly reviewed and approved prior to submission to the grantor.

#### Recommendation

To improve the controls over the County's federal programs and help ensure compliance with federal reporting requirements, the County should require that an employee independent of the report preparation process perform a review of the reports prior to submitting them to the grantor to help ensure that the program information is complete and accurate.