

Coconino County

Single Audit Report

Year Ended June 30, 2018



A Report to the Arizona Legislature

Lindsey A. Perry
Auditor General





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TABLE OF CONTENTS

Auditors section

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* 1

Independent auditors' report on compliance for each major federal program; report on internal control over compliance; and report on schedule of expenditures of federal awards required by the Uniform Guidance 3

Schedule of findings and questioned costs 7

Summary of auditors' results 7

Financial statement findings 9

Federal award findings and questioned costs 14

County section

Schedule of expenditures of federal awards 19

Notes to schedule of expenditures of federal awards 23

County response

Corrective action plan

Summary schedule of prior audit findings

Report issued separately

Comprehensive Annual Financial Report



MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

ARIZONA AUDITOR GENERAL
LINDSEY A. PERRY

JOSEPH D. MOORE
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
Coconino County, Arizona

We have audited, in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and aggregate remaining fund information of Coconino County as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated March 27, 2019.

Internal control over financial reporting

In planning and performing our audit of the financial statements, we considered the County's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we did identify certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the County's basic financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2018-02, 2018-03, and 2018-04 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2018-01 to be a significant deficiency.

Compliance and other matters

As part of obtaining reasonable assurance about whether the County's basic financial statements are free from 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Coconino County response to findings

Coconino County's responses to the findings identified in our audit are presented in its corrective action plan at the end of this report. The County's responses were not subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on them.

Purpose of this report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the County's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Lindsey Perry, CPA, CFE
Auditor General

March 27, 2019



MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

ARIZONA AUDITOR GENERAL
LINDSEY A. PERRY

JOSEPH D. MOORE
DEPUTY AUDITOR GENERAL

**Independent auditors' report on compliance for each major federal program;
report on internal control over compliance; and report on schedule of
expenditures of federal awards required by the Uniform Guidance**

Members of the Arizona State Legislature

The Board of Supervisors of
Coconino County, Arizona

Report on compliance for each major federal program

We have audited Coconino County's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018. The County's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' responsibility

Our responsibility is to express an opinion on compliance for each of the County's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 qualified and unmodified opinions on compliance for major federal programs. However, our audit does not provide a legal determination of the County's compliance.

Basis for qualified opinion on Forest Service Schools and Roads Cluster

As described in the accompanying schedule of findings and questioned costs, the County did not comply with the requirements regarding the Forest Service Schools and Roads Cluster as described in item 2018-103 for reporting and item 2018-104 for special tests and provisions. Compliance with such requirements is necessary, in our opinion, for the County to comply with the requirements applicable to that program.

Qualified opinion on Forest Service Schools and Roads Cluster

In our opinion, except for the noncompliance described in the basis for qualified opinion paragraph, Coconino County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Forest Service Schools and Roads Cluster for the year ended June 30, 2018.

Unmodified opinion on each of the other major federal programs

In our opinion, Coconino County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2018.

Other matters

The results of our auditing procedures disclosed other instances of noncompliance that are required to be reported in accordance with the Uniform Guidance and that are described in the accompanying schedule of findings and questioned costs as items 2018-101 and 2018-102. Our opinion on each major federal program is not modified with respect to these matters.

Report on internal control over compliance

The County's management is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, we did identify certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2018-101 through 2018-104 that we consider to be material weaknesses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Coconino County response to findings

Coconino County's responses to the findings identified in our audit are presented in its corrective action plan at the end of this report. The County's responses were not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on them.

Report on schedule of expenditures of federal awards required by the Uniform Guidance

We have audited the financial statements of the governmental activities, each major fund, and aggregate remaining fund information of Coconino County as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the County's basic financial statements. We issued our report thereon dated March 27, 2019, that contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming our opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of the County's management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Lindsey Perry, CPA, CFE
Auditor General

March 27, 2019





SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Summary of auditors' results

Financial statements

Type of auditors' report issued on whether the financial statements audited were prepared in accordance with generally accepted accounting principles **Unmodified**

Internal control over financial reporting

Material weaknesses identified? **Yes**

Significant deficiencies identified? **Yes**

Noncompliance material to the financial statements noted? **No**

Federal awards

Internal control over major programs

Material weaknesses identified? **Yes**

Significant deficiencies identified? **None reported**

Type of auditors' report issued on compliance for major programs

Unmodified on all programs except for the Forest Service Schools and Roads Cluster (10.665), which was qualified.

Any audit findings disclosed that are required to be reported in accordance with 2 CFR §200.516(a)? **Yes**

Identification of major programs

CFDA number	Name of federal program or cluster
10.557	WIC Special Supplemental Nutrition Program for Women, Infants, and Children
10.665	Forest Service Schools and Roads Cluster
17.258, 17.259, 17.278	WIOA Cluster

Dollar threshold used to distinguish between Type A and Type B programs \$750,000

Auditee qualified as low-risk auditee? No

Other matters

Auditee's summary schedule of prior audit findings required to be reported in accordance with 2 CFR §200.511(b)? Yes

Financial statement findings

2018-01

Managing risk

Condition and context—The County’s process for managing its risks did not include an overall risk-assessment process that included identifying, analyzing, and responding to the County-wide information technology (IT) risks, such as potential harm from unauthorized access, use, disclosure, disruption, modification, or destruction of IT data and systems. Also, it did not include identifying, classifying, and inventorying sensitive information that might need stronger access and security controls and evaluating and determining the business functions and IT systems that would need to be restored quickly if the County were impacted by disasters or other system interruptions.

Criteria—Effectively managing risk at the County includes an entity-wide risk-assessment process that involves members of the County’s administration and IT management to determine the risks the County faces as it seeks to achieve its objectives to not only report accurate financial information and protect its IT systems and data but to also carry out its overall mission and service objectives. The process should provide the basis for developing appropriate responses based on identified risk tolerances and specific potential risks to which the County might be subjected. To help ensure the County’s objectives can be met, an annual risk assessment should include considering IT risks. For each identified risk, the County should analyze the identified risk and develop a plan to respond within the context of the County’s defined objectives and risk tolerances. The process of managing risks should also address the risk of unauthorized access and use, modification, or loss of sensitive information and the risk of losing the continuity of business operations in the event of a disaster or system interruption.

Effect—The County’s administration and IT management may put the County’s operations and IT systems and data at unintended and unnecessary risk.

Cause—The County was in the process of revising its entity-wide risk management written policies and procedures as of June 30, 2018.

Recommendations—The County should identify, analyze, and reduce risks to help prevent undesirable incidents and outcomes that could impact business functions and IT systems and data. It also should plan for where resources should be allocated and where critical controls should be implemented. To help ensure it has effective entity-wide policies and procedures to achieve these objectives, the County should follow guidance from a credible IT security framework such as that developed by the National Institute of Standards and Technology. Responsible administrative officials and management over finance, IT, and other entity functions should be asked for input in the County’s process for managing risk. The County should conduct the following as part of its process for managing risk:

- Perform an annual entity-wide IT risk-assessment process that includes evaluating risks such as risks of inappropriate access that would affect financial data, system changes that could adversely impact or disrupt system operations, and inadequate or outdated system security.
- Evaluate and manage the risks of holding sensitive information by identifying, classifying, and inventorying the information the County holds to assess where stronger access and security controls may be needed to protect data in accordance with State statutes and federal regulations.
- Evaluate and determine the business functions and IT systems that would need to be restored quickly given the potential impact disasters or other IT system interruptions could have on critical organizational

functions, such as public safety, and operations, such as payroll and accounting, and determine how to prioritize and plan for recovery.

The County's responsible officials' views and planned corrective action are in its corrective action plan included at the end of this report.

This finding is similar to prior-year finding 2017-03.

2018-02

Information technology (IT) controls—access, configuration and change management, security, and contingency planning

Condition and context—The County's control procedures were not sufficiently designed, documented, and implemented to respond to risks associated with its IT systems and data. The County lacked adequate procedures over the following:

- **Restricting access to its IT systems and data**—Procedures did not consistently help prevent or detect unauthorized or inappropriate access.
- **Configuring systems securely and managing system changes**—Procedures did not ensure IT systems were securely configured and all changes were adequately managed.
- **Securing systems and data**—IT security policies and procedures lacked controls to prevent unauthorized or inappropriate access or use, manipulation, damage, or loss.
- **Developing and documenting a contingency plan**—Plan should include steps necessary for restoring operations, prioritizing and recovering vital IT systems and data, and conducting daily operations in the event of a disaster, system or equipment failure, or other interruption.

Criteria—The County should have effective internal controls to protect its IT systems and help ensure the integrity and accuracy of the data it maintains.

- **Logical access controls**—Help to ensure systems and data are accessed by users who have a need, systems and data access granted is appropriate, and key systems and data access is monitored and reviewed.
- **Well-defined documented configuration management process**—Ensures the County's IT systems are configured securely and that changes to the systems are identified, documented, evaluated for security implications, tested, and approved prior to implementation. This helps limit the possibility of an adverse impact on the system security or operations. Separation of responsibilities is an important control for system changes; the same person who has authority to make system changes should not put the change into production. If those responsibilities cannot be separated, a post-implementation review should be performed to ensure the change was implemented as designed and approved.
- **IT security internal control policies and procedures**—Help prevent, detect, and respond to instances of unauthorized or inappropriate access or use, manipulation, damage, or loss to its IT systems and data.
- **Comprehensive documented and tested contingency plan**—Provides the preparation necessary to place the plan in operation and helps to ensure business operations continue and systems and data can be recovered in the event of a disaster, system or equipment failure, or other interruption.

Effect—There is an increased risk that the County may not adequately protect its IT systems and data, which could result in unauthorized or inappropriate access and the loss of confidentiality and integrity of

systems and data. It also increases the County's risk of not being able to effectively continue daily operations and completely and accurately recover vital IT systems and data in the event of a disaster or system interruption.

Cause—The County was in the process of revising its logical access, configuration and change management, security, and contingency planning written policies and procedures as of June 30, 2018.

Recommendations—To help ensure the County has effective policies and procedures over its IT systems and data, the County should follow guidance from a credible IT security framework such as that developed by the National Institute of Standards and Technology. To help achieve these control objectives, the County should develop, document, and implement control procedures in each IT control area described below:

Access

- Assign and periodically review employee user access ensuring appropriateness and compatibility with job responsibilities.
- Remove terminated employees' access to IT systems and data.
- Review all other account access to ensure it remains appropriate and necessary.
- Evaluate the use and appropriateness of accounts shared by 2 or more users and manage the credentials for such accounts.
- Enhance authentication requirements for IT systems.
- Manage employee-owned and entity-owned electronic devices connecting to the County's systems and data.
- Manage remote access to the County's systems and data.

Configuration and change management

- Establish and follow a documented change management process.
- Review proposed changes for appropriateness, justification, and security impact.
- Document changes, testing procedures and results, change approvals, and post-change review.
- Develop and document a plan to roll back changes in the event of a negative impact to IT systems.
- Test changes prior to implementation.
- Separate responsibilities for the change management process or, if impractical, perform a post-implementation review to ensure the change was implemented as approved.
- Configure IT resources appropriately and securely and maintain configuration settings.
- Manage software installed on employee computer workstations.

Security

- Perform proactive key user and system activity logging and log monitoring, particularly for users with administrative access privileges.
- Prepare and implement a security-incident-response plan clearly stating how to report and handle incidents.
- Provide all employees ongoing training on IT security risks and their responsibilities to ensure systems and data are protected.
- Perform IT vulnerability scans and remediate vulnerabilities in accordance with a remediation plan.
- Identify, evaluate, and apply patches in a timely manner.

Contingency planning

- Develop and implement a contingency plan and ensure it includes all required elements to restore critical operations, including being prepared to enable moving critical operations to a separate alternative site if necessary.
- Test the contingency plan.
- Train staff responsible for implementing the contingency plan.
- Back up and securely maintain backups of systems and data.

The County's responsible officials' views and planned corrective action are in its corrective action plan included at the end of this report.

This finding is similar to prior-year findings 2017-04 (access), 2017-05 (configuration and change management), 2017-06 (IT security), and 2017-07 (contingency planning).

2018-03

Separation of financial system responsibilities

Condition and context—One individual is responsible for managing and operating the County's financial system. Specifically, this individual operates the infrastructure, makes all operating system and application software modifications, grants user access to the system, and manages the system's database.

Criteria—The County should maintain effective internal controls over financial reporting that include separating responsibilities of managing and operating its information technology (IT) systems and data and reducing any one individual's ability to process transactions that may circumvent established controls to help reduce the risk of error, misuse, or fraud. In addition, the County should assign responsibilities for managing its IT systems and data to more than one individual to avoid the overreliance on any one individual for its financial operations.

Effect—Not separating critical responsibilities of managing and operating IT systems and data increases the possibility that errors in financial and other sensitive data could occur and that misuse or fraud would not be prevented or detected by the County's established controls. In addition, the County risks the ability to fully continue financial operations if the individual is not available.

Cause—The County's financial system has been in place for many years, and one individual has been solely assigned the responsibilities of managing these resources.

Recommendations—To help reduce the risk of error, misuse, or fraud and its overreliance on any one individual for its financial operations, the County should separate the responsibilities for managing and operating its financial system infrastructure and software from the responsibilities of managing the system data and granting user access to the system.

The County's responsible officials' views and planned corrective action are in its corrective action plan included at the end of this report.

This finding is similar to prior-year finding 2017-02.

2018-04

Annual financial report preparation

Condition and context—The County did not have adequate policies and procedures for preparing its Comprehensive Annual Financial Report (CAFR) to ensure it was accurate and complete and prepared in accordance with U.S. generally accepted accounting principles (GAAP). As a result, the County:

- Understated revenues and related receivable balances it reported in the financial statements and note disclosures by \$4.4 million.
- Overstated cash and accrued payroll and employee benefits balances it reported in the financial statements by \$14.4 million.
- Overstated County Treasurer's Investment Pool total additions and deductions it reported in the notes to the financial statements by \$97.6 million and \$83.2 million, respectively.
- Overstated an interfund transfer from the Jail District Fund to the General Fund it reported in the financial statements and note disclosures by \$860,000.
- Overstated deferred outflows of resources related to pensions and pension contributions it reported in the financial statements and note disclosures by \$1.5 million.

Criteria—The County's Board of Supervisors and management depend on accurate information to fulfill their oversight responsibilities and to report accurate information to the public and agencies from which the County receives funding. Accordingly, the County should improve its established policies and procedures for preparing its CAFR to help ensure it is accurate and complete and prepared in accordance with GAAP.

Effect—There is an increased risk that the County's financial statements could contain significant errors that would be misleading to those that rely on the information. The County made necessary audit adjustments to correct the errors we found during our audit.

Cause—The County did not follow its existing policies and procedures for compiling information to prepare its CAFR. Further, it did not thoroughly review the information and schedules supporting its CAFR.

Recommendations—To help ensure that the County's CAFR is accurate and complete and prepared in accordance with GAAP, the County should:

- Follow its established policies and procedures when compiling information to prepare its CAFR.
- Improve its policies and procedures by requiring an employee who is independent of the report's preparation to review the information and schedules supporting the report. This review should ensure that the information reported is accurate and complete and prepared in accordance with GAAP.

The County's responsible officials' views and planned corrective action are in its corrective action plan included at the end of this report.

Federal award findings and questioned costs

2018-101

Cluster name:	WIOA Cluster
CFDA numbers and names:	17.258 WIOA Adult Program 17.259 WIOA Youth Activities 17.278 WIOA Dislocated Worker Formula Grants
Award number and years:	DI16-002119, July 1, 2015 through June 30, 2020
Federal agency:	U.S. Department of Labor
Pass-through grantor:	Arizona Department of Economic Security
Compliance requirement:	Procurement
Questioned costs:	None

Condition and context—The County did not follow its written policies and procedures requiring purchases using federal monies to comply with the Uniform Guidance procurement standards. Specifically, the County issued a request for proposal (RFP) during the fiscal year to purchase \$30,000 of professional services for the WIOA Cluster. However, the RFP's scope of work did not include a clear and accurate description of the technical requirements for the services being procured.

Criteria—In accordance with 2 Code of Federal Regulations (CFR) §200.319 (c)(1), the County must have written policies and procedures for all solicitations that include a clear and accurate description of the technical requirements for the material, product, or service to be purchased, including the qualitative nature and any minimum essential characteristics and standards needed. Also, the County must establish and maintain effective internal control over its federal awards that provides reasonable assurance that it is managing them in compliance with all applicable laws, regulations, and award terms (2 CFR §200.303).

Effect—The County could enter into a contract that does not provide the best value to the federal program. This finding has the potential to affect other federal programs the County administers.

Cause—The County did not follow its written purchasing policies and procedures due to an oversight.

Recommendation—The County should follow its written policies and procedures to ensure that all purchases using federal monies comply with the Uniform Guidance procurement standards that require all solicitations to include a clear and accurate description of the technical requirements for the material, product, or service to be purchased.

The County's responsible officials' views and planned corrective action are in its corrective action plan at the end of this report.

2018-102

Cluster name:	Forest Service Schools and Roads Cluster
CFDA number and name:	10.665 Schools and Roads—Grants to States
Award number and year:	N/A
Federal agency:	U.S. Department of Agriculture
Compliance requirements:	Activities allowed or unallowed and earmarking
Questioned costs:	\$26,864

Condition and context—For fiscal year 2018, the County was required to allocate \$220,727 of program monies as Title III for wildfire protection or emergency wildfire services for the County’s citizens and their property. However, the County only allocated \$193,864 to Title III purposes, and the remaining Title III allocation of \$26,864 was spent toward County schools and roads.

Criteria—In accordance with 16 United States Code (U.S.C.) §§7112 and 7142, the County was required to allocate 7 percent of its share of Forest Service Schools and Roads Cluster monies to Title III and ensure those monies were used for wildfire protection or emergency wildfire services for its citizens and their property. Also, the County must establish and maintain effective internal control over its federal awards that provides reasonable assurance that it is managing them in compliance with all applicable laws, regulations, and award terms (2 CFR §200.303).

Effect—The County’s noncompliance resulted in questioned costs of \$26,864 and without adequate policies and procedures to ensure compliance, it increases the risk that the County will lose these and future monies if the federal agency disallows the costs.

Cause—The County did not believe one of the direct payments received during the fiscal year was subject to the program’s earmarking requirements requiring the allocation for Title III purposes.

Recommendation—To help ensure that the County complies with U.S.C. §§7112 and 7142, it should establish policies and procedures that include reviewing and approving the allocation of its share of Forest Service Schools and Roads Cluster’s program monies by comparing the amount the County received to the federal awarding agency’s payment reports and federal requirements.

The County’s responsible officials’ views and planned corrective action are in its corrective action plan at the end of this report.

2018-103

Cluster name:	Forest Service Schools and Roads Cluster
CFDA number and name:	10.665 Schools and Roads—Grants to States
Award number and year:	N/A
Federal agency:	U.S. Department of Agriculture
Compliance requirements:	Reporting
Questioned costs:	None

Condition and context—The County did not accurately report financial information on its calendar year 2017 Title III report. Specifically, the County overstated expenditures related to patrol activities, search and rescue, and other emergency services performed on national forests by \$112,224. Additionally, the County overstated expenditures related to carrying out activities under the Firewise Communities program by \$13,219.

Criteria—In accordance with the Secure Rural Schools and Community Self-Determination Act §303(a), the County must submit an annual certification that it used its Title III monies for the uses authorized under §302(a). Also, the County must establish and maintain effective internal control over its federal awards that provides reasonable assurance that it is managing them in compliance with all applicable laws, regulations, and award terms (2 CFR §200.303).

Effect—The County submitted inaccurate financial information to the federal grantor, the U.S. Department of Agriculture, and without accurate information, it may result in potential errors in analysis or other determinations it needs to make at a national level. This finding did not result in questioned costs because the report was not used to request reimbursement of federal expenditures.

Cause—The County did not have an adequate review process in place to ensure that its Title III report contained accurate financial information.

Recommendation—To help ensure its Title III report contains accurate financial information, the County should improve its established procedures by requiring a more detailed review of all underlying data supporting the report.

The County's responsible officials' views and planned corrective action are in its corrective action plan at the end of this report.

This finding is similar to prior year finding 2017-102.

2018-104

Cluster name:	Forest Service Schools and Roads Cluster
CFDA number and name:	10.665 Schools and Roads—Grants to States
Award numbers and years:	N/A
Federal agency:	U.S. Department of Agriculture
Compliance requirement:	Special Tests and Provisions
Questioned costs:	None

Condition and context—Prior to expending 2018 Forest Service Schools and Roads Cluster program monies, the County did not prepare and publish or submit to its resource advisory committee the required

proposal for its intended wildfire protection or emergency wildfire services uses of Title III monies. The County allocated \$193,864 for these purposes.

Criteria—In accordance with 16 U.S.C. §7142(b), the County must publish a proposal of the intended use of the Cluster’s Title III monies and submit the proposal to its resource advisory committee at least 45 days prior to spending the monies. Also, the County must establish and maintain effective internal control over its federal awards that provides reasonable assurance that it is managing them in compliance with all applicable laws, regulations, and award terms (2 CFR §200.303).

Effect—The County did not comply with the Cluster’s Title III special tests and provisions, which may result in the County making decisions about the uses of Title III monies that do not take into account its citizens’ and other interested parties’ viewpoints. This finding did not result in questioned costs because the monies were authorized for allowable activities.

Cause—The County did not have written policies and procedures to ensure compliance with the Cluster’s Title III special tests and provisions.

Recommendation—To help ensure that the County complies with U.S.C. §7142(b), it should establish policies and procedures to help ensure that the intended uses of its Title III monies are properly submitted in the required proposal.

The County’s responsible officials’ views and planned corrective action are in its corrective action plan at the end of this report.

COUNTY SECTION

Coconino County
Schedule of expenditures of federal awards
Year ended June 30, 2018

Federal agency/CFDA number	Federal program name	Cluster title	Pass-through grantor	Pass-through grantor's numbers	Program expenditures	Amount provided to subrecipients
Department of Agriculture						
10 167	Transportation Services		Bureau of Indian Affairs, Navajo Regional Office	A14AC00016	\$ 167,420	
10 351	Rural Business Development Grant		N/A	N/A		1,508
10 553	School Breakfast Program	Child Nutrition Cluster	Arizona Department of Education	21-10-13	10,594	
10 555	National School Lunch Program	Child Nutrition Cluster	Arizona Department of Education	21-10-13	25,522	
	<i>Total Child Nutrition Cluster</i>				<u>36,116</u>	
10 557	WIC Special Supplemental Nutrition Program for Women, Infants, and Children		Arizona Department of Health Services	ADHS14-053061 Amend 3, 4 and 5	587,982	
10 561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	SNAP Cluster	Arizona Department of Health Services	ADHS16-106171	343,067	
10 565	Commodity Supplemental Food Program	Food Distribution Cluster	Arizona Department of Health Services	ADES IGA (no assigned #) for 10-1-17 to 3-31-18 and ADHS17-132852 Amend 1 for 7-1-17 to 9-30-18	42,990	
10 572	WIC Farmers' Market Nutrition Program (FMNP)		Arizona Department of Health Services	ADHS14-053061 Amend 3, 4 and 5	1,008	
10 576	Senior Farmers Market Nutrition Program		Arizona Department of Health Services	ADHS14-053061 Amend 3, 4 and 5	115	
10 664	Cooperative Forestry Assistance		Arizona State Forestry Division	IPG 16-701, 16-211, 14-203	232,161	
10 665	Schools and Roads—Grants to States	Forest Service Schools and Roads Cluster	N/A	N/A	2,985,180	\$ 1,911,360
	Total Department of Agriculture				<u>4,397,548</u>	<u>1,911,360</u>
Department of Commerce						
11 307	Economic Adjustment Assistance	Economic Development Cluster	N/A	N/A	152,530	
Department of Defense						
12 610	Community Economic Adjustment Assistance for Compatible Use and Joint Land Use Studies		N/A	N/A	276,797	
Department of Housing and Urban Development						
14 218	Community Development Block Grants/Entitlement Grants	CDBG-Entitlement Grants Cluster	City of Flagstaff	88C-17	49,591	
14 228	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii		Arizona Department of Housing	120-15	4,535	1,207
14 239	Home Investments Partnership Program		Arizona Department of Housing	302-18	70,562	68,273
	Total Department of Housing and Urban Development				<u>124,688</u>	<u>69,481</u>
Department of the Interior						
15 227	Distribution of Receipts to State and Local Governments		N/A	N/A	4,849	4,849
15 631	Partners for Fish and Wildlife		N/A	N/A	54,614	
15 916	Outdoor Recreation Acquisition, Development, and Planning		Arizona State Parks and Trails	04-00754	48	
	Total Department of the Interior				<u>59,512</u>	<u>4,849</u>

Coconino County
Schedule of expenditures of federal awards
Year ended June 30, 2018

Federal agency/CFDA number	Federal program name	Cluster title	Pass-through grantor	Pass-through grantor's numbers	Program expenditures	Amount provided to subrecipients
Department of Justice						
16 554	National Criminal History Improvement Program (NCHIP)		Arizona Criminal Justice Commission	NCP 17-18-003	14,868	
16 575	Crime Victim Assistance		Arizona Department of Public Safety	2018-266; 2015-332; VOCA-2018-CCAO-00128	49,043	
16 593	Residential Substance Abuse Treatment for State Prisoners		Arizona Criminal Justice Commission	472 - RSAT-17-002 / 473 RSAT-18-002	93,207	
16 738	Edward Byrne Memorial Justice Assistance Grant Program		Arizona Criminal Justice Commission	DC-18-022	53,880	
16 812	Second Chance Act Reentry Initiative		N/A	N/A	138,198	50,414
Total Department of Justice					<u>349,197</u>	<u>50,414</u>
Department of Labor						
17 258	WIOA Adult Program	WIOA Cluster	Arizona Department of Economic Security	DI16-002119	188,233	
17 259	WIOA Youth Activities	WIOA Cluster	Arizona Department of Economic Security	DI16-002119	451,823	
17 278	WIOA Dislocated Worker Formula Grants	WIOA Cluster	Arizona Department of Economic Security	DI16-002119	247,175	
<i>Total WIOA Cluster</i>					<u>887,231</u>	
Total Department of Labor					<u>887,231</u>	
Department of Transportation						
20 205	Highway Planning and Construction	Highway Planning and Construction Cluster	Arizona Department of Transportation	FHWA Agreement DTFH68-14-E-00013; IGA/JPA 14-0003967-I; IGA/JPA 14-004007-I	452,357	
20 219	Recreational Trails Program	Highway Planning and Construction Cluster	Arizona State Parks	471811	1,471	
<i>Total Highway Planning and Construction Cluster</i>					<u>453,828</u>	
20 600	State and Community Highway Safety	Highway Safety Cluster	Arizona Governor's Office of Highway Safety	GOHS 2018-405h-002, GOHS 2018-OP-03, GOHS	13,568	
20 703	Interagency Hazardous Materials Public Sector Training and Planning Grants		Arizona Emergency Response Commission	HM-HMP-0583-16-01-00	582	
Total Department of Transportation					<u>467,978</u>	
Federal Communications Commission						
32 Unknown	Schools and Libraries (E-Rate)				19,715	
Environmental Protection Agency						
66 818	Brownfields Assessment and Cleanup Cooperative Agreements		City of Flagstaff		45,866	
Department of Education						
84 027	Special Education—Grants to States	Special Education Cluster (IDEA)	Arizona Department of Education		32,492	
84 365	English Language Acquisition State Grants		Arizona Department of Education	18FELENG-813173-66A	23,174	21,619
84 366	Mathematics and Science Partnerships		Arizona Department of Education	S366B160003	1,678,791	

Coconino County
Schedule of expenditures of federal awards
Year ended June 30, 2018

Federal agency/CFDA number	Federal program name	Cluster title	Pass-through grantor	Pass-through grantor's numbers	Program expenditures	Amount provided to subrecipients
84 367	Supporting Effective Instruction State Grant		Northern Arizona University	ITQ016-02 NAU	32,443	
	Total Department of Education				<u>1,766,900</u>	<u>21,619</u>
Department of Health and Human Services						
93 053	Nutrition Services Incentive Program	Aging Cluster	Northern Arizona Council of Governments	866000441DC	165,191	
93 069	Public Health Emergency Preparedness		Arizona Department of Health Services	AHDS17-133181	193,218	
93 136	Injury Prevention and Control Research and State and Community Based Programs		Arizona Department of Health Services	ADHS18-180470	84,133	
93 236	Grants to States to Support Oral Health Workforce Activities		Arizona Department of Health Services	HG959209 Purchase Order	5,420	
93 268	Immunization Cooperative Agreements		Arizona Department of Health Services	ADHS17-177677	2,590	
93 323	Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)		Arizona Department of Health Services	ADHS17-163312	26,000	
93 539	PPHF Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance financed in part by Prevention and Public Health Funds		Arizona Department of Health Services	ADHS17-177677	145,254	
93 558	Temporary Assistance for Needy Families	TANF Cluster	Arizona Department of Economic Security	ADES15-089142	87,252	
93 563	Child Support Enforcement		Arizona Department of Economic Security	G1804AZ4004	35,866	
93 568	Low-Income Home Energy Assistance		Arizona Department of Economic Security	ADES15-089142	351,468	
93 569	Community Services Block Grant		Arizona Department of Economic Security	ADES15-089142	162,212	
93 597	Grants to States for Access and Visitation Programs		Arizona Department of Economic Security	1601AZSAVP	8,798	
93 602	Assets for Independence Demonstration Program		Mesa Community Action Network, Inc	2015-2020 2016-2021	18,231	
93 667	Social Services Block Grant		Northern Arizona Council of Governments	866000441DCT	8,796	
93 667	Social Services Block Grant		Arizona Department of Economic Security	ADES15-089142	13,886	
	<i>Total 93.667</i>				<u>22,682</u>	
93 758	Preventative Health and Health Services Block Grant funded solely with Prevention and Public Health Funds (PPHF)		Arizona Department of Health Services	ADHS16-099160	54,704	
93 917	HIV Care Formula Grants		Arizona Department of Health Services	ADHS 18-193951	250,975	
93 940	HIV Prevention Activities—Health Department Based		Arizona Department of Health Services	ADHS 18-188829, 1/1/2018 - 12/31/2018, ADHS 18-180151	26,178	
93 946	Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs		Arizona Department of Health Services	ADHS15-092106 (PO only for FY18)	10,000	
93 959	Block Grants for Prevention and Treatment of Substance Abuse		Governor's Office of Youth, Faith, and Family	N/A IGA-SABG-GR-17-070116-03	89,777	25,881

Coconino County
Schedule of expenditures of federal awards
Year ended June 30, 2018

Federal agency/CFDA number	Federal program name	Cluster title	Pass-through grantor	Pass-through grantor's numbers	Program expenditures	Amount provided to subrecipients
93 977	Sexually Transmitted Diseases (STD) Prevention and Control Grants		Arizona Department of Health Services	ADHS14-071555, Amendments 2, 3, and 4	17,840	
93 994	Maternal and Child Health Services Block Grant to the States		Arizona Department of Health Services	ADHS16-099160 Amend 4	170,340	
Total Department of Health and Human Services					<u>1,928,129</u>	<u>25,881</u>
Corporation for National and Community Service						
94 006	AmeriCorps		Arizona Supreme Court	ISA-AC-GR-16-090116-02	16,114	
Department of Homeland Security						
97 024	Emergency Food and Shelter National Board Program		United Way of Northern Arizona	Phase 33 Phase 34	26,301	
97 042	Emergency Management Performance Grants		Arizona Department of Emergency and Military Affairs	EMF-2017-DP-00008-S01	252,440	
97 067	Homeland Security Grant Program		Arizona Department of Homeland Security	16-AZDOHS-HSGP-160602-01; 598 - 1601100-02 / 530 - 170100-01 / 531 - 170100-02	64,743	
Total Department of Homeland Security					<u>343,484</u>	
Total expenditures of federal awards					<u>\$ 10,835,687</u>	<u>\$ 2,083,604</u>

Coconino County
Notes to schedule of expenditures of federal awards
Year ended June 30, 2018

Note 1 - Basis of presentation

The accompanying schedule of expenditures of federal awards includes Coconino County's federal grant activity for the year ended June 30, 2018. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Note 2 - Summary of significant accounting policies

Expenditures reported on the schedule are reported on the modified accrual basis of accounting, except for Schools and Roads—Grants to States (10.665). For this program, revenues received during the fiscal year pursuant to Titles I and III are considered earned and reported as expenditures. All remaining expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

Note 3 - Catalog of Federal Domestic Assistance (CFDA) numbers

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2018 *Catalog of Federal Domestic Assistance*. When no CFDA number had been assigned to a program, the 2-digit federal agency identifier and the federal contract number were used. When there was no federal contract number, the 2-digit federal agency identifier and the word "unknown" were used.

Note 4 - Indirect cost rate

The County did not elect to use the 10 percent de minimis indirect cost rate as covered in 2 CFR §200.414.

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COUNTY RESPONSE



FINANCE

March 22, 2019

Michael Townsend
CFO/Director

Megan Cunningham
Assistant Finance
Director

Tom Johnson
Financial Reporting
and Audit Manager

Scott Richardson
Purchasing Manager

Lindsey Perry
Auditor General
2910 N. 44th Street, Suite 410
Phoenix, AZ 85018

Dear Ms. Perry:

We have prepared the accompanying corrective action plan as required by the standards applicable to financial audits contained in *Government Auditing Standards* and by the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Specifically, for each finding we are providing you with our responsible officials' views, the names of the contact people responsible for corrective action, the corrective action planned, and the anticipated completion date.

Sincerely,

219 E. Cherry Ave.
Flagstaff, AZ 86001
928-679-7199

Michael Townsend
Chief Financial Officer

Coconino County
Corrective Action Plan
Year Ended June 30, 2018

Financial Statement Findings

2018-01

Managing risk

Contact Persons: Matt Fowler, IT Director/CIO

Anticipated completion date: July 1, 2020

Corrective Action: Concur. The County CIO is implementing NIST 800-53 rev4 best practices to properly identify/classify assets and prevent disruption to system operations. This will include but not limited to performing internal and external risk assessments annually, implementing stronger technical controls, testing cyber liability policies, and routinely restore services from backup.

2018-02

Information technology (IT) controls—access, configuration and change management, security, and contingency planning

Contact Persons: Matt Fowler, IT Director/CIO

Anticipated completion date: July 1, 2020

Corrective Action: Concur. The County CIO is implementing NIST 800-53 rev4 best practices to improve the security posture regarding Access, Configuration Management, Security, and Contingency Planning.

2018-03

Separation of financial system responsibilities

Contact Persons: Matt Fowler, IT Director/CIO; Mike Townsend, Finance Director, Finance Department

Anticipated completion date: July 1, 2018

Corrective Action: Concur. The County CFO and CIO recognize the importance of segregation of duties and least privilege. This finding has been fully addressed.

Coconino County
Corrective Action Plan
Year Ended June 30, 2018

2018-04

Annual financial report preparation

Contact Persons: Tom Johnson, Accounting Manager, Finance Department; Mike Townsend, Finance Director, Finance Department

Anticipated completion date: June 30, 2019

Corrective Action: Concur. The County will improve its established policies and procedures when compiling information to prepare its CAFR by requiring an employee who is independent of the report's preparation to review the information and schedules supporting the report.

Federal Award Findings and Questioned Costs

2018-101

Cluster Name: WIOA Cluster

CFDA No. and Name: 17.258 WIOA Adult Program

17.259 WIOA Youth Activities

17.278 WIOA Dislocated Worker Formula Grants

Responsible Persons: Scott Richardson, Finance Purchasing Manager; Megan Cunningham, Assistant Finance Director.

Anticipated completion date: June 30, 2018

Corrective Action Plan:

Coconino County concurs with the recommendation. The One Stop Operator Request for Proposal did include requirements in the Scope of Services. However, any future OSO procurements will also include the technical requirements listed within TEGL 15-16 guidance. This Federal Guidance will be incorporated into all solicitation processes requiring this compliance.

2018-102

Cluster Name: Forest Service Schools and Roads Cluster

CFDA No. and Name: 10.665 Schools and Roads - Grants to States

Coconino County
Corrective Action Plan
Year Ended June 30, 2018

Responsible Persons: Thomas Johnson, Finance Accounting Manager; Megan Cunningham, Assistant Finance Director.

Anticipated completion date: June 30, 2018

Corrective Action Plan:

Coconino County concurs with the recommendation to establish procedures to review and approve the allocation of the Forest Service Schools and Roads grant monies. Finance will draft a process that includes comparing the amount received to the funder's payment records, reviewing federal requirements, allocating the funds, and reviewing the calculations.

2018-103

Cluster Name: Forest Service Schools and Roads Cluster

CFDA No. and Name: 10.665 Schools and Roads - Grants to States

Responsible Persons: Thomas Johnson, Finance Accounting Manager; Megan Cunningham, Assistant Finance Director.

Anticipated completion date: June 30, 2018

Corrective Action Plan:

Coconino County concurs with the recommendation to improve the established procedures for preparing the financial report. Finance will revise the current process to ensure that the financial results are accurate and reviewed.

2018-104

Cluster Name: Forest Service Schools and Roads Cluster

CFDA No. and Name: 10.665 Schools and Roads - Grants to States

Responsible Persons: Thomas Johnson, Finance Accounting Manager; Megan Cunningham, Assistant Finance Director.

Anticipated completion date: June 30, 2018

Corrective Action Plan:

Coconino County concurs with the recommendation to establish procedures to ensure Title III monies are properly administered. Finance will draft a process that outlines the steps to publish

Coconino County
Corrective Action Plan
Year Ended June 30, 2018

a proposal for the intended use of the Title III monies and submit the proposal to its resource advisory committee.



FINANCE

February 15, 2019

Michael Townsend
CFO/Director

Megan Cunningham
Assistant Finance
Director

Tom Johnson
Financial Reporting
and Audit Manager

Scott Richardson
Purchasing Manager

Lindsey Perry
Auditor General
2910 N. 44th Street, Suite 410
Phoenix, AZ 85018

Dear Ms. Perry:

We have prepared the accompanying summary schedule of prior audit findings as required by the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Specifically, we are reporting the status of audit findings included in the prior audit's schedule of findings and questioned costs.

Sincerely,

219 E. Cherry Ave.
Flagstaff, AZ 86001
928-679-7199

Michael Townsend
Chief Fiscal Officer

Coconino County
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2018

Status of Financial Statement Findings

Capital Asset Reporting

Finding No: 2017-01

Status: Fully corrected.

Financial Accounting System Responsibilities

Finding No: 2017-02

Status: Not Corrected / Partial Improvement

Explanation: The County's prior financial system did not have the capability of separating the responsibilities for managing and operating the financial system infrastructure and software from the responsibilities of managing the system data and granting user access to the system. The County implemented a new ERP system on July 1, 2018 which does have this capability.

Additionally, to ensure continuity of its daily operations, the County has cross trained two employees, a Senior Accountant and Buyer in the Finance Department to perform duties related to managing and operating its financial accounting system. The Information Technology Department is under new leadership and anticipates implementing new enhancements to address these issues into the future.

Information Resources Risk Assessment Procedures

Finding No: 2017-03

Status: Not Corrected

Explanation: To ensure adequate policies and procedures to identify, analyze, and respond to risks that may impact IT resources, the County will further develop a county-wide IT risk assessment process that incorporates NIST best practices. The Information Technology Department is under new leadership and anticipates implementing new enhancements to address these issues into the future.

The County should improve access controls over its information technology resources

Finding No: 2017-04

Status: Not Corrected

Explanation: To help prevent and detect unauthorized access or use, manipulation, damage, or loss to IT resources, the County will further develop and implement effective logical and physical access policies and procedures over its IT resources. The Information Technology Department is under new leadership and anticipates implementing new enhancements to address these issues into the future.

The County should improve its configuration management processes over its information technology resources

Finding No: 2017-05

Status: Not Corrected

Explanation: To help prevent and detect unauthorized access or use, manipulation, damage, or loss to IT resources, the County will further develop and implement effective configuration management policies and procedures over its IT resources. The Information Technology Department is under new leadership and anticipates implementing new enhancements to address these issues into the future.

Coconino County
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2018

The County should improve security over its information technology resources

Finding No: 2017-06

Status: Not Corrected

Explanation: Policies and procedures are currently being drafted by the County's IT Department to improve security over its information technology resources. The Information Technology Department is under new leadership and anticipates implementing new enhancements to address these issues into the future.

Disaster Recovery Plan and Data Backup Procedures for Information Technology Resources

Finding No: 2017-07

Status: Not Corrected

Explanation: To help ensure its operations continue in the event of a disaster, system or equipment failure, or other interruption, the County will further develop its contingency planning procedures. The Information Technology Department is under new leadership and anticipates implementing new enhancements to address these issues into the future.

Status of Federal Award Findings and Questioned Costs

CFDA No: 93.069 **Public Health Emergency Preparedness**

Finding No: 2017-101

Status: Fully corrected.

Cluster Name: Forest Service Schools and Roads Cluster

CFDA No: 10.665 **Schools and Roads – Grants to States**

Finding No: 2017-102

Status: Not corrected.

Explanation: To help ensure the Schools and Roads report contains accurate financial procedures, the County will continue to develop and improve the procedures requiring a detailed review of the underlying data supporting the report.

