

## Graham County

**CONCLUSION:** Graham County is responsible for preparing its annual financial report and a federal expenditure schedule, 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 County's financial statements and federal expenditure schedule is presented below.

Based on our audits, we issued opinions on the County's financial statements and federal expenditure schedule and issued reports on internal control and on compliance over financial reporting and major federal programs. The information in the County's fiscal year 2016 financial statements and schedule is reliable. Our Office identified internal control weaknesses over financial reporting. The most significant findings are summarized on the next page.

### Condensed financial information

**Statement of net position**—This statement reports all of the County's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Net position is reported in three major categories:

- **Net investment in capital assets**—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 other external entities, such as the federal government.
- **Unrestricted**—shows the remaining net position balance after allocating the net investment in capital assets and restricted balances.

**Statement of activities**—This statement reports all revenues, expenses, and other changes in net position. Revenues include program revenues—those generated by or dedicated to a specific program—and general revenues, such as taxes raised for general purposes. Net position decreased \$1.5 million, or 7.1 percent, in fiscal year 2016.

**Federal expenditure schedule**—During fiscal year 2016, the County expended approximately \$5 million in federal awards. The County's federal award expenditures increased by \$525,000, or 11.6 percent, compared to fiscal year 2015.

#### Statement of net position

As of June 30, 2016 (In thousands)

<b>Assets and deferred outflows</b>	
Current and other assets	\$ 37,479
Capital assets, net of depreciation	36,237
Deferred outflows of resources	4,863
<b>Total assets and deferred outflows</b>	<b>78,579</b>
<b>Liabilities and deferred inflows</b>	
Current liabilities	1,141
Noncurrent liabilities:	
Net pension liability	25,497
Other	29,828
Deferred inflows of resources	1,600
<b>Total liabilities and deferred inflows</b>	<b>58,066</b>
<b>Net position</b>	
Net investment in capital assets	33,561
Restricted	6,793
Unrestricted	(19,841)
<b>Total net position</b>	<b>\$ 20,513</b>

#### Statement of activities

Year ended June 30, 2016 (In thousands)

<b>Program revenues</b>	
Charges for services	\$ 3,687
Operating grants and contributions	8,819
<b>General revenues</b>	
Property taxes	4,952
Sales tax	7,143
Other	6,130
<b>Total revenues</b>	<b>30,731</b>
<b>Expenses</b>	
General government	9,826
Public safety	11,118
Highways and streets	4,360
Other	6,994
<b>Total expenses</b>	<b>32,298</b>
Decrease in net position	(1,567)
Net position—beginning	22,080
<b>Net position—ending</b>	<b>\$20,513</b>

#### Federal expenditure schedule

Year ended June 30, 2016 (In thousands)

<b>Federal grantor agency</b>	
Department of Interior	\$3,020
Department of Agriculture	703
Department of Education	641
Other	672
<b>Total federal expenditures</b>	<b>\$5,036</b>

## Summary of audit findings and recommendations

For the financial statement audit, we found internal control weaknesses over the County's financial reporting related to its financial statement preparation, procurement, and security over information technology (IT) resources. For the federal compliance audit, we tested one federal program under the major program guidelines established by the Single Audit Act and reported no weaknesses in internal control or instances of noncompliance over the federal program. Our single audit report includes a schedule of findings and questioned costs that contains further details to help the County correct the internal control weaknesses. The most significant findings and recommendations are summarized below.

**County had inadequate policies and procedures over the preparation and review of its annual financial report**—The County's Board of Supervisors and management depend on accurate financial information prepared in accordance with U.S. generally accepted accounting principles (GAAP) to fulfill their oversight responsibilities and to report accurate information to the public and agencies from which the County receives funding. However, the County lacked adequate internal controls over the preparation of its annual financial report and had to correct several misstatements before it could be issued.

### Recommendation

The County should develop and implement comprehensive written policies and procedures for preparing its annual financial report. These procedures should include instructions for compiling information and a thorough review to help ensure that the annual financial report is accurate and complete and prepared in accordance with GAAP.

**County had inadequate policies and procedures over IT resources**—The County's IT resources, which include its systems, network, infrastructure, and data, are vital to its daily operations. However, the County did not have adequate policies and procedures over its IT resources to sufficiently manage access, including preventing, detecting, and responding to unauthorized access, and to track, document, and test IT resource changes. The County also lacked a comprehensive up-to-date contingency plan to provide for the continuity of operations in the event of a disaster, system or equipment failure, or other interruption.

### Recommendations

To help prevent and detect unauthorized access to its IT resources; prevent and detect unauthorized, inappropriate, and unintended changes to its IT resources; and ensure county operations can continue in the event of a disaster, system or equipment failure, or other interruption the County needs to further develop and implement policies and procedures over its IT resources to ensure they address the following:

- **User access**—A periodic, comprehensive review should be performed of all existing employee access accounts to help ensure that network and system access granted is needed and compatible with job responsibilities.
- **Logging and log monitoring**—Key user activity should be logged and monitored, particularly for users with administrative access privileges and remote access.
- **Change management processes**—For changes to its financial system's IT resources, a change management process should be established for each type of change, including emergency changes and other changes that might not follow the normal change management process. Further, all changes should follow the applicable change management process and should be appropriately documented.
- **Contingency planning**—The contingency plan should be updated at least annually for all critical information or when changes are made to IT resources, and updates to the plan should be communicated to key personnel.
- **IT standards and best practices**—IT policies and procedures should be reviewed against current IT standards and best practices, updated where needed, and implemented entity-wide, as appropriate.