



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 opinions on the County's financial statements and schedule of expenditures of federal awards and issued reports on its internal control and compliance over financial reporting and major federal programs. The information in the County's fiscal year 2015 financial statements and schedule is reliable. Our Office identified internal control weaknesses over financial reporting and internal control weaknesses and instances of noncompliance over major federal programs. The most significant findings are summarized on the next page.



2015

Year Ended June 30, 2015

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. The balance was negative at June 30, 2015, because the County implemented new pension accounting standards. Additional information on these new standards is included on the next page.

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 by approximately \$6.2 million, or 15 percent, in fiscal year 2015.

Schedule of expenditures of federal awards—During fiscal year 2015, the District expended approximately \$6.1 million in federal awards. The County's federal award expenditures decreased by \$557,000, or 8 percent, compared to fiscal year 2014.

Condensed statement of net position Governmental activities As of June 30, 2015 (In thousands)

Assets	
Current and other assets	\$ 35,820
Capital assets, net of depreciation	80,975
Total assets	<u>116,795</u>
Deferred outflows of resources	<u>11,665</u>
Liabilities	
Current liabilities	3,454
Noncurrent liabilities:	
Net pension liability	60,404
Other	<u>21,028</u>
Total liabilities	<u>84,886</u>
Deferred inflows of resources	<u>7,532</u>
Net position	
Net investment in capital assets	63,857
Restricted	23,415
Unrestricted (deficit)	<u>(51,230)</u>
Total net position	<u>\$ 36,042</u>

Condensed statement of activities Governmental activities For the year ended June 30, 2015 (In thousands)

Program revenues	
Charges for services	\$ 6,844
Operating grants and contributions	15,320
Capital grants and contributions	<u>11,431</u>
Total program revenues	<u>33,595</u>
General revenues	
Property taxes	12,536
Sales taxes	17,567
Other	<u>5,291</u>
Total general revenues	<u>35,394</u>
Total revenues	<u>68,989</u>
Expenses	<u>75,193</u>
Change in net position	(6,204)
Net position—beginning, as restated	<u>42,246</u>
Net position—ending	<u>\$ 36,042</u>

Condensed schedule of expenditures of federal awards by grantor agency For the year ended June 30, 2015 (In thousands)

Department of Agriculture	\$ 1,727
Department of the Interior	1,384
Department of Health and Human Services	1,108
Department of Labor	848
Department of Education	284
Department of Justice	281
Other	<u>491</u>
Total federal expenditures	<u>\$ 6,123</u>

Significant pension reporting changes in fiscal year 2015

The Governmental Accounting Standards Board (GASB) issued new pension accounting standards for all state and local governments that resulted in significant reporting changes starting in fiscal year 2015. The County is required to follow these new standards because its employees are members in the State of Arizona's defined benefit pension plans. The new GASB standards are designed to increase the transparency, consistency, and comparability of pension information across governments. In addition, they require all governments to report more robust pension information, including their share of any unfunded, or net, pension liability, which was approximately \$60.4 million for the County at June 30, 2015. The net pension liability is calculated by subtracting the pension plans' assets from the estimated pension obligations and means that the assets are less than estimated pension obligations. This liability reduced the County's unrestricted net position.

It is important to note that the new reporting requirements will not change the actual cost of providing pension benefits. As they always have, the County and its participating employees will continue to pay their required contributions to cover the estimated pension benefits. The County's contributions were \$3.7 million in fiscal year 2015.

Summary of audit findings and recommendations

For the financial statement audit, we found internal control weaknesses over the County's information technology resources. For the federal compliance audit, we tested six federal programs under the major program guidelines established by the Single Audit Act and found that the County did not always have adequate internal controls and did not always comply with federal program requirements for three of its federal 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 most significant findings and recommendations are summarized below.

Inadequate policies and procedures over information technology (IT) resources

The County's IT resources, which include its systems, network, infrastructure, and data, are vital to its daily operations. However, the County's policies and procedures over IT security, access, change management, and disaster recovery were not fully implemented and lacked certain key elements. IT security weaknesses included not performing a county-wide IT security risk assessment, establishing a process to identify and respond to security incidents, and not categorizing and protecting its sensitive information. IT access weaknesses included not ensuring access was needed and compatible with employees' job responsibilities. Change management weaknesses included not documenting test procedures, results, and approvals for changes to IT resources. Finally, disaster recovery weaknesses included not having a comprehensive up-to-date disaster recovery plan to provide for the continuity of operations in the event of disaster, system or equipment failure, or other interruption.

Recommendation

The County should fully implement its policies and procedures over its IT resources and ensure they include the following key elements:

- Performing a county-wide security risk assessment; establishing a documented process to identify and respond to security incidents; and identifying, categorizing, and protecting sensitive information.
- Performing a periodic and comprehensive review of all existing employee access accounts.
- Documenting all tests performed, test results, and approvals for changes made to IT resources.
- Updating the disaster recovery plan to include all key elements.