

Navajo County

CONCLUSION: Navajo 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 and internal control weakness and an instance of noncompliance over major federal programs. 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 by \$3 million, or 8 percent, in fiscal year 2016.

Federal expenditure schedule—During fiscal year 2016, the County expended approximately \$6.3 million in federal awards. The County's federal award expenditures increased by \$0.3 million, or 3.7 percent, compared to fiscal year 2015.

Statement of net position

As of June 30, 2016 (In thousands)

Assets and deferred outflows	
Current and other assets	\$ 36,635
Capital assets, net of depreciation	78,224
Deferred outflows of resources	10,665
Total assets and deferred outflows	125,524
Liabilities and deferred inflows	
Current liabilities	3,729
Noncurrent liabilities:	
Net pension liability	64,322
Other	19,534
Deferred inflows of resources	4,892
Total liabilities and deferred inflows	92,477
Net position	
Net investment in capital assets	62,361
Restricted	24,226
Unrestricted	(53,540)
Total net position	\$ 33,047

Statement of activities

Year ended June 30, 2016 (In thousands)

Program revenues	
Charges for services	\$ 7,883
Operating grants and contributions	17,099
Capital grants and contributions	11,571
General revenues	
Property taxes	12,532
Sales tax	6,365
State shared revenue	13,125
Other	3,064
Total revenues	71,639
Expenses	
General government	29,717
Public safety	17,512
Highways and streets	12,008
Other	15,397
Total expenses	74,634
Decrease in net position	(2,995)
Net position—beginning	36,042
Net position—ending	\$33,047

Federal expenditure schedule

Year ended June 30, 2016 (In thousands)

Federal grantor agency	
Department of Agriculture	\$1,647
Department of Interior	1,532
Department of Health and Human Services	1,072
Department of Labor	972
Other	1,131
Total federal expenditures	\$6,354

Understanding the County's financial report

Understanding how to extract information from the County's financial report is important when reviewing financial performance and evaluating future financial decisions. As described below, our Office's financial report user guide and internal control and compliance reports user guide, available at www.azauditor.gov/under-reports-and-publications, help users identify and understand important and useful information in the County's financial report and our reports on internal control and on compliance over financial reporting and federal programs. Specifically:

- **Financial report user guide**—describes key financial information contained in county financial reports and indicates where to find this information. Key components in a financial report include the independent auditors' report, management's discussion and analysis, government-wide financial statements, fund financial statements, notes to financial statements, and other required supplementary information.
- **Internal control and compliance reports user guide**—describes our internal control and compliance reports over financial reporting and federal programs. Those reports, which are included in our single audit report, provide information about whether the County has effective internal control procedures and whether it has complied with certain financial- and federal-related laws and regulations.

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 procedures for processing journal entries, preparing financial statements, and securing its information technology (IT) resources. For the federal compliance audit, we tested four 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 one of its federal programs. 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 and instance of noncompliance. The most significant findings and recommendations are summarized below.

County should improve policies and procedures for processing journal entries and preparing financial statements—When the County initially prepared its financial statements for auditors' review, it did not accurately prepare them in accordance with U.S. generally accepted accounting principles. The errors were significant and were a result of the County incorrectly processing certain journal entries and not ensuring those entries were independently reviewed. For example, the County recorded \$88,000 of the Public Health District Fund's expenditures in the incorrect fiscal year. The County made the necessary adjustments to correct all significant errors.

Recommendation

The County should require that someone knowledgeable review and approve journal entries and that someone who is independent of the financial statement preparation review all data and schedules used to prepare the financial statements for accuracy.

County should improve controls over information technology resources—The County's IT resources, which include its systems, network, infrastructure, and data, are vital to its daily operations. The County is in the process of correcting IT control weaknesses that we reported in the prior year. However, the County needs to further develop its policies and procedures over its entity-wide IT security risk assessment process and its processes for preventing and detecting unauthorized or inappropriate access to its IT resources.

Recommendation

To help prevent and detect unauthorized access or use, manipulation, damage, or loss to its IT resources, the County should continue developing its policies and procedures over its entity-wide IT security risk assessment process and its processes for preventing and detecting unauthorized or inappropriate access to its IT resources. Our report provides guidance and best practices to help the County implement this recommendation.