

Navajo County

Single Audit Report

Year Ended June 30, 2018



A Report to the Arizona Legislature

Lindsey A. Perry
Auditor General





The Arizona Office of the Auditor General's mission is to provide independent and impartial information and specific recommendations to improve the operations of State and local government entities. To this end, the Office provides financial audits and accounting services to the State and political subdivisions, investigates possible misuse of public monies, and conducts performance audits and special reviews of school districts, State agencies, and the programs they administer.

The Joint Legislative Audit Committee

Senator **Rick Gray**, Chair
Senator **Lupe Contreras**
Senator **Andrea Dalessandro**
Senator **David C. Farnsworth**
Senator **David Livingston**
Senator **Karen Fann** (ex officio)

Representative **Anthony T. Kern**, Vice Chair
Representative **John Allen**
Representative **Timothy M. Dunn**
Representative **Mitzi Epstein**
Representative **Jennifer Pawlik**
Representative **Rusty Bowers** (ex officio)

Audit Staff

Donna Miller, Director
Stephanie Gerber, Manager and Contact Person

Contact Information

Arizona Office of the Auditor General
2910 N. 44th St.
Ste. 410
Phoenix, AZ 85018

(602) 553-0333

www.azauditor.gov



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 15

Notes to schedule of expenditures of federal awards 17

County response

Corrective action plan

Summary schedule of prior audit findings

Reports 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
Navajo 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 Navajo 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 January 24, 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 deficiency described in the accompanying schedule of findings and questioned costs as item 2018-05 to be a material weakness.

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 deficiencies described in the accompanying schedule of findings and questioned costs as items 2018-01, 2018-02, and 2018-04 to be significant deficiencies.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and that are described in the accompanying schedule of findings and questioned costs as item 2018-03.

Navajo County response to findings

Navajo 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

January 24, 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
Navajo County, Arizona

Report on compliance for each major federal program

We have audited Navajo 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 item 2018-101 of the accompanying schedule of findings and questioned costs, the County did not comply with requirements regarding the Forest Service Schools and Roads Cluster for activities allowed or unallowed and earmarking. In our opinion, compliance with such requirements is necessary 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, Navajo 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 WIOA Cluster

In our opinion, Navajo 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 WIOA Cluster for the year ended June 30, 2018.

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. We did identify certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2018-101, 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.

Navajo County response to findings

Navajo 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 Navajo 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 January 24, 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 7, 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? No

Type of auditors' report issued on compliance for major programs

Unmodified for the WIOA Cluster and qualified for the Forest Service Schools and Roads Cluster

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
10.665	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

Procedures for approving employees' time sheets

Condition and context—A supervisor did not review and approve 4 of 17 employees' time sheets tested. Although supervisors should review time sheets before payroll is processed, the system allows employees to be paid if their time sheets were not approved. However, the County's policy does not include a process to require supervisors to post-approve time sheets if they were not preapproved. The County's payroll and employee-related expenses comprised nearly \$38 million, or approximately 47 percent, of its total expenses for the fiscal year.

Criteria—County policy requires a supervisory review and approval of employee time sheets prior to processing payroll to help ensure that the County pays employees for only authorized hours worked.

Effect—The County risks paying for unapproved hours worked, which could potentially result in inappropriate use of public monies. We were unable to determine the total number of time sheets that may not have been approved.

Cause—The County's supervisors did not always follow existing policies and procedures for approving employee's time sheets prior to processing payroll.

Recommendation—To help ensure the County pays employees for only authorized and approved hours worked, the County should require that supervisors follow existing policies and procedures to review and approve employee time sheets prior to payroll processing. Further, the County should develop and implement policies and procedures to allow supervisors to post-approve time sheets and document their approval within a reasonable time.

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.

2018-02

Procedures for reporting financial statement amounts

Condition and context—In its initially prepared financial statements, the County did not report approximately \$814,000 of federal grant revenues and related education expenditures for the County School Superintendent's Office's activities and \$241,000 of its share of State sales taxes.

Criteria—The County should maintain and follow effective internal control policies and procedures to help ensure that it accurately reports all transactions in accordance with U.S. generally accepted accounting principles (GAAP).

Effect—By not maintaining and following effective policies and procedures over financial reporting, the County's financial statements could include material errors that might go undetected. However, for its fiscal

year 2018 financial statements, the County made the necessary adjustments to correct these errors we noted during our audit.

Cause—The County did not follow its policies and procedures for performing a detailed review of all data and schedules used to prepare the financial statements to ensure that they were accurate, complete, and in accordance with GAAP.

Recommendation—To help ensure that the County's financial statements are accurate and prepared in accordance with GAAP, the County should follow its existing policies and procedures for preparing all financial statements amounts. Those procedures include conducting a detailed review of all supporting data and schedules and ensuring that it is accurately reflected in the financial statements.

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 2017-01.

2018-03

Complying with guidelines and State law for diversion/deferred prosecution program fees

Condition and context—The Navajo County Attorney's Office was unable to demonstrate that it complied with the applicable Arizona Prosecuting Attorneys' Advisory Council Deferred Prosecution Guidelines (APAAC Guidelines) and State law when it established its diversion/deferred prosecution program fees.

Criteria—As prescribed by the APAAC Guidelines, program fees may be established pursuant to Arizona Revised Statutes (A.R.S.) §11-251.08 or similar authority. A.R.S. §11-251.08 gives the County board of supervisors the authority to adopt fee schedules for any specific services the County provides to the public. Fees established according to A.R.S. §11-251.08 should be attributable to and defray or cover the expense of the service for which the fee is assessed. Further, a fee shall not exceed the actual cost of the service. Also, before adopting a fee for service, the board of supervisors must hold a public hearing on the fee with at least 15 days' published notice. If a similar authority is used to establish program fees, the County Attorney's Office should follow those requirements.

Effect—The County Attorney's Office may have established inappropriate fees for its diversion/deferred prosecution program.

Cause—The County Attorney's Office did not have a process in place to ensure it complied with the current APAAC Guidelines and State law when it established its diversion/deferred prosecution program fees.

Recommendation—The County Attorney's Office should formally establish its diversion/deferred prosecution program fees according to the APAAC Guidelines and State law.

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

2018-04

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.

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.

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 previously relied on an informal process to perform risk-assessment procedures that did not include IT security. However, the County recently developed written policies and procedures based on the National Institute of Standards and Technology requirements but has not fully implemented them.

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.

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.

2018-05

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.
- **Implementing its contingency plan**—Plan was not tested, and staff responsible for placing the plan into operation were not trained.

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 and physical access controls**—Help to ensure systems and data are accessed by users who have a need, systems and data access granted is appropriate, key systems and data access is monitored and reviewed, and physical access to system infrastructure is protected.
- **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 recently updated its written policies and procedures based on the National Institute of Standards and Technology requirements but has not fully implemented them.

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.
- Protect IT systems and data with session time-outs after defined period of inactivity.
- Manage entity-owned electronic devices connecting to the County's systems and data.
- Manage remote access to the County's systems and data.
- Review data center physical access periodically to determine whether individuals still need it.

Configuration and change management

- Review proposed changes for appropriateness, justification, and security impact.
- Document change approvals and a post-change review.
- 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.

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

- 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 2017-05 (access), 2017-06 (configuration and change management), 2017-04 (IT security), and 2017-07 (contingency planning).

Federal award findings and questioned costs

2018-101

Cluster name:	Forest Service Schools and Roads Cluster
CFDA number and name:	10.665 Schools and Roads—Grants to States
Award number and year:	None
Federal agency:	U.S. Department of Agriculture
Compliance requirement:	Activities allowed or unallowed and earmarking
Questioned costs:	\$51,849

Condition and context—The County did not allocate any of its \$51,849 awarded Title III monies for wildfire protection activities or emergency wildfire services for the County’s citizens and their property as required. Instead, the County incorrectly dispersed the entire \$51,849 of Title III monies to County schools without any restrictions on how the money should be spent.

Criteria—In accordance with 16 United States Code (U.S.C.) §§7112 and 7142, the County was required to allocate 5 percent of its share of Forest Service Schools and Roads Cluster monies to Title III and ensure those monies are used for wildfire protection activities or emergency wildfire services for its citizens and their property.

Effect—The County did not comply with the Forest Service Schools and Roads Cluster’s Title III requirements under activities allowed or unallowed and earmarking compliance requirements, resulting in questioned costs of \$51,849.

Cause—The County did not have policies and procedures to allocate monies as required because it had not assigned someone knowledgeable of the requirements to help ensure that the Title III monies were properly earmarked and spent for allowable activities.

Recommendations—To help ensure that the County complies with U.S.C. §§7112 and 7142, it should establish policies and procedures that include:

- Assigning someone who is knowledgeable of the requirements to help ensure that the Title III monies are properly earmarked and spent for allowable activities.
- Reviewing and approving the distribution of the County’s share of these federal monies by comparing the amount 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 included at the end of this report.

COUNTY SECTION

Navajo 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
Department of Agriculture					
10 557	WIC Special Supplemental Nutrition Program for Women, Infants, and Children		Arizona Department of Health Services	ADHS14-053056	\$ 297,109
10 561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	SNAP Cluster	Arizona Department of Health Services	ADHS15-00004836	297,128
10 664	Cooperative Forestry Assistance		Arizona State Forestry	SFA-11-201	172,874
10 665	Schools and Roads—Grants to States	Forest Service Schools And Roads Cluster			946,889
Total Department of Agriculture					<u>1,714,000</u>
Department of Commerce					
11 307	Economic Adjustment Assistance	Economic Development Cluster			104,265
Department of Justice					
16 575	Crime Victim Assistance		Arizona Department of Public Safety	2018-360, 2018-361	126,370
16 582	Crime Victim Assistance/Discretionary Grants		Arizona Department of Public Safety	2015-487	1,220
16 738	Edward Byrne Memorial Justice Assistance Grant Program		Arizona Criminal Justice Commission	DC-18-029, DC-18-009, DC-17-009, IFBC 13-15-004	161,110
16 922	Equitable Sharing Program				91,751
Total Department of Justice					<u>380,451</u>
Department of Labor					
17 258	WIOA Adult Program	WIOA Cluster	Arizona Department of Economic Security	DI16-002107	428,025
17 259	WIOA Youth Activities	WIOA Cluster	Arizona Department of Economic Security	DI16-002107	297,354
17 278	WIOA Dislocated Worker Formula Grants	WIOA Cluster	Arizona Department of Economic Security	DI16-002107	173,110
<i>Total WIOA Cluster</i>					<u>898,489</u>
Total Department of Labor					<u>898,489</u>
U.S. Department of Transportation					
20 600	State and Community Highway Safety	Highway Safety Cluster	Governor's Office of Highway Safety	2018-PTS-040, 2018-AL-019, 2017-AL-028	31,512
20 703	Interagency Hazardous Materials Public Sector Training and Planning Grants		Arizona Department of Emergency and Military Affairs	HM-HMP-0583-16-01-00	9,964
Total U.S. Department of Transportation					<u>41,476</u>
Institute of Museum and Library Services					
45 310	Grants to States		Arizona State Library, Archives and Public Records	2016-36001-05, 2017-0010-F-00, 2017-0010-05	23,093

See accompanying notes to schedule.

Navajo 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
Department of Health and Human Services					
93 008	Medical Reserve Corps Small Grant Program		National Association of County and City Health Officials	MRC14-0945	1,732
93 069	Public Health Emergency Preparedness		Arizona Department of Health Services	ADHS17-133196	172,817
93 136	Injury Prevention and Control Research and State and Community Based Programs		Arizona Department of Health Services	ADHS16-110830	73,606
93 236	Grants to States to Support Oral Health Workforce Activities		Arizona Department of Health Services	ADHS15-078234	12,494
93 424	NON-ACA/PPHF-Building Capacity of the Public Health System to Improve Population Health through National Nonprofit Organizations				3,406
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	ADHS13-041545	138,578
93 758	Preventative Health and Health Services Block Grant funded solely with Prevention and Public Health Funds (PPHF)		Arizona Department of Health Services	ADHS15-094982	58,820
93 940	HIV Prevention Activities Health Department Based		Arizona Department of Health Services	ADHS17-161985	33,427
93 977	Sexually Transmitted Diseases (STD) Prevention and Control Grants		Arizona Department of Health Services	ADHS14-071223	5,636
93 994	Maternal and Child Health Services Block Grant to the States		Arizona Department of Health Services	ADHS15-094982	98,980
Total Department of Health and Human Services					<u>599,496</u>
Executive Office of the President					
95 001	High Intensity Drug Trafficking Areas Program		City of Tucson	HT-16-2614, HT-16-2640, HT-17-2717, HT-16-2643	124,012
Department of Homeland Security					
97 042	Emergency Management Performance Grants		Arizona Department of Emergency and Military Affairs	EMF-2017-EP-00008-S01	165,160
97 067	Homeland Security Grant Program	Homeland Security Cluster	Arizona Department of Homeland Security	17-AZDOHS-HSGP-170104-03/16-AZDOHS-HSGP-160105-01, 02/16-AZDOHS-HSGP-160106-01	46,729
Total Department of Homeland Security					<u>211,889</u>
Total expenditures of federal awards					<u>\$ 4,097,171</u>

Navajo 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 (schedule) includes Navajo 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*.

Note 2 - Summary of significant accounting policies

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such 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*.

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.

This page is intentionally left blank.

COUNTY RESPONSE



Bryan Layton
Assistant County Manager

NAVAJO COUNTY

Administration

Glenn Kephart
County Manager

Paige Peterson
Finance Director

We are Navajo County

March 7, 2019

Lindsey Perry
Auditor General
2910 N. 44th St., Ste. 410
Phoenix, AZ 85018

Dear Ms. Perry:

We have prepared the accompanying corrective action plan, including the County Attorney's 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,

Paige Peterson
Finance Director

Navajo County

Corrective action plan

Year ended June 30, 2018

Financial Statement Findings

2018-01

Procedures for approving employees' time sheets

Contact: Paige Peterson, Finance Director

Anticipated Completion Date: On-going

Corrective Action Plan: Concur. To help ensure the County pays employees for only authorized charges and accurately processes and records payroll records and expenses, we will follow our existing policies and procedures that require the preparation, review and approval of documentation to support employees' time worked and changes to the employee's records.

2018-02

Procedures for reporting financial statement amounts

Contact: Paige Peterson, Finance Director

Anticipated Completion Date: Already corrected

Corrective Action Plan: Concur. To help ensure the County recognized all revenue in the proper period we will follow our existing policies and procedures and include a task to follow-up with the County School Superintendent's Office to verify their revenue since they operate on a separate financial system.

2018-03

Complying with guidelines and State law for diversion/deferred prosecution program fees

Contact: Brad Carlyon, Navajo County Attorney

Anticipated Completion Date: April 30, 2019

Corrective Action Plan: See following letter from Mr. Carlyon, Navajo County Attorney

2018-04

Managing risk

Contact person: Ken Dewitt, IT Director

Anticipated Completion Date: June 30, 2020

Corrective Action Plan: Early in 2018 the Navajo County IT Department and Finance Department met with five other Counties (Navajo, Green Lee, Santa Cruz, Gila, Graham, Apache) to rewrite our policy

and procedures based on standards from the National Institute of Standards and Technology (NIST). Having these meetings over several month's last spring allowed the IT Department to take a new set of policies and procedures to the Navajo County Board of Supervisors for approval on June 12, 2018. Even though these are based from NIST 800-53 rev 4 many of the items are taken from the NIST documents used by the United States Environmental Protection Agency. County Administration has been working with the IT department to change the culture of our department's staff. There have been several meetings and processes put in place to help everyone understand the importance of a safe working environment when it comes to cyber security.

2018-05

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

Contact: Ken Dewitt, IT Director

Anticipated Completion Date: Ongoing

Corrective Action Plan: The IT department has assigned someone on the Server team to review users and their access for the past couple of years. The Active Directory file has been cleaned and most older employees have been removed over the past couple of years. We have automated the onboarding and offboarding of County employees by connecting the Human Resources section of New World with a nightly sync process of the days changes. This has been in place since November of 2017. There has been a change control process in place for the past couple of years and it is continually improving based on the Auditor General's Office recommendations. New IT policies and procedures are reviewed on a regular basis and IT training in security is ongoing. We have been publishing phishing campaigns to all County Employees since July of 2016 and the cyber security awareness of the County staff has increased. Procedures are updated and published on the internal web page as needed. Vulnerability scans are performed on an annual basis and any findings are remediated as appropriate. Patches are applied after they are identified and evaluated. Contingency planning is ongoing and improving through the risk assessment process and our COOP plan. Table top discussions are happening with the IT staff and is being expanded to all departments.

Federal award findings and questioned costs

2018-101

CFDA no.: 10.665 **Forest Service Schools and Roads Cluster**

Contact Person: Paige Peterson, Finance Director

Anticipated completion date: June 30, 2019

To ensure the County properly spends Title III federal award monies on allowable activities, we will develop policies and procedures regarding Forest Service Schools and Roads Cluster. The County will assign a staff member who is knowledgeable of the program and the policies and procedures.



**NAVAJO
COUNTY
ATTORNEY'S
OFFICE**



**Brad Carlyon
County Attorney**

P. O. Box 668
Holbrook, AZ 86025-0668
(928) 524-4026
Fax (928) 524-4244

**Lynda Young
Office Manager**

Direct Line (928) 524-4421
lynda.young@navajocountyaz.gov

December 19, 2018

Arizona Auditor General's Office
291 N 44th St, #410
Phoenix, AZ 85018

To Whom It May Concern:

Thank you for the opportunity to respond to the Arizona Auditor General's audit of the Navajo County Attorney's Office Deferred/Diversion Program. This letter is a response to the findings of the Auditor General's internal control and compliance review and findings.

Finding

Navajo County Attorney's Office should establish program fees in accordance with Arizona Prosecuting Attorneys' Advisory Council Deferred Prosecution Guidelines and state law.

Response

Navajo County Attorney's Office has initiated the process of seeking Navajo County Board of Supervisors approval for Program fees pursuant to the APAAC guidelines.

Hopefully this information is helpful in the review of the findings of the audit of Navajo County's Program. The process of analyzing the Program's policies and procedures has been helpful to this Office in ensuring the best possible outcome in these types of cases; and improving the administration of justice for citizens of Navajo County. We appreciate your professionalism in handling this audit, and for your assistance in improving the Program.

Sincerely,

Brad Carlyon
County Attorney
Navajo County

Cc: Paige Peterson, Navajo County Finance Director



Bryan Layton
Assistant County Manager

NAVAJO COUNTY

Administration

Glenn Kephart
County Manager

Paige Peterson
Finance Director

We are Navajo County

March 7, 2019

Lindsey Perry
Auditor General
2910 N. 44th St., Ste. 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. This schedule also includes the status of audit findings reported in the prior audit's summary schedule of prior audit findings that were not corrected.

Sincerely,

Paige Peterson
Finance Director

Navajo County
Summary schedule of prior audit findings
Year ended June 30, 2018

Status of financial statement findings

The County should improve controls over year-end journal entries

Finding No.: 2017-01, 2016-01

Status: Not corrected

To help ensure that the County's financial statements are accurate and prepared in accordance with Generally Accepted Accounting Principles, we will follow our existing policies and procedures for preparing year-end journal entries which will include a detail review of the data and schedules used in the adjusting journal entry preparation.

The County should improve controls over approving employees' time accounting records

Finding No.: 2017-02

Status: Partially corrected

To ensure the County's time accounting records are accurate we will follow our existing policies and procedures. The County will also email departments bi-weekly to remind them of the timesheet policy.

The County should improve its risk-assessment process to include information technology security

Finding No.: 2017-03, 2016-03

Status: Not corrected

To ensure that the County has adequate policies and procedures to identify, analyze, and respond to risks that may impact our IT resources, we have made significant steps in developing a county-wide IT risk-assessment process that incorporates NIST best practices. This process is being implemented and meetings are being held with County Departments.

The County should improve security over its information technology resources

Finding No.: 2017-04, 2016-04, 2015-01, 2014-01

Status: Not corrected

To help prevent, detect, and respond to instances of unauthorized or inappropriate access or use, manipulation, damage, or loss to our IT resources, we are implementing policies and procedures over IT security based on best practices and industry standards.

The County should improve access controls over its information technology resources

Finding No.: 2017-05, 2016-05, 2015-02, 2014-02, 2013-02, 2012-01, 2011-01, 2010-02, 2009-02, 2008-02, 2007-10

Status: Not corrected

To help prevent and detect unauthorized access or use, manipulation, damage, or loss to our IT resources, we have developed and implement effective logical and physical access policies and procedures over our IT resources. The County has purchased and installed software for use to detect data traffic flowing in and out of the County network so that it can be analyzed for possible unauthorized access. We continue to expand our physical access system so that it can be appropriately monitored.

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

Finding No.: 2017-06, 2016-06, 2015-03, 2014-03

Status: Not corrected

To help prevent and detect unauthorized, inappropriate, and unintended changes to its IT resources, we have improved our policies and procedures over our configuration management process. There has been an updated change control procedure implemented to manage unintended changes to systems. NIST based policies have been approved by the Board of Supervisors and the procedures from those policies continue to be updated.

The County should improve its contingency planning procedures for its information technology resources.

Finding No.: 2017-07, 2016-07, 2015-04, 2014-04, 2013-03, 2012-02, 2011-03, 2010-04, 2009-04, 2008-04, 2007-12, 2006-05, 2005-04

Status: Not corrected

To help ensure the County operations continue in the event of a disaster, system or equipment failure, or other interruption, we will further develop our contingency planning procedures.

Status of Federal Award Findings and Questioned Costs

CFDA No.: Not applicable

Finding No.: 2016-101, 2017-101

Status: Fully corrected

CFDA No.: 97.042 Emergency Management Performance Grants

Finding No.: 2017-102

Status: Fully corrected

