

Navajo County

Report on Internal Control
and on Compliance

Year Ended June 30, 2020



A Report to the Arizona Legislature

Lindsey A. Perry
Auditor General





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LINDSEY A. PERRY
AUDITOR GENERAL

ARIZONA
AUDITOR GENERAL

MELANIE M. CHESNEY
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, 2020, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated December 17, 2020.

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) as a basis for designing 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 recommendations, 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 recommendations as item 2020-04 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 recommendations as items 2020-01, 2020-02, and 2020-03 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 financial statements. 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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and that is described in the accompanying schedule of findings and recommendations as item 2020-01.

County response to findings

The 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 is responsible for preparing a corrective action plan to address each finding. The County's responses and corrective action plan 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 A. Perry, CPA, CFE
Auditor General

December 17, 2020



SCHEDULE OF FINDINGS AND RECOMMENDATIONS

Financial statement findings

2020-01

The County Public Health Department Director made \$5,579 in purchasing card purchases that contradicted County policies, which the County paid for, resulting in potential misuse of public monies and possibly violating the Arizona Constitution

Condition—In fiscal year 2020, the County's Public Health Department Director (Director) used his County purchasing card to make \$5,579 of purchases that contradicted County policies. The County paid for these purchases on the Director's behalf and did not request and receive his immediate reimbursement. These purchases represented almost 40 percent of the Director's purchasing card total during the year. Specifically, his purchases contradicted County policies because they:

- Included unallowed expenses, including \$832 for personal cellular services and \$535 of unsupported fuel purchases.
- Did not always include required receipts or other documentation and description of public purpose, including 16 meals totaling \$1,268 and 8 hotel stays totaling \$1,742.
- Were not preapproved when the purchase deviated from County policies, including \$629 of lodging and meal expenses that exceeded allowable rates.

Navajo County officials were responsible for reviewing and approving the Director's fiscal year 2020 purchasing card purchases in the banking system prior to the County paying for these purchases. However, they did not identify the Director's purchases that contradicted County policy at the time of these approvals. In response to a similar prior-year audit finding, former and current Navajo County officials subsequently conducted a second review of all the Director's fiscal year 2020 purchasing card purchases and identified \$2,172 of purchases that were not allowed and required the Director to reimburse them. In April 2020, the County revoked the Director's purchasing card. During our audit, we identified an additional \$3,407 of contradictory purchases he made, resulting in the \$5,579 in unallowed purchases. On December 29, 2020, we issued a financial investigation report that led to the Director's criminal indictment.¹ The County terminated his employment on December 31, 2020. Further, the County withheld \$3,407 from the Director's final leave payout to cover the cost of the additional unallowed purchases he made that we identified. Therefore, the Director repaid the County for all \$5,579 of his unallowed fiscal year 2020 purchases.

¹ We conducted a financial investigation of certain Coconino County purchasing card transactions for the period July 2013 through April 2017 and certain Navajo County purchasing card transactions for the period August 2017 through March 2020, see Auditor General report 20-403 Financial Investigation Report December 2020: *Coconino and Navajo Counties: Criminal Indictment--Theft and Misuse of Public Monies*. This report describes our findings and recommendations resulting from this investigation. We submitted our report to the Arizona Attorney General's Office, which on December 15, 2020, presented evidence to the State Grand Jury. The action resulted in the Director's indictment on 16 felony counts related to theft, misuse of public monies, and fraudulent schemes.

Effect—The County may have violated the Arizona Constitution, and the Director may have misused \$5,579 of public monies that should have instead been used for public purposes like health services and education programs. Further, when department directors do not follow established policies, they set an unfavorable tone that policies do not need to be followed.

Cause—The County did not train employees responsible for reviewing and approving purchasing card purchases to identify and address unallowable purchases and ensure employees followed County policies and procedures.

Criteria—County policies require employees to only use purchasing cards for official County business, prohibit employees from purchasing items intended for personal use or fuel for personal vehicles, and limit meal and lodging expense to the allowable rates unless preapproved.² Any personal purchases must be immediately reimbursed. County policies also require employees to provide adequate supporting documentation, including itemized receipts, advance approval and/or justification for exceptions to County policy, and documentation that expenses have a public purpose. Further, the Arizona Constitution, Art. IX, Sec. 7, bans gifts or loans of public monies to individuals, including employees, by counties.

Recommendations—To ensure the County uses its public monies for official County business and complies with the Arizona Constitution, the County should:

1. Improve its policies and procedures over purchasing cards to provide annual training to employees who review and approve purchasing card purchases. This training should describe allowable and unallowable purchases and procedures to address personal purchases, and how to properly record supervisory review and approval. Employees should document their understanding in writing.
2. Require employees to follow purchasing card policies, such as:
 - A. Submitting required documentation with purchases, such as itemized receipts and documentation of the public purpose, if it is not evident.
 - B. Obtaining in writing preapproval from the employees' designated approver for exceptions to the County policies.
 - C. Immediately reimbursing the County for any purchases that are not for official County business.

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 2019-01.

2020-02

The County paid \$41,000 for employees' County purchasing card fuel purchases but did not ensure the fuel was used in County vehicles, contrary to County policies, placing the County at risk of misusing public monies and violating the Arizona Constitution

Condition—Contrary to County policies, in fiscal year 2020, the County paid approximately \$41,000 for employees' purchasing card fuel purchases but did not ensure the fuel was used in County vehicles. Specifically, we estimated that the County paid for approximately 1,300 purchasing card fuel purchases made by over 200 employees. Other than the \$535 in fuel purchases made by the County's Public Health

² If employees are unable to use a County vehicle for travel and have to use their personal vehicle for County purposes, employees must maintain odometer readings or map or internet mileage calculations for each authorized trip and request reimbursement on an approved County travel form.

Department Director noted in finding 2020-01 above, we and the County could not determine whether the remaining purchasing card fuel purchases were for official County business purposes because the supporting documentation was not readily available and sufficient to conduct an in-depth review prior to issuing this report.

Effect—The County spent \$41,000 of public monies for fuel that may have been for County employees' personal use, elevating the County's risk of misusing public monies and violating the Arizona Constitution.

Cause—The County does not have procedures to ensure that employee purchasing card fuel purchases are used for official County business. Specifically, the County does not have procedures to reconcile that fuel purchases were solely used for an authorized County vehicle, including maintaining County vehicle logs with mileage driven, trip purpose, fuel purchased, and responsible employee name and requiring employees to document the County vehicle number or license plate number on the purchasing card fuel receipt and, when applicable, on the County travel form.

Criteria—County policy prohibits employees from using their purchasing cards to buy fuel for personal vehicles even if used for County purposes and requires County vehicles to be used for travel when possible.³ Further, the Arizona Constitution, Art. IX, Sec. 7, bans gifts or loans of public monies to individuals, including employees, by counties.

Recommendations—To ensure the County uses its public monies for official County business and complies with the Arizona Constitution, the County should:

1. Ensure all employees approved to use County purchasing cards follow County policy, which does not allow them to use their card to purchase fuel for personal vehicles even when using a personal vehicle for official County business, by improving its procedures over purchasing card fuel purchases. Specifically, the County should:
 - A. Create and maintain vehicle logs for all County vehicles and require employees to document the date and vehicle odometer readings at the time of checkout and check-in, the public purpose for using the County vehicle, and any fuel purchased.
 - B. Require employees to record the County vehicle number or license plate number on the purchasing card fuel receipt and, when applicable, the travel form when purchasing fuel.
 - C. Require the travel form approver to reconcile purchasing card fuel purchases to County vehicle logs.
 - D. Periodically review purchasing card fuel costs to evaluate whether employees followed policy and purchasing card fuel purchases appear reasonable, and investigate and take appropriate action for any questionable purchases.
2. Conduct an in-depth review of all employees' purchasing card fuel costs that were made during the fiscal year to determine whether they are reasonable and appropriate, investigate any questionable purchases, and take action such as seeking reimbursement from employees, as appropriate.

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 2019-02.

³ When a County vehicle is not available, employees may obtain pre-approval to use a personal vehicle for County purposes and are required to request mileage reimbursement on an approved travel form, rather than using their purchasing card for fuel costs. Further, employees are required to include documentation of odometer readings or map or internet mileage calculations for each authorized trip to support the mileage reimbursement request.

2020-03

The County's deficiencies in its process for managing and documenting its risks may put its operations and IT systems and data at unintended and unnecessary risk

Condition—The County's process for managing and documenting its risks did not include identifying, classifying, and inventorying sensitive information that might need stronger access and security controls.

Effect—Without correcting this deficiency, 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 lacked documented policies and procedures over the sensitive information it maintains.

Criteria—The County should follow a credible industry source such as the National Institute of Standards and Technology to help effectively manage risk at the County. The process of managing risks should address the risk of unauthorized access and use, modification, or loss of sensitive information.

Recommendations—The County should:

1. Ask responsible administrative officials and management to design and implement policies around the sensitive information the County maintains and to work with IT management to design and implement procedures for managing the associated risks.
2. 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 2019-03.

2020-04

The County's control procedures over IT systems and data were not sufficient, which increases the risk that the County may not adequately protect those systems and data

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

- **Restricting access**—Procedures did not consistently help prevent or detect unauthorized or inappropriate access to its IT systems and data.
- **Managing system configurations and changes**—Procedures did not ensure configuration settings were securely maintained and all IT system 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.

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/or the loss of confidentiality or integrity of systems and data.

Cause—The County has not prioritized developing, documenting, and implementing its IT policies and procedures.

Criteria—The County should follow a credible industry source such as the National Institute of Standards and Technology to implement effective internal controls that protect its IT systems and help ensure the integrity and accuracy of the data it maintains, as follows:

- **Restricting access through 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.
- **Managing system configurations and changes through well-defined, documented configuration management process**—Ensures the County’s IT system configurations are documented 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’s security or operation.
- **Securing systems and data through IT 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.

Recommendations—The County should:

1. Make it a priority to develop and document comprehensive IT policies and procedures and develop a process to ensure the procedures are being consistently followed.

Restricting access—To restrict access to its IT systems and data, implement processes to:

2. Assign and periodically review employee user access ensuring appropriateness and compatibility with job responsibilities.
3. Remove terminated employees’ access to IT systems and data.
4. Evaluate the use and appropriateness of accounts shared by 2 or more users and manage the credentials for such accounts.
5. Enhance authentication requirements for IT systems.

Managing system configurations and changes—To configure IT systems securely and manage system changes, implement processes to:

6. Maintain configurations; manage configuration changes; and monitor the system for unauthorized or unintended configuration changes.

Securing systems and data—To secure IT systems and data, develop, document, and implement processes to:

7. Perform proactive key user and system activity logging and log monitoring, particularly for users with administrative access privileges.

8. Prepare and implement a security incident response plan clearly stating how to report and handle such incidents.

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 2019-04.

COUNTY RESPONSE



NAVAJO COUNTY

Administration

Bryan Layton
Assistant County Manager

Glenn Kephart
County Manager

Jayson Vowell
Finance Director

We are Navajo County

March 15, 2021

Lindsey Perry
Auditor General
2910 N. 44th St., Ste. 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,

Jayson Vowell
Finance Director

Navajo County
Corrective Action Plan
Year ended June 30, 2020

Financial Statement Findings

2020-01

P-Card

Contact Person(s): Bryan Layton, Assistant County Manager & Jayson Vowell, Finance Director

Anticipated completion date: March 31, 2021

Concur. Internal controls are an important function in Navajo County's operations and the County is dedicated to ensuring internal controls over P-Card transactions are strengthened. The County takes all findings seriously and has taken steps to ensure corrections are made. The County will ensure that P-Card transactions comply with County policies and procedures and that proper documentation is maintained. The following steps have been taken:

- Updated written policies to include guidelines for reviewers on handling purchasing card misuse, including disciplinary action and reimbursement.
- Updated written policies that itemized receipts are required to be submitted for all purchasing card purchases.
- Updated procedures that require a separate approver of all department directors purchasing card transactions/statements at the executive management level (either County Manager or Assistant County Manager).
- Provide annual training to employees for proper use of purchasing cards and review of purchasing card transactions/statements. The training includes information on allowable and unallowable purchases, procedures on handling personal purchases, and how to properly record their review and approval. Completed training is documented both electronically and in writing.

These efforts are on-going and will continue. Specifically, regarding the County Public Health Department Director purchases that contradicted County policies, upon learning of the misuse of county funds, the County revoked the Director's P-Card and began a review of P-Card transactions. The County required the Director to repay the County for the unallowed purchases in fiscal year 2020 and to reimburse the county for unsupported and questionable costs noted in prior fiscal years. Upon being notified of the Financial Investigation Report issued on December 29, 2020 by the Office of the Auditor General, the County terminated employment with the Director.

2020-02

P-Card Fuel Purchases

Contact Person(s): Bryan Layton, Assistant County Manager & Jayson Vowell, Finance Director

Anticipated completion date: June 30, 2021

Concur. We realize the need to implement a fuel tracking process that is affordable and reasonable to better track fuel purchased with County purchasing cards. County Administration does not believe there was any intentional abuse of County P-Card fuel purchases or any misuse of County funds except for fuel

purchases made by the County's Public Health Department Director noted in finding 2020-01 above. The County will ensure that fuel purchases complies with County policies and procedures and that proper documentation is maintained. The Finance Department will work with the other departments that have county vehicles in order to create and maintain vehicle logs and properly document any fuel purchased. Also, the County will implement a process to periodically review P-Card fuel costs to evaluate whether employees followed policy and fuel purchases appear reasonable.

2020-03

Information Technology - Managing Risk

Contact Person(s): Ken Dewitt, Information Technology Director

Anticipated completion date: June 30, 2021

Concur. Navajo County takes all IT audit findings seriously and will make efforts to resolve any deficiencies. The County will take actions to improve processes for managing and documenting risks. There have been several meetings and processes put in place to help staff understand the importance of a safe working environment including identifying and safeguarding sensitive information. Meetings are scheduled county-wide to move this to completion.

2020-04

Information Technology - Controls

Contact Person(s): Ken Dewitt, Information Technology Director

Anticipated completion date: June 30, 2021

Concur. Navajo County takes all IT audit findings seriously and will make efforts to resolve any deficiencies. The County will improve access controls over its IT resources.

Restricting Access: Financial system access has been reviewed each year during the audit for the past few years. An annual review has been performed and issues identified by the auditors have been corrected.

Managing system configurations and changes: The County will maintain baseline configurations for systems and manage the system for unauthorized or unintended changes.

Securing systems and data: The County will evaluate and develop a process to perform proactive key user and system activity logging and log monitoring, particularly for users with administrative access privileges. The County will also prepare and implement a security incident response plan.

