



## REPORT HIGHLIGHTS

SINGLE AUDIT

### Subject

Navajo County spent \$5.3 million of federal monies in fiscal year 2006 for 32 programs. The largest federal grants were for homeland security, general government purposes, child support enforcement, health services, and housing. In return, the County must be accountable for its use of federal and local monies, maintain strong internal controls, and comply with federal program requirements. As the auditors, our job is to determine whether the County has met its responsibilities.

### Our Conclusion

The County did not maintain adequate internal controls over financial reporting. As a result, the auditors were unable to express an opinion on Navajo County's Schedule of Expenditures of Federal Awards. For our compliance audit of federal programs, auditors noted 9 material internal control weaknesses and 8 instances of material noncompliance for the major federal programs tested. See pages 1 through 3 for further information.



# 2006

Year Ended June 30, 2006

## The County Needs To Improve Controls over Its Accounting Records

The Board of Supervisors depends on accurate information to fulfill its oversight responsibility. Additionally, the County must issue accurate and timely financial statements to ensure compliance with audit requirements imposed by federal and state laws and regulations, grant contracts, and long-term debt covenants. To achieve this objective, the County must ensure that financial transactions are accurately recorded in its accounting records.

During fiscal year 2006, the County did not adjust its accounting records for

year-end accruals or prior year audit adjustments and did not always properly classify financial transactions in its accounting records. Additionally, the County did not establish adequate internal controls over its capital assets or transactions of its employee benefits health insurance trust fund.

As a result of these deficiencies, we issued a disclaimer of opinion on the County's financial statements and Schedule of Expenditures of Federal Awards (SEFA) for the year ended June 30, 2006.

## The County Spent \$5.3 Million in Federal Awards

The County spent \$5.3 million of federal monies this past year for 32 programs. The U.S. Department of Health and Human Services, U.S. Department of Homeland Security, U.S. Department of Agriculture, and the U.S. Department of the Interior were the four largest federal grantors with \$3.8 million of program expenditures.

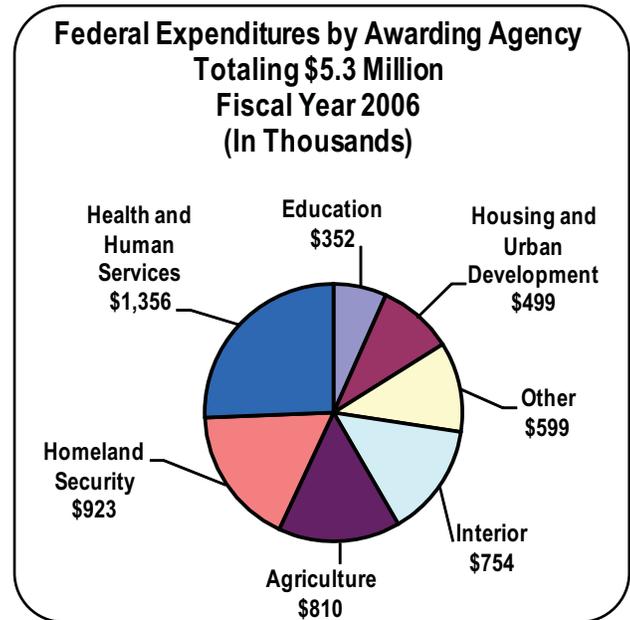
Expenditures from the U.S. Department of Homeland Security programs included approximately \$923,000 for the Homeland Security Grant Program Cluster: State Domestic Preparedness

Equipment Support Program and Homeland Security Grant Program. This cluster is designed to enhance the County's ability to prepare, prevent, respond to, and recover from terrorist attacks and other disasters.

Expenditures from the U.S. Department of Health and Human Services programs included approximately \$728,000 for the Child Support Enforcement program. This program is designed to enforce the support obligations owed by absent parents, locate absent parents, and establish paternity.

Expenditures from the U.S. Department of the Interior included approximately \$744,000 for the Payments in Lieu of Taxes program. This program is designed to compensate local taxing units for the loss of taxes from federally owned and acquired lands and is used for general government purposes.

Expenditures from the U.S. Department of Agriculture programs included approximately \$438,000 for the Emergency Watershed Protection Program. This program is designed to assist in implementing emergency recovery measures for natural disasters that cause a sudden impairment of a watershed.



## The County Did Not Always Comply with Federal Compliance Requirements

Auditors identified and tested seven federal programs under the guidelines established by the Single Audit Act. The federal programs tested were the Special Supplemental Nutrition Program for Women, Infants, and Children; Emergency Watershed Protection Program; Community Development Block Grants/State's Program; Payments in Lieu of Taxes; Centers for Disease Control and Prevention—Investigations and Technical Assistance; Child Support Enforcement; and Homeland Security Grant Program Cluster. Audit tests included evaluating the County's compliance with each program's federal regulations generally related to expending, determining eligibility, managing equipment and real property, procurement, vendor suspension and debarment, reporting, and special tests and provisions. Auditors noted the following internal control weaknesses and instances of noncompliance.

### OMB A-133 Requirements

The Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*

(Circular), requires that an audit be completed and the single audit reporting package be submitted within 9 months after fiscal year-end. However, the County submitted its Single Audit Reporting Package over 15 months late. In addition, the Circular requires that federal awards be separately identified in the accounting records and properly reported on the SEFA. However, the County did not have adequate internal controls for separately identifying and recording federal awards in its accounting system and preparing a complete and accurate SEFA.

### Administrative Requirements

Federal program administrative requirements require grantees to maintain its accounting records in a manner consistent with U.S. generally accepted accounting principles. However, the County did not record year-end accruals by individual fund in its accounting system and supporting records. Consequently, beginning and ending fund balances, year-end accruals, and revenues and expenditures were indeterminable.

## Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Reporting

For the Special Supplemental Nutrition Program for Women, Infants, and Children, the County did not have adequate policies and procedures for ensuring program expenditures reported on monthly reimbursement requests were proper and the reports were submitted to the pass-through grantor in a timely manner. In addition, for the Centers for Disease Control and Prevention—Investigations and Technical Assistance program, the County did not ensure that amounts charged to the program were adequately supported by documentation, properly approved, and allowed. As a result, questioned costs totaling \$5,739 were reported for this program.

### Eligibility

For the Special Supplemental Nutrition Program for Women, Infants, and Children, the County did not have adequate internal controls to ensure that all necessary eligibility information and documentation was maintained and that program benefits were terminated when participants became ineligible.

### Equipment and Real Property Management

The County did not have adequate internal control policies and procedures for ensuring that its capital assets were properly valued, supported by records, and accurately reported in the financial statements in accordance with generally accepted accounting principles. Therefore, the County was unable to provide auditors with a complete listing of capital assets purchased with current and prior year federal monies. As a result, the County's procedures were inadequate to comply with the equipment and real property management requirements for the Special Supplemental Nutrition Program for Women, Infants, and Children; Community Development Block Grants/State's Program; Centers for Disease Control and Prevention—Investigations and Technical Assistance program; Child Support Enforcement program; and Homeland Security Grant Program Cluster.

## Procurement and Suspension and Debarment

The County did not obtain the required suspension and debarment certifications from the vendors it contracted with to provide goods and services for the Emergency Watershed Protection Program and the Homeland Security Grant Program Cluster. In addition, the County did not have adequate internal controls to ensure that competitive purchasing procedures were established and followed for the Community Development Block Grants/State's Program and the Homeland Security Grant Program Cluster.

### Special Tests and Provisions and Reporting

The County did not have adequate internal controls to ensure that environmental reviews of contractors were performed as required under the Community Development Block Grants/State's Program. In addition, the County did not ensure that all child support enforcement case files contained evidence that enforcement of medical support was pursued with the noncustodial parent. The County also did not establish adequate policies and procedures to ensure monthly financial reports for this program were submitted in a timely manner.

#### Single Audit Fact Sheet

- Six material weaknesses in financial reporting internal controls were noted.
- Twelve weaknesses in federal compliance internal controls, nine of which were material internal control weaknesses.
- Twelve violations of federal compliance requirements, eight of which were material noncompliance.
- Program costs totaling \$5,739 were questioned as a result of the audit.

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## Navajo County

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Year Ended June 30, 2006