



A REPORT  
TO THE  
ARIZONA LEGISLATURE

Financial Audit Division

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Single Audit

# Navajo County

Year Ended June 30, 2005

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**Debra K. Davenport**  
Auditor General

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Navajo County  
Single Audit Reporting Package  
Year Ended June 30, 2005

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**STATE OF ARIZONA  
OFFICE OF THE  
AUDITOR GENERAL**

DEBRA K. DAVENPORT, CPA  
AUDITOR GENERAL

WILLIAM THOMSON  
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 were engaged to audit 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, 2005, which collectively comprise the County's basic financial statements, and have issued our report thereon dated October 5, 2007. Our report was modified for a disclaimer of opinion on the basic financial statements of Navajo County taken as a whole.

**Internal Control over Financial Reporting**

In planning the engagement, we considered the County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements and not to provide an opinion on internal control over financial reporting. However, we noted certain matters involving internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over financial reporting that, in our judgment, could adversely affect the County's ability to record, process, summarize and report financial data consistent with the assertions of management in the basic financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 05-01 through 05-05.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control over financial reporting would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 05-01 through 05-05 to be material weaknesses.

### *Compliance and Other Matters*

As part of the engagement to obtain reasonable assurance about whether the County's basic financial statements are free of 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*, which are described in the accompanying Schedule of Findings and Questioned Costs as items 05-01 and 05-05.

This report is intended solely for the information and use of the members of the Arizona State Legislature, the Board of Supervisors, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Dennis L. Mattheisen, CPA  
Financial Audit Director

November 30, 2007



**STATE OF ARIZONA  
OFFICE OF THE  
AUDITOR GENERAL**

DEBRA K. DAVENPORT, CPA  
AUDITOR GENERAL

WILLIAM THOMSON  
DEPUTY AUDITOR GENERAL

**Independent Auditors' Report on Compliance with Requirements  
Applicable to Each Major Program and on Internal Control over Compliance in  
Accordance with OMB Circular A-133**

Members of the Arizona State Legislature

The Board of Supervisors of  
Navajo County, Arizona

***Compliance***

We have audited the compliance of Navajo County with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The County's major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 opinion. Our audit does not provide a legal determination on the County's compliance with those requirements.

As described in the following table, Navajo County did not comply with certain compliance requirements that are applicable to its major federal programs. Compliance with such requirements is necessary, in our opinion, for the County to comply with requirements applicable to those programs.

Program Title (CFDA No.)	Compliance Requirement	Finding Number
Payments in Lieu of Taxes (15.226)	Single audit report submission	05-101, 05-103
Byrne Formula Grant Program (16.579)	Single audit report submission	05-101, 05-103

Program Title (CFDA No.)	Compliance Requirement	Finding Number
Workforce Investment Act Cluster (17.258 and 17.259)	Single audit report submission, Equipment and Real Property Management	05-101, 05-102, 05-103
Centers for Disease Control and Prevention— Investigations and Technical Assistance (93.283)	Single audit report submission, Equipment and Real Property Management, Activities Allowed/Unallowed, Allowable Costs/Cost Principles, Reporting	05-101, 05-102, 05-103, 05-104
Child Support Enforcement (93.563)	Single audit report submission, Equipment and Real Property Management, Special Tests and Provisions	05-101, 05-102, 05-103, 05-105

In our opinion, except for the noncompliance described in the preceding table, Navajo County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

***Internal Control over Compliance***

The County's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the County's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 05-101 through 05-105.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control over compliance would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 05-101 through 05-105 to be material weaknesses.

### *Schedule of Expenditures of Federal Awards*

We were engaged to audit 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, 2005, which collectively comprise the County's basic financial statements, and have issued our report thereon dated October 5, 2007. Our report was modified for a disclaimer of opinion on the basic financial statements of Navajo County taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the members of the Arizona State Legislature, the Board of Supervisors, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Dennis L. Mattheisen, CPA  
Financial Audit Director

November 30, 2007, except for the Schedule  
of Expenditures of Federal Awards, for which  
the date is October 5, 2007

Navajo County  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2005

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Grantor's Number	Expenditures
<b>U.S. Department of Agriculture</b>			
Passed through the Arizona Department of Health Services			
Special Supplemental Food Program for Women, Infants, and Children	10.557	HG361082, 261076	\$ 239,647
State Administrative Matching Grants for Food Stamp Program	10.561	HG361087, 261089	54,845
Passed through the Arizona State Land Department			
Cooperative Forestry Assistance	10.664	SFA1005	13,137
Passed through Arizona State Treasurer			
Schools and Roads—Grants to States	10.665	None	<u>25,000</u>
Total U.S. Department of Agriculture			<u>332,629</u>
<b>U.S. Department of Housing and Urban Development</b>			
Passed through the Arizona Department of Housing			
Community Development Block Grants/State's Program	14.228	142-04	74,750
Home Investment Partnership Program	14.239	137-04	<u>172,225</u>
Total U.S. Department of Housing and Urban Development			<u>246,975</u>
<b>U.S. Department of the Interior</b>			
Payments in Lieu of Taxes			
National Fire Plan—Wildland Urban Interface Community Fire Assistance	15.226	None	845,282
Fire Assistance	15.228		<u>28,062</u>
Total U.S. Department of the Interior			<u>873,344</u>
<b>U.S. Department of Justice</b>			
RICO Funds	16.unknown		207,722
Passed through the Arizona Governor's Division for Children			
Juvenile Accountability Incentive Block Grants	16.523	01-JAIBG-09, JBGRA02418209, JBGRA023527308	13,851
Passed through the Arizona Department of Public Safety			
Crime Victim Assistance	16.575	2001-VA-GX-00 04	110,739
Federal Bureau of Investigations	16.unknown	198A-PX-C619918	7,297
Southwest Border Patrol Initiative	16.unknown	None	87,903
Passed Through the Arizona Criminal Justice Commission			
Byrne Formula Grant Program	16.579	AC 180-03, PC-140-03	411,318
Passed through the Arizona Drug Enforcement Administration			
Public Education on Drug Abuse—Information	16.005	2002-09	7,377
Community Prosecution and Project Safe Neighborhoods	16.609	2002-GP-CS-0114	<u>39,237</u>
Total U.S. Department of Justice			<u>885,444</u>
<b>U.S. Department of Labor</b>			
Passed through Arizona Department of Economic Security			
Workforce Investment Act Cluster			
WIA Adult Program	17.258	E5704009, E5705009	163,351
WIA Youth Activities	17.259	E5704009, E5705009	<u>137,683</u>
Total U.S. Department of Labor			<u>301,034</u>

(Continued)

See accompanying notes to schedule.

Navajo County  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2005  
(Continued)

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Grantor's Number	Expenditures
<b>U.S. Department of Transportation</b>			
Passed through the Arizona Department of Transportation			
Highway Planning and Construction	20.205	AG1N00000501	\$ <u>52,478</u>
<b>U.S. Department of Education</b>			
Passed through Arizona Department of Economic Security			
Special Education—Grants for Infants and Families with Disabilities	84.181	E1800031, E1800032	578
Passed through Arizona State Supreme Court			
Title I Program for Neglected and Delinquent Children	84.013	26682	26,245
Rural Education	84.027	26682	7,640
Safe and Drug-Free Schools and Communities—State Grants	84.186	26682	1,070
State Grants for Innovative Programs	84.298	26682	997
Improving Teacher Quality State Grants	84.367	26682	8,486
Passed through Arizona State Department of Education			
Special Education—Grants to States	84.027	H027A0030007, H027A010007	15,102
Reading First State Grants	84.357	S357A020003	58,034
Improving Teacher Quality State Grants	84.367	S367A040049	44,863
Total U.S. Department of Education			<u>163,015</u>
<b>U.S. Department of Health and Human Services</b>			
Passed through Arizona Department of Health Services			
Immunization Grants	93.268	HG352200, 152045	16,607
HIV Prevention Activities—Health Department Based	93.940	152016, HG352259	7,828
Preventive Health Services—Sexually Transmitted Diseases			
Control Grants	93.977	HG354250, 052003	1,911
Preventive Health and Health Services Block Grant	93.991	261109, HG354183	41,233
Maternal and Child Health Services Block Grant to the States	93.994	961125, 761108, HG361315, 9610922	71,830
Centers for Disease Control and Prevention—Investigations and Technical Assistance			
Technical Assistance	93.283	252039	439,552
Passed through Arizona Department of Economic Security			
Child Support Enforcement	93.563	E7203317, E7204017, E7205017	638,462
Total U.S. Department of Health and Human Services			<u>1,217,423</u>
<b>U.S. Department of Homeland Security</b>			
Passed through State of Arizona Department of Emergency and Military Affairs			
Emergency Food and Shelter National Board Program	97.024	EMF2004-GR-0401	51,849
Citizen Corps	97.053	None	7,500
Homeland Security Grant Program	97.067	TE-CX-0196, 2002-TE-CX-0412	237,825
Total U.S. Department of Homeland Security			<u>297,174</u>
Total Expenditures of Federal Awards			<u>\$ 4,369,516</u>

See accompanying notes to schedule.

Navajo County  
Notes to Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2005

Note 1 - Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Navajo County and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

Note 2 - Catalog of Federal Domestic Assistance (CFDA) Number

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2005 *Catalog of Federal Domestic Assistance*. When no CFDA number has been assigned to a program and when there was no federal contract number, the two-digit federal agency identifier, a period, and the word "unknown" were used.

Note 3 - Subrecipients

Navajo County did not have any subrecipients for the year ended June 30, 2005.

Navajo County  
 Schedule of Findings and Questioned Costs  
 Year Ended June 30, 2005

**Summary of Auditors' Results**

***Financial Statements***

Type of auditors' report issued:

Disclaimer of opinion on the basic financial statements taken as a whole

	<b>Yes</b>	<b>No</b>
Material weaknesses identified in internal control over financial reporting?	<u>X</u>	___
Reportable condition identified not considered to be a material weakness?	___	<u>X</u> (None reported)
Noncompliance material to the financial statements noted?	<u>X</u>	___

***Federal Awards***

Material weaknesses identified in internal control over major programs?	<u>X</u>	___
Reportable condition identified not considered to be a material weakness?	___	<u>X</u> (None reported)

Type of auditors' report issued on compliance for major programs: Qualified for all major programs

Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (section .510[a])? X \_\_\_

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
15.226	Payments in Lieu of Taxes
16.579	Byrne Formula Grant Program
17.258/17.259	WIA Cluster
93.283	Centers for Disease Control and Prevention—Investigations and Technical Assistance
93.563	Child Support Enforcement

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? \_\_\_ X

***Other Matters***

Auditee's Summary Schedule of Prior Audit Findings required to be reported in accordance with Circular A-133 (section .315[b])? X \_\_\_

Navajo County  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2005

## Financial Statement Findings

05-01

**The County should establish procedures to accurately record and report financial information.**

The County must issue accurate and timely financial statements to satisfy the audit requirements imposed by federal and state laws and regulations, grant contracts, and long-term debt covenants. In addition, the County's Governing Board depends on accurate information so it can fulfill its oversight responsibility and to report accurate information to the public and agencies from which it receives funding. To achieve these objectives, management should ensure that transactions are recorded accurately, in the appropriate accounts, and in the proper fiscal year, that financial statements are prepared and issued in a timely manner, and that all federal program expenditures are accurately identified and reported in the County's accounting system. However, the County did not accomplish these objectives since it took the County 2 years after year-end to prepare its financial statements. Further, the County's financial statements were not accurate and prepared in accordance with generally accepted accounting principles. Additionally, the County requested us not to audit its capital assets or Health Insurance Trust Fund because it had not established controls over these balances and transactions. See finding 05-02 for detailed recommendations regarding capital assets and the Health Insurance Trust Fund.

Specifically, the County lacked effective internal controls over financial reporting since the County did not record in its accounting system and supporting records year-end accruals for individual funds. Consequently, ending fund balances, year-end accruals, revenues, and expenditures for the individual funds were not accurately reported in the fund financial statements. In addition, employees were unable to obtain financial information from the accounting records to prepare financial statements in accordance with generally accepted accounting principles. As a result of these departures from generally accepted accounting principles, the auditors were unable to audit the County's financial statements.

These problems delayed the issuance of the County's Single Audit Reporting Package for the year ended June 30, 2005. The federal reporting deadline for the County's Single Audit Reporting Package was March 31, 2006; however, the County did not issue its Single Audit Reporting Package until December 2007.

To help ensure that financial statements are prepared accurately and issued in a timely manner, the County should allocate resources to:

- Research all accounting and reporting requirements to ensure the financial statements are properly presented in accordance with authoritative pronouncements.
- Organize the accounting system to ensure ease and efficiency in obtaining information for financial statement preparation.
- Establish a process for obtaining information not readily available from the accounting system necessary for financial statement preparation.
- Establish a process for compiling the information and preparing financial statements and notes, and assign employees and determine completion dates.

Navajo County  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2005

- Have an employee who did not prepare the financial statements review them and the accompanying notes to help ensure that the amounts are accurate and properly supported and that the statements are presented in accordance with authoritative pronouncements.
- Ensure that all Federal Program Expenditures are accurately identified and reported in the County's accounting system.

A similar finding was previously reported in the prior 2 years' Single Audit Reporting Packages.

05-02

**The County should establish controls over capital assets and its health insurance trust fund.**

*Capital Assets*

The County's capital asset policies and procedures should be in compliance with the *Uniform Accounting Manual for Arizona Counties* (UAMAC); however, the County's procedures were not in compliance. Existing county capital assets records did not include sufficient documentation to support account balances. As a result, auditors were unable to audit the County's capital assets balances.

To help improve control over its capital assets, comply with the requirements of the UAMAC §VI-E, and to properly report capital assets in its financial statement in accordance with generally accepted accounting principles, the County should prepare and maintain a complete and accurate listing of land, buildings, and related improvements costing \$5,000 or more, and machinery and equipment items with unit costs of \$1,000 or more and useful lives longer than 1 year. The listing should include the following for each item:

- Location
- Tag number, serial number, or other number that specifically identifies each furniture and equipment item and vehicles
- Description
- Method of acquisition
- Source of funding
- Month and year acquired
- Purchase document number
- Cost

The County should use actual costs, including ancillary costs such as sales tax, freight, and installation costs to record assets, and should retain supporting documentation for these costs. If actual cost information is not available, the County may record purchased assets at estimated historical cost. Estimated fair market value at the date of acquisition should be used to record the costs of donated assets. Documentation, such as contracts, catalogs, and the minutes of Board of Supervisors' meetings, should be retained to support estimated cost information.

In addition, to help ensure compliance with the requirements of the UAMAC §VI-E and federal program requirements, the County should take a physical inventory at least every 2 years of capital assets purchased with federal monies and every 3 years for all other capital assets, and reconcile the inventory to the capital assets listing.

Navajo County  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2005

*Health Insurance Trust Fund*

The County contracted with an administrator to process and pay all of the Fund's claims; however, it did not ensure that the administrator obtained an internal control audit. Therefore, auditors were unable to audit the Health Insurance Trust Fund since the County did not maintain documentation to support claims paid.

To strengthen controls over the claims payment process, the County should require the third-party administrator to obtain an independent annual audit of its claims processing controls to determine that controls have been placed in operation and are operating effectiveness.

**A similar finding was previously reported in the prior 2 years' Single Audit Reporting Packages.**

05-03

**The County should reconcile cash and investment balances in a timely manner.**

The Treasurer's Office is responsible for safeguarding and investing public monies for the County and other governmental entities within Navajo County. Since the Treasurer's Office acts as a bank for the County, the Finance Department should reconcile the County's cash and investments to the Treasurer's Report each month. However, the Finance Department failed to reconcile its cash and investments balances in the general ledger to the amounts recorded by the County Treasurer monthly or at year-end. As of December 2007, the County still has not provided evidence that these balances were reconciled. This also contributed to the County being unable to prepare accurate financial statements in a timely manner.

To help ensure accurate accounting records, the Finance Department should prepare written reconciliations of each fund's cash and investment balances to the Treasurer's Report within 15 days of month-end. As part of these reconciliations, employees should identify and promptly investigate all reconciling items and, as necessary, make appropriate correcting adjustments to the accounting records or instruct the Treasurer's Office to correct its records.

**A similar finding was previously reported in the prior 2 years' Single Audit Reporting Packages.**

05-04

**The County should have a disaster recovery plan for its computer systems.**

The County's computer systems are vital to the County's daily operations since those systems process, record, and store critical financial information and other important data. Therefore, the County should ensure that it can continue to operate in the event of a system or equipment failure by developing and testing a disaster recovery plan. However, the County did not have a disaster recovery plan.

A properly designed disaster recovery plan helps ensure that proper procedures are in place to provide for the continuity of operations and to help prevent loss of data in the event of a system or equipment failure. The County should develop a disaster recovery plan that includes the following:

- A risk analysis identifying critical applications and exposures, and an assessment of the impact to the County.

Navajo County  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2005

- Roles and responsibilities of employees assigned to disaster recovery teams, including emergency telephone numbers to reach them.
- Operating procedures.
- Details of off-site storage locations.
- Arrangements for a designated physical facility.
- Arrangements with vendors to support needed hardware and software requirements.
- A list of procedures for processing critical transactions, including forms or other documents to use.

Further, the disaster recovery plan should be stored off-site, and updated and tested annually.

**A similar finding was previously reported in the prior 2 years' Single Audit Reporting Packages.**

05-05

**The County should submit its Annual Expenditure Limitation Report in a timely manner.**

The County is required to submit an Annual Expenditure Limitation report (AELR) to the Auditor General of the State of Arizona by October 31, or February 28 if the Auditor General grants an extension, as required by Arizona Revised Statutes (A.R.S.) §41-1279.07 (C). The AELR describes whether the County complied with constitutional spending limits established by the Economic Estimates Commission. However, the County has failed to submit its AELR for the year ended June 30, 2005, in a timely manner. The AELR is more than 2 years past the prescribed statutory deadline. As discussed in finding 05-01, several significant deficiencies in financial reporting have attributed to the late report submissions. The County could face legal implications if the County does not submit its AELR by the deadline.

To comply with A.R.S. §41-1279.07(C), the County should submit the reports required by the *Uniform Expenditure Reporting System* to the Auditor General of the State of Arizona by October 31, or by February 28 if a 120 day extension is granted.

**A similar finding was previously reported in the prior 2 years' Single Audit Reporting Packages.**

Navajo County  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2005

Federal Award Findings and Questioned Costs

05-101

CFDA No.: 15.226 **Payments in Lieu of Taxes**

**U.S. Department of Interior**

Award Period: October 1, 2003 through September 30, 2007

CFDA No.: 16.579 **Byrne Formula Grant Program**

**U.S. Department of Justice, passed through the Arizona Criminal Justice Commission**

Award Period: July 1, 2004 through June 30, 2005

Award Numbers: AC 180-03; PC 140-03

**Workforce Investment Act Cluster:**

CFDA No.: 17.258 WIA Adult Program

17.529 WIA Youth Activities

**U.S. Department of Labor, passed through the Arizona Department of Economic Security**

Award Period: April 1, 2003 through June 30, 2006

Award Numbers: E5704009; E5705009

CFDA No.: 93.283 **Centers for Disease Control and Prevention—Investigations and Technical Assistance**

**U.S. Department of Health and Human Services, passed through the Arizona Department of Health Services**

Award Period: April 1, 2002 through March 31, 2007

Award Number: 252039

CFDA No.: 93.563 **Child Support Enforcement**

**U.S. Department of Health and Human Services, passed through the Arizona Department of Economic Security**

Award Period: October 1, 2003 through September 30, 2005

Award Numbers: E7204017; E7205017; E7203317

Questioned Costs: None

As discussed in financial statement finding 05-01, Navajo County did not complete and submit its Single Audit Reporting Package within 9 months of the County's fiscal year, which would have been March 31, 2006, as required of organizations subject to the audit requirements OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. The County will submit its Single Audit Reporting Package over 2 years late.

To comply with OMB Circular A-133, Subpart C, §.320, the County should submit its Single Audit Reporting Package to the federal clearinghouse no later than 9 months after the period subject to audit, unless the County's oversight agency extends this filing deadline.

Navajo County  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2005

05-102

**Workforce Investment Act Cluster:**

CFDA No.: 17.258 **WIA Adult Program**

17.529 **WIA Youth Activities**

**U.S. Department of Labor, passed through the Arizona Department of Economic Security**

Award Period: April 1, 2003 through June 30, 2006

Award Numbers: E5704009; E5705009

CFDA No.: 93.283 **Centers for Disease Control and Prevention—Investigations and Technical Assistance**

**U.S. Department of Health and Human Services, passed through the Arizona Department of Health Services**

Award Period: April 1, 2002 through March 31, 2007

Award Number: 252039

CFDA No.: 93.563 **Child Support Enforcement**

**U.S. Department of Health and Human Services, passed through the Arizona Department of Economic Security**

Award Period: October 1, 2003 through September 30, 2005

Award Numbers: E7204017; E7205017; E7203317

Questioned Cost: Unknown

The County did not have adequate policies and procedures to ensure compliance with the federal equipment and real property management requirements. Specifically, as discussed in financial statement finding 05-02, the County did not maintain and update its capital assets listing to record additions, deletions, and depreciation expense. In addition, a physical inventory was not performed for fiscal year 2005 or the prior 3 fiscal years. Further, adequate internal controls, including management oversight, did not exist. Consequently, the County could not provide auditors with a complete listing of capital assets purchased with current and prior year federal monies by program.

It was not practical to extend our auditing procedures sufficiently to determine if any questioned costs that may have resulted from this finding.

To comply with 29 Code of Federal Regulations (CFR) §97.32, and 45 CFR §92.32, the County should ensure that all equipment with an acquisition cost of \$5,000 or more and a useful life of more than 1 year are capitalized and included on the County's capital assets listing. In addition, the County should update the listing annually, perform a physical inventory of federal equipment at least once every 2 years to ensure its accuracy and completeness, and establish oversight over capital assets.

Navajo County  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2005

05-103

CFDA No.: 15.226 **Payments in Lieu of Taxes**

**U.S. Department of Interior**

Award Period: October 1, 2003 through September 30, 2007

Direct Award

CFDA No.: 16.579 **Byrne Formula Grant Program**

**U.S. Department of Justice, passed through the Arizona Criminal Justice Commission**

Award Period: July 1, 2004 through June 30, 2005

Award Numbers: AC 180-03; PC 140-03

**Workforce Investment Act Cluster:**

CFDA No.: 17.258 WIA Adult Program

17.529 WIA Youth Activities

**U.S. Department of Labor, passed through the Arizona Department of Economic Security**

Award Period: April 1, 2003 through June 30, 2006

Award Numbers: E5704009; E5705009

CFDA No.: 93.283 **Centers for Disease Control and Prevention—Investigations and Technical Assistance**

**U.S. Department of Health and Human Services, passed through the Arizona Department of Health Services**

Award Period: April 1, 2002 through March 31, 2007

Award Number: 252039

CFDA No.: 93.563 **Child Support Enforcement**

**U.S. Department of Health and Human Services, passed through the Arizona Department of Economic Security**

Award Period: October 1, 2003 through September 30, 2005

Award Numbers: E7204017; E7205017; E7203317

Questioned Costs: Unknown

As discussed in financial statement finding 05-01, Navajo County did not maintain its accounting records in a manner consistent with U.S. generally accepted accounting principles. Accordingly, there may have been errors in balances affecting the federal award programs that the County did not correct in a timely manner. Specifically, the County did not record year-end accruals by individual fund in its accounting system and supporting records. Consequently, we were unable to determine the effects of this matter on beginning and ending fund balances, year-end accruals, and revenues and expenditures for the fiscal year.

It was not practical to extend our auditing procedures sufficiently to determine if any questioned costs that may have resulted from this finding.

Navajo County  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2005

To comply with 43 CFR §12.60, 28 CFR §66.20, 29 CFR §97.20, and 45 CFR §92.20, as codified by the federal grantor agencies, the County should maintain their financial management system in a manner necessary to comply with federal award requirements. This includes recording transactions and balances in a manner consistent with U.S. generally accepted accounting principles.

05-104

CFDA No.: 93.283 **Centers for Disease Control and Prevention—Investigations and Technical Assistance U.S. Department of Health and Human Services, passed through the Arizona Department of Health Services**

Award Period: April 1, 2002 through March 31, 2007

Award Number: 252039

Questioned Costs: \$27,421

The County had not established adequate policies and procedures to ensure program expenditures and program expenditure reports are properly supported. Specifically, Navajo County is a subrecipient of federal monies passed through the Arizona Department of Health Services (ADHS) on behalf of the Centers for Disease Control and Prevention—Technical Assistance (CDC) program. The ADHS agreement with Navajo County requires the County to seek pre-approval of ADHS for all CDC expenditures and to report monthly to the Department all expenditures of that program. The auditors tested four (September and November 2004, and January and April 2005) of the County's monthly CDC reports submitted to ADHS and found that the County could not provide specific information as to the nature of the "other" expenditures reported nor were they able to provide the auditors with invoices or other documentation supporting the propriety for the use of those monies. In addition, the County could not provide supporting documentation for two purchases of lab supplies and two professional services expenditures. As a result, the two expenditures for lab supplies, the two expenditures for professional services and the expenditures reported as other on the reports tested totaling \$27,421 we reported as a questioned costs.

The County should establish appropriate policies and procedures for preparing and reviewing its monthly expenditure reports to pass-through entities to help ensure costs charged to the program are properly supported. Further, the County should monitor its grant agreements to ensure compliance with all federal and pass-through requirements.

Navajo County  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2005

05-105

CFDA No.: 93.563 **Child Support Enforcement**

**U.S. Department of Health and Human Services, passed through the Arizona Department of Economic Security**

Award Period: October 1, 2003 through September 30, 2005

Award Number: E7204017; E7205017; E7203317

Questioned Costs: None

Title 45 CFR §303.7(b)(2), requires the reference of interstate Title IV-D cases to the responding state's interstate central registry for action within 20 calendar days of determining that the noncustodial parent is in another state. Auditors noted one instance where a noncustodial parent moved from Arizona to New Mexico on October 27, 2003, and the case had not been referred to the responding State's interstate central registry for action. The County has since referred this case to New Mexico.

To help ensure accurate case files, the County should allocate resources to ensure the following:

- Employees should identify and promptly investigate all major status changes as necessary.
- The program administrator should ensure all case files are assigned an appropriate case worker upon being "opened" or "transferred in" to the County.
- The program administrator should perform status updates for all active Navajo County open and transferred in case files to determine the status in the CSE process and to properly monitor any changes in condition or position.

**NAVAJO COUNTY  
CORRECTIVE ACTION PLAN  
YEAR ENDED JUNE 30, 2005**

**Financial Statement Findings**

*05-01 The County should establish procedures to accurately record and report financial information*

The County must issue accurate and timely financial statements to satisfy the audit requirements imposed by federal and state laws and regulations, grant contracts and long-term debt covenants.

**Corrective Action Plan:** Concur. The Navajo County Board of Supervisors and management are committed to allocating the necessary resources to ensure that all financial reports and statements are prepared accurately and timely. By reaching certain milestones the County will issue its audited financial statements and Single Audit reports as follows:

FY 2005-06  
FY 2006-07

April 30, 2008  
December 31, 2008

As of July 1, 2005, the County implemented a new financial management system that will allow the County to more easily obtain accurate and timely financial information. Finally, the County is actively recruiting to fill a key position in the County's Finance Departments to ensure that the necessary internal resources have been committed so that our reporting and accountability requirements have been fully met in a timely and accurate manner.

*05-02 The County should establish controls over capital assets and its health insurance trust fund*

Capital Assets

The County's capital asset policies and procedures should be in compliance with the Uniform Accounting Manual for Arizona Counties (UAMAC), however, the County's procedures were not in compliance.

**Corrective Action Plan:** Concur. The County has performed several key steps to correct this deficiency as noted below.

- We have contracted with an independent consultant for the valuation of the County's land, buildings, and infrastructure. This valuation work is complete including depreciation schedules where applicable.
- A physical inventory of machinery and equipment with a unit cost of \$1,000 or more and useful lives longer than 1 year has been completed by County Finance staff. Our physical inventory also included stewardship items such as information technology equipment with a unit cost less than \$1,000. A physical inventory of all capital assets will be performed biennially.
- The reconciliation of our physical capital asset inventory to the County's financial records was completed by June 30, 2007. A full time employee has been dedicated solely to this reconciliation function to ensure that it is completed accurately and with the time allowed.

#### Health Insurance Trust

The County contracted with an administrator to process and pay all of the Fund's claims; however, it did not ensure that the administrator obtained an internal control audit.

**Corrective Action Plan:** Concur. The County changed third party administrators (TPA) for our Health Insurance Trust on July 1, 2006. The County will ensure that our new TPA has an internal control audit.

#### *05-03 The County should reconcile cash and investment balances in a timely manner*

The Treasurer's Office is responsible for safeguarding and investing public monies for the County and other governmental entities within Navajo County. Since the Treasurer's Office acts as a bank for the County, the Finance Department should reconcile the County's cash and investments to the Treasurer Report each month.

**Corrective Action Plan:** Concur. The County has implemented procedures to ensure that each fund's cash and investment balance are reconciled to the Treasurer's Report within 15 days of month-end.

#### *05-04 Disaster Recovery Plan*

The County's computer systems are vital to the County's daily operations since those systems process, record, and store critical financial information and other important data. Therefore the County should ensure that it can continue to operate in the event of a system or equipment failure by developing and testing a disaster recovery plan.

**Corrective Action Plan:** Concur. The Board of Supervisors formally adopted a Continuity of Operations Plan (COOP) on September 18, 2006, which will be reviewed and updated at least annually. The County will ensure that the COOP disaster recovery includes the following components and procedures.

- A risk analysis identifying critical applications and exposures, and an assessment of the impact to the County.
- Roles and responsibilities of employees assigned to disaster recovery teams, including emergency telephone numbers to reach them.
- Operating procedures.
- Details of off-site storage locations.
- Arrangements for a designated physical facility.
- Arrangements with vendors to support needed hardware and software requirements.
- A list of procedures for processing critical transactions, including forms or other documents to use.

*05-05 The County should submit its Annual Expenditure Limitation Report in a timely manner*

The County is required to submit an Annual Expenditure Limitation report (AELR) to the Auditor General of the State of Arizona (OAG) by October 31, or February 28 if the Auditor General grants an extension.

**Corrective Action Plan:** Concur. The County will implement procedures to ensure the AELR is submitted to the OAG as required by Arizona Revised Statutes §41-1279.07(C). In addition, the County has committed to completing the delinquent AELR reports for submission to the OAG within 30 days after the applicable fiscal years financial statements are issued.

## Federal Award Findings and Questioned Costs

### *05-101 U.S. Department of Health and Human Services – Centers for Disease Control and Prevention—Investigations and Technical Assistance*

Navajo County did not submit its Single Audit Reporting Package within 9 months of the County's fiscal year.

**Corrective Action Plan:** Concur. The County will implement procedures to ensure the Single Audit Reporting Package is submitted to the Arizona OAG within 9 months of the County's fiscal year. By reaching certain milestones the County will issue its delinquent previous fiscal years audited financial statements and Single Audit reports as follows.

FY 2005-06

April 30, 2008

FY 2006-07

December 31, 2008

Contact person: James Menlove, Finance Director  
928-524-4061

### *05-102 U.S. Department of Health and Human Services – Centers for Disease Control and Prevention—Investigations and Technical Assistance*

The County did not enforce its internal control policies and procedures to ensure compliance with the federal equipment and real property management requirements.

**Corrective Action Plan:** Concur. The County has performed several key steps to correct this deficiency as noted below. See also financial statement finding 05-02.

- We have contracted with an independent consultant for the valuation of the County's land, buildings, and infrastructure. This valuation work is complete including depreciation schedules where applicable.
- A physical inventory of machinery and equipment with a unit cost of \$1,000 or more and useful lives longer than 1 year has been completed by County Finance staff. Our physical inventory also included stewardship items such as information technology equipment with a unit cost less than \$1,000. A physical inventory of all capital assets will be performed biennially.
- The reconciliation of our physical capital asset inventory to the County's financial records was completed by June 30, 2007. A full time employee has been dedicated solely to this reconciliation function to ensure that it is completed accurately and with the time allowed.

Full implementation of these policies and procedures occurred before June 30, 2007. Recording of capital assets in the County's financial accounting system was completed prior to June 30, 2007.

Contact person: James Menlove, Finance Director  
928-524-4061

*05-103 U.S. Department of Health and Human Services – Centers for Disease Control and Prevention—Investigations and Technical Assistance*

Navajo County did not maintain its accounting records in a manner consistent with U.S. generally accepted accounting principles.

**Corrective Action Plan:** Concur. The County will implement procedures to ensure compliance with U.S. generally accepted account principles. Specifically we will record year-end accruals by individual fund. This deficiency will be corrected for our FY 2006-07 Single Audit Reporting Package.

Contact person: James Menlove, Finance Director  
928-524-4061

*05-104 U.S. Department of Health and Human Services – Centers for Disease Control and Prevention—Investigation and Technical Assistance*

Navajo County has not established proper preparation, review and monitoring procedures to ensure that pass through agreements are complied with.

**Corrective Action Plan:** Concur. The County will implement policies and procedures for preparing and reviewing its monthly reports to pass through entities. Further, the County will monitor those agreements to ensure compliance with all federal and pass through requirements. This deficiency will be corrected for our FY 2006-07 Single Audit Reporting Package.

Contact person: James Menlove, Finance Director  
928-524-4061

*05-105 U.S. Department of Health and Human Services – Child Support Enforcement*

Navajo County lacked effective internal controls over their monitoring and reviewing policies and procedures since the County did not regulate nor update their case files in a timely manner. Consequently, case file information was outdated and inaccurate.

**Corrective Action Plan:** Concur. To help ensure accurate case files, the County will allocate resources to ensure the following:

- Employees will identify and promptly investigate all major status changes as necessary.
- The program administrator will ensure all case files are assigned an appropriate case worker upon being “opened” or “transferred in” to the County
- The program administrator will perform status updates for all active Navajo County “opened” and “transferred in” case files to determine the status in the CSE process and to properly monitor any changes in condition or position.
- The Grant Administrator will properly monitor and review all status and expense reports to verify their accuracy.

This deficiency will be corrected for our FY 2006-07 Single Audit Reporting Package.

Contact person: James Menlove, Finance Director  
928-524-4061

# Navajo County Board of Supervisors

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November 30, 2007

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Debra K. Davenport  
Arizona Auditor General  
2910 N. 44<sup>th</sup> Street, Suite #410  
Phoenix, AZ 85018

Dear Ms. Davenport

The accompanying Summary Schedule of Prior Audit Findings has been prepared as required by the U.S. Office of Management and Budget Circular A-133. Specifically, we are reporting the status of audit findings included in the prior year's audit Schedule of Findings and Questions Costs related to federal awards. This schedule also includes audit findings reported in the prior year's audit Summary Schedule of Prior Audit Findings that have not been corrected.

Regards,

James Menlove  
Finance Director

District I  
Percy Deal

District II  
Jesse Thompson

District III  
J.R. DeSpain

District IV  
David Tenney

District V  
Jerry Brownlow

County Manager  
James G. Jayne

Finance Director  
James Menlove

Human Resources  
Gail Calisen

**Navajo County**  
Summary Schedule of Prior Audit Findings  
Year Ended June 30, 2005

**Status of Federal Award Findings and Questioned Costs**

- 03-103** 10.557 Special Supplemental Nutrition Program for Woman, Infants, and Children  
10.904 Watershed Protection and Flood Prevention  
14.228 Community Development Block Grant/State's Program  
14.239 HOME Investments Partnerships Program  
**Workforce Investment Act Cluster:**  
17.258 WIA Adult Program  
17.259 WIA Youth Activities  
17.260 Dislocated Workers  
83.554 Public Assistant Grant  
83.566 Fire Management Assistance Grant  
93.563 Child Support Enforcement

**Condition:** As discussed in fiscal year 2002-03 financial statement finding 03-03, the County does not maintain detailed property records of capital assets purchased with federal financial assistance. In addition, capital assets are not inventoried on a biennial basis.

**Status:** Not corrected. The County now maintains detailed property records of all capital assets and has performed a physical inventory of all capital assets. Additionally, we have contracted with a company to perform a valuation of all county owned land, buildings and infrastructure. This asset inventory and valuation are now complete. We expect this finding to be cleared during our FY2006-07 audit.

- 03-104** 10.557 Special Supplemental Nutrition Program for Women, Infants, and Children  
10.904 Watershed Protection and Flood Prevention  
14.228 Community Development Block Grant/State's Program  
14.239 HOME Investments Partnerships Program  
**Workforce Investment Act Cluster:**  
17.258 WIA Adult Program  
17.259 WIA Youth Activities  
17.260 Dislocated Workers  
83.554 Public Assistant Grant  
83.566 Fire Management Assistance Grant  
93.563 Child Support Enforcement

**Condition:** As discussed in fiscal year 2002-03 financial statement finding 03-05 and 03-06, the County did not maintain its accounting records in a manner consistent with U.S. generally accepted accounting principles. Accordingly, errors in balances that affect the federal award programs may exist and not be corrected by the County in a timely manner.

**Status:** Not corrected. This finding primarily relates to properly maintaining beginning fund balances. We expect this finding to be corrected during our FY2006-07 audit.

**03-105** 10.557 Special Supplemental Nutrition Program for Woman, Infants, and Children

10.904 Watershed Protection and Flood Prevention

14.228 Community Development Block Grant/State's Program

14.239 HOME Investments Partnerships Program

**Workforce Investment Act Cluster:**

17.258 WIA Adult Program

17.259 WIA Youth Activities

17.260 Dislocated Workers

83.554 Public Assistant Grant

83.566 Fire Management Assistance Grant

93.563 Child Support Enforcement

**Condition:** The County did not complete and submit its single audit reporting package within nine months of the County's fiscal year, which would have been March 31, 2004 as required of organizations subject to the audit requirements OMB Circular A-122, *Audits of States, Local Governments, and Nonprofit Organizations*. The County is subject to this requirement as a recipient of federal funding.

**Status:** Not corrected. The County will implement procedures to ensure that all required financial reports and audits are completed on a timely basis and in accordance with other federal and state requirements.

**04-101** 10.557 Special Supplemental Nutrition Program for Women, Infants, and Children

15.226 Payments in Lieu of Taxes

16.579 Byrne Formula Grant Program

**Workforce Investment Act Cluster:**

17.258 WIA Adult Program

17.259 WIA Youth Activities

39.011 Election Reform Payments

93.563 Child Support Enforcement

97.004 State Domestic Preparedness Equipment Support Program

**Condition:** The County did not complete and submit its single audit reporting package within nine months of the County's fiscal year, which would have been March 31, 2005, as required of organizations subject to the audit requirements OMB Circular A-122, *Audits of States, Local Governments, and Nonprofit Organizations*. The County is subject to this requirement as a recipient of federal funding.

**Status:** Not corrected. The County will implement procedures to ensure that all required financial reports and audits are completed on a timely basis and in accordance with other federal and state requirements.

**04-102** Special Supplemental Nutrition Program for Women, Infants, and Children  
CFDA No.: 10.557  
Award Period: October 1, 2002 through September 30, 2007  
Award Number: HG361082  
Questioned Costs: \$2,830

**Condition:** The County did not adhere to its internal control policies and procedures to make eligibility determinations for Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) recipients and to retain all required data within the recipients' case files to ensure compliance with eligibility requirements. To comply with 7 Code of Federal Regulations (CFR) §246.7, the County should document its recipients' eligibility and retain documentation to support eligibility determinations in the case files.

**Status:** Not corrected. This deficiency is largely due to (1) turnover of personnel within the Health Department, WIC program and (2) the lack of timeliness for having the County's Single Audit performed. The County's Health Department is providing additional training to WIC personnel to help ensure all required documentation is properly maintain. The County will implement procedures to ensure that all required financial reports and audits are completed on a timely basis and in accordance with other federal and state requirements.

**04-103** 10.557 Special Supplemental Nutrition Program for Women, Infants, and Children  
Workforce Investment Act Cluster:  
17.258 WIA Adult Program  
17.259 WIA Youth Activities  
39.011 Election Reform Payments  
97.004 State Domestic Preparedness Equipment Support Program

**Condition:** The County did not enforce its internal control policies and procedures to ensure compliance with the federal equipment and real property management requirements. In addition, a physical inventory was not performed for fiscal year 2004 or the prior two fiscal years. Further, adequate internal controls including management oversight did not exist. Consequently, the County could not provide auditors with a complete listing of capital assets purchased with

current and prior year federal monies by program. To comply with 7 CFR §3016.32, 29 CFR §97.32, 41 CFR §105-71.132, and 28 CFR §66-32 the County should ensure that all equipment with an acquisition cost of \$5,0000 or more and a useful life of more than 1 year is capitalized and included on the County's capital assets listing. In addition, the County should update the listing annually, perform a physical inventory of federal equipment at least once every 2 years to ensure its accuracy and completeness, and establish oversight over capital assets.

**Status:** Not corrected. The County now maintains detailed property records of all capital assets and has performed a physical inventory of all capital assets. Additionally, we have contracted with a company to perform a valuation of all county owned land, buildings and infrastructure. This asset inventory and valuation are now complete. We expect this finding to be cleared during our FY2006-07 audit.

- 04-104** 10.557 Special Supplemental Nutrition Program for Women, Infants, and Children  
15.226 Payments in Lieu of Taxes  
16.579 Byrne Formula Grant Program  
Workforce Investment Act Cluster:  
    17.258 WIA Adult Program  
    17.259 WIA Youth Activities  
39.011 Election Reform Payments  
93.563 Child Support Enforcement  
97.004 State Domestic Preparedness Equipment Support Program

**Condition:** As discussed in prior year audit findings the County did not maintain its accounting records in a manner consistent with U.S. generally accepted accounting principles. Accordingly, errors in balances that affect the federal award programs may exist and not be corrected by the County in a timely manner.

**Status:** Not corrected. This finding relates to properly maintaining beginning fund balances. We expect this finding to be corrected during our FY2006-07 audit.