



REPORT HIGHLIGHTS SINGLE AUDIT

Subject

Navajo County issues financial statements and a schedule of expenditures of federal awards annually. The County is responsible for preparing its statements and schedule, maintaining strong internal controls, demonstrating accountability for its use of public monies, and complying with federal program requirements. As the auditors, our job is to determine whether the County has met its responsibilities.

Our Conclusion

The information in the County's financial statements is fairly stated in all material respects and the Schedule of Expenditures of Federal Awards (SEFA) is fairly stated in all material respects in relation to these financial statements. A summary of this information is presented on page 2. However, auditors identified internal control weaknesses and noncompliance with financial reporting and federal program requirements, the most significant of which are summarized on this page.



2010

Year Ended June 30, 2010

Summary of Audit Findings

For the financial statement audit, auditors identified ten internal control weaknesses over financial reporting, including five material weaknesses. For the federal compliance audit, auditors tested nine federal programs under the guidelines established by the Single Audit Act and found that the County did not always have adequate internal controls and did not always comply with certain federal program requirements. The Schedule of Findings and Questioned Costs presented in the Single Audit Reporting Package includes further details and auditor recommendations to help correct the deficiencies noted. Some of the material weaknesses over financial reporting and instances of material noncompliance with federal program requirements are summarized below.

Financial Statement Findings—

Accurate financial reporting—The County issued a Comprehensive Annual Financial Report (CAFR) for the first time, but did not issue its Single Audit Reporting Package, including its CAFR by the March 31, 2011, federal reporting deadline because of numerous compilation errors in the schedules used to prepare the financial statements and notes. For example, there were errors related to the activity of the County Superintendent of Schools Office and the internal service fund, and in the balances and disclosures for capital assets and cash and investments. The County corrected its financial statements for all significant errors.

Computer System Access and Change Controls—The County lacked adequate internal controls over its general ledger and property tax systems to ensure that users were granted the appropriate access rights for their job responsibilities and that all changes made to the systems and data were authorized.

Federal Award Findings—

ARRA—Recovery Act—Edward Byrne Memorial Justice Assistance

Grant Program—The County reimbursed four local governmental entities \$160,552 for services without having written agreements and without verifying that the entities were not excluded from receiving federal awards.

WIA Cluster—The County did not have procedures to ensure that reimbursement requests and financial reports were submitted to the grantor in a timely manner.

ARRA—Energy Efficiency and Conservation Block Grant Program—The County did not establish adequate procedures to ensure that financial, performance, and ARRA 1512 reports were accurate.

Child Support Enforcement—The County did not monitor its matching expenditures for the year, and lacked sufficient documentation to support \$101,672 of its matching expenditures and demonstrate that it had met the program's matching requirements. Also, the County received \$147,764 for indirect costs from its pass-through grantor without an approved indirect cost allocation rate.

Summary of Financial Information

Navajo County combines and reports its financial balances and activities in two basic financial statements that provide readers with a broad overview of the County's finances in a manner similar to a private sector business. A condensed summary of these statements and the County's Schedule of Expenditures of Federal Awards follows.

Statement of Net Assets—This statement reports all of Navajo County's assets, liabilities, and net assets. Net assets, the difference between assets and liabilities, are reported in three major categories:

- Invested in capital assets, net of related debt, shows the equity in land, buildings, equipment, and infrastructure.
- Restricted net assets shows the net resources that must be used for restricted purposes as specified by external parties.
- Unrestricted net assets shows the net resources available for general operations.

Statement of Activities—This statement shows how net assets changed during the year. Revenues are reported as either program revenues (those generated by or dedicated to a specific purpose) or general revenues (taxes and revenues raised for general purposes). The County's net assets decreased by \$2.5 million during the fiscal year.

Schedule of Expenditures of Federal Awards—The County's expenses included \$7.6 million of federal awards expended. This is a \$676,000 increase from the prior year. The County's federal awards included \$1.3 million in American Reinvestment and Recovery Act (ARRA) monies, the majority of which was received from the U.S. Department of Justice for law enforcement, the U.S. Department of Education for county schools, and the U.S. Department of Energy for energy efficiency and conservation projects.

Condensed Statement of Net Assets Governmental Activities June 30, 2010 (In Thousands)	
Assets	
Current and other assets	\$ 45,374
Capital assets, net	78,656
Total assets	<u>124,030</u>
Liabilities	
Current liabilities	3,411
Noncurrent liabilities	15,339
Total liabilities	<u>18,750</u>
Net assets	
Invested in capital assets, net of related debt	66,038
Restricted	23,035
Unrestricted	16,207
Total net assets	<u>\$105,280</u>

Condensed Statement of Activities Governmental Activities Year Ended June 30, 2010 (In Thousands)	
Program revenues	
Charges for services	\$ 4,304
Operating grants and contributions	13,540
Capital grants and contributions	15,638
Total program revenues	<u>33,482</u>
General revenues	
Property taxes	12,495
Sales tax	16,209
Other	6,233
Total general revenues	<u>34,937</u>
Total revenues	<u>68,419</u>
Expenses	
Decrease in net assets	(2,496)
Net assets—beginning	107,776
Net assets—ending	<u>\$105,280</u>

Condensed Schedule of Expenditures of Federal Awards by Grantor Agency Year Ended June 30, 2010 (In Thousands)	
U.S. Department of Agriculture	\$2,013
U.S. Department of Health and Human Services	1,190
U.S. Department of the Interior	956
U.S. Department of Justice	937
U.S. Department of Education	614
U.S. Department of Homeland Security	583
U.S. Department of Labor	422

TO OBTAIN
MORE INFORMATION

The County's Single
Audit Report
is available at:
www.azauditor.gov

Contact person:
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Year Ended June 30, 2010