



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Report on Internal Control and Compliance

Navajo County

Year Ended June 30, 2012



Debra K. Davenport
Auditor General

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Navajo County
Report on Internal Control and Compliance
Year Ended June 30, 2012

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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
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 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, 2012, which collectively comprise the County's basic financial statements, and have issued our report thereon dated December 20, 2012. We conducted our audit 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.

Internal Control over Financial Reporting

The County's management is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the County's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and therefore, there can be no assurances that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Recommendations, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

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 12-01 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 deficiency described in the accompanying Schedule of Findings and Recommendations as item 12-02 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Navajo County's responses to the findings identified in our audit are presented on pages 5 through 6. We did not audit the County's responses, and accordingly, we express no opinion on them.

This report is intended solely for the information and use of the members of the Arizona State Legislature, the Board of Supervisors, management, others within the County, 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.

Jay Zsorey, CPA
Financial Audit Director

December 20, 2012

Navajo County
Schedule of Findings and Recommendations
Year Ended June 30, 2012

12-01

The County should strengthen controls over granting access and making changes to its major information systems

Criteria: The County's major systems include its general ledger system, the source of the financial statements, and other systems used by the County School Superintendent's and County Treasurer's Offices. Therefore, the County should have effective system access controls to prevent and detect unauthorized use, damage, loss, or modification of programs and data, including sensitive and confidential information. In addition, the County should have policies and procedures in place to ensure that the integrity of its systems' information is protected against unauthorized system and program changes.

Condition and context: The County did not adequately control logical access to its major information systems during the year. Specifically, there were no formal policies and procedures for granting system access and for ensuring that the access granted was compatible with employees' job responsibilities. In addition, the County did not have procedures in place for monitoring the activities of those users with elevated system access and securing user passwords. Finally, the County did not ensure that changes to information systems, programs, and data were authorized and subject to independent review and approval prior to being implemented.

Effect: There is an increased risk of theft, manipulation, or misuse of financial, sensitive, or confidential information by unauthorized users or by users whose access was not adequately controlled, restricted, and monitored. In addition, without strong change management controls, there is an increased risk of unauthorized changes to systems and programs and the data they contain.

Cause: The County has developed policies for granting access and making changes for its major information systems; however, they were not formally adopted until June 2012, and specific procedures to meet the policies' control objectives have not been developed.

Recommendation: To help prevent and detect unauthorized access to its systems and help ensure that changes are authorized, the County should establish policies and procedures that include the following:

- Periodically perform a comprehensive review of the access granted to users to ensure that system access is granted to only those individuals who need such access and that the access granted is compatible with job responsibilities.
- Maintain documentation of all system access requests. Requests for system access should be approved by the employee's supervisor.
- Monitor the activity of those users with elevated access.
- Require user passwords to be changed on a regular basis and composed of specified lengths and characters.
- Require that all requests for system and program changes be authorized, reviewed, and approved prior to being put into use.

Navajo County
Schedule of Findings and Recommendations
Year Ended June 30, 2012

- Separate the responsibilities for developing and implementing system and program changes from the responsibilities of authorizing, testing, and approving the changes. Maintain documentation of test results and approvals.

This finding is similar to a prior-year finding.

12-02

The County should have a complete and tested disaster recovery plan for its major information systems

Criteria: To ensure the continuity of operations and that data is not lost in the event of a system or equipment failure or other interruption, the County should have a complete and tested disaster recovery plan for its major information systems.

Condition and context: The County's disaster recovery plan has not been updated or tested to address detailed procedures for restoring the system from backup files at the offsite storage locations, or to include a current emergency contact listing. Further, the County has not performed a risk analysis to identify and prioritize critical applications.

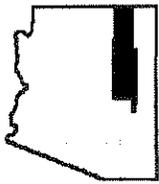
Effect: The County may not be able to process and record transactions in the event of a system or equipment failure or interruption.

Cause: The County has an offsite backup facility that may be used in the event of a disaster. However, the County has not updated its disaster recovery and business continuity plan to address missing elements or tested the reliability of the offsite backup facility and files.

Recommendation: The County should ensure that it has an updated disaster recovery plan and perform the following:

- Perform a risk analysis identifying and prioritizing critical applications and include a listing of the offsite storage locations and equipment.
- Maintain a current listing of employees assigned to disaster teams, including emergency telephone numbers, and communicate and distribute copies of the disaster recovery plan to all affected employees, ensuring a copy of the plan is kept offsite.
- Establish procedures for processing critical transactions, including forms or other documents to use, and safeguarding and recovering data stored on backup files.
- Test the plan annually and maintain documentation of testing procedures and results, including resolutions to problems encountered or failed tests.

This finding is similar to a prior-year finding.



NAVAJO COUNTY

Finance Department

James Menlove • Finance Director

Mary Springer • Deputy Finance Director

"Proudly Serving, Continuously Improving"

February 5, 2013

Debbie Davenport
Auditor General
2910 North 44th Street, Suite 410
Phoenix, AZ 85018

Dear Ms. Davenport:

The accompanying Corrective Action Plan has been prepared as required by U.S. Office of Management and Budget Circular A-133. Specifically, we are providing you with the name of the contact person responsible for corrective action, the corrective action planned, and the anticipated completion date for each audit finding included in the current year's Schedule of Findings and Recommendations.

Sincerely,

W. James Menlove, CPA
Finance Director

Navajo County
Corrective Action Plan
Year Ended June 30, 2012

12-01

The County should strengthen controls over granting access and making changes to its major information systems

Contact person: James Menlove, Finance Director, 928-524-4343
Anticipated Completion Date: June 30, 2013

Corrective Action Plan: Concur. To help prevent and detect unauthorized access to our systems, the County will establish policies and procedures that include the following:

- Periodically perform a comprehensive review of the access granted to users to ensure that system access is granted to only those individuals who need such access and that the access granted is compatible with job responsibilities.
- Maintain documentation of all system access requests. Requests for system access should be approved by the employee's supervisor.
- Monitor the activity of those users with elevated access.
- Require user passwords to be changed on a regular basis and composed of specified lengths and characters.
- Require that all requests for system and program changes be authorized, reviewed, and approved prior to being put into use.
- Separate the responsibilities for developing and implementing system and program changes from the responsibilities of authorizing, testing, and approving the changes, and maintain documentation of the results of those tests and approvals.

12-02

The County should have a complete and tested disaster recovery plan for its major information systems

Contact person: James Menlove, Finance Director, 928-524-4343
Anticipated Completion Date: June 30, 2013

Corrective Action Plan: Concur. The County will ensure that it has an updated disaster recovery plan and perform the following:

- Perform a risk analysis identifying and prioritizing critical applications and include a listing of the offsite storage locations and equipment.
- Maintain a current listing of employees assigned to disaster teams, including emergency telephone numbers, and communicate and distribute copies of the disaster recovery plan to all affected employees, ensuring a copy of the plan is kept offsite.
- Establish procedures for processing critical transactions, including forms or other documents to use, and safeguarding and recovering data stored on backup files.
- Test the plan annually and maintain documentation of testing procedures and results, including resolutions to problems encountered or failed tests.

