

## Graham County

**CONCLUSION:** Graham County is responsible for preparing its annual financial report and a federal expenditure schedule, maintaining effective internal controls, and being accountable for its use of public monies. Our Office is responsible for auditing the County's financial statements, schedule, and major federal programs annually. A summary of the County's financial statements and federal expenditure schedule is presented below.

Based on our audits, we issued opinions on the County's financial statements and federal expenditure schedule and issued reports on internal control and on compliance over financial reporting and major federal programs. The information in the County's fiscal year 2017 financial statements and schedule is reliable. Our Office identified internal control weaknesses over financial reporting. The most significant findings are summarized on the next page.

### Condensed financial information

**Statement of net position**—This statement reports all of the County's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Net position is reported in three major categories:

- **Net investment in capital assets**—shows the equity in land, buildings, equipment, and infrastructure.
- **Restricted**—shows the resources that must be used for restricted purposes as specified by donors and other external entities, such as the federal government.
- **Unrestricted**—shows the remaining net position balance after allocating the net investment in capital assets and restricted balances.

**Statement of activities**—This statement reports all revenues, expenses, and other changes in net position. Revenues include program revenues—those generated by or dedicated to a specific program—and general revenues, such as taxes raised for general purposes. Net position decreased by nearly \$1.7 million, or 8.1 percent, in fiscal year 2017.

**Federal expenditure schedule**—During fiscal year 2017, the County expended approximately \$4.6 million in federal awards. The County's federal award expenditures decreased by \$415,000, or 8.2 percent, compared to fiscal year 2016.

#### Statement of net position

As of June 30, 2017 (In thousands)

<b>Assets and deferred outflows</b>	
Current and other assets	\$ 22,449
Capital assets, net of depreciation	52,688
Deferred outflows of resources	7,100
<b>Total assets and deferred outflows</b>	<b>82,237</b>
<b>Liabilities and deferred inflows</b>	
Current liabilities	1,537
Noncurrent liabilities:	
Net pension liability	29,308
Other	29,944
Deferred inflows of resources	2,590
<b>Total liabilities and deferred inflows</b>	<b>63,379</b>
<b>Net position</b>	
Net investment in capital assets	51,866
Restricted	10,152
Unrestricted	(43,160)
<b>Total net position</b>	<b>\$ 18,858</b>

#### Statement of activities

Year ended June 30, 2017 (In thousands)

<b>Program revenues</b>	
Charges for services	\$ 3,999
Operating grants and contributions	8,858
Capital grants and contributions	435
<b>General revenues</b>	
Property taxes	4,841
State shared revenues	6,173
Other	7,811
<b>Total revenues</b>	<b>32,117</b>
<b>Expenses</b>	
General government	10,873
Public safety	10,961
Highways and streets	3,819
Other	8,119
<b>Total expenses</b>	<b>33,772</b>
Decrease in net position	(1,655)
Net position—beginning	20,513
<b>Net position—ending</b>	<b>\$18,858</b>

#### Federal expenditure schedule

Year ended June 30, 2017 (In thousands)

<b>Federal grantor agency</b>	
Department of Interior	\$2,867
Department of Education	570
Department of Health and Human Services	414
Department of Agriculture	281
Department of Homeland Security	148
Other	341
<b>Total federal expenditures</b>	<b>\$4,621</b>

# Understanding the County's financial report

Understanding how to extract information from the County's financial report is important when reviewing financial performance and evaluating future financial decisions. As described below, our Office's financial report user guide and internal control and compliance reports user guide, available at [azauditor.gov](http://azauditor.gov), help users identify and understand important and useful information in the County's financial report and in our reports on internal control and on compliance over financial reporting and federal programs. Specifically:

- **Financial report user guide**—describes key financial information contained in county financial reports and indicates where to find this information. Key components in a financial report include the independent auditors' report, management's discussion and analysis, government-wide financial statements, fund financial statements, notes to financial statements, and other required supplementary information.
- **Internal control and compliance reports user guide**—describes our internal control and compliance reports over financial reporting and federal programs. Those reports, which are included in our single audit report, provide information about whether the County has effective internal control procedures and whether it has complied with certain financial- and federal-related laws and regulations.

## Summary of audit findings and recommendations

For the financial statement audit, we found internal control weaknesses over the County's financial reporting related to its financial statement preparation and information technology (IT) resources. For the federal compliance audit, we tested one federal program under the major program guidelines established by the Single Audit Act and reported no weaknesses in internal control or instances of noncompliance over that federal program. Our single audit report includes a schedule of findings and questioned costs that contains further details to help the County correct the internal control weaknesses. The most significant findings and recommendations are summarized below.

**County should improve internal controls over its IT resources**—The County's IT resources, which include its systems, network, infrastructure, and data, are vital to its daily operations. However, the County did not have adequate policies and procedures over its IT resources to effectively identify, analyze, and respond to risks and protect sensitive information; sufficiently manage access, including preventing, detecting, and responding to unauthorized or inappropriate access or use, manipulation, damage, or loss; and ensure changes to its IT resources do not adversely affect security or operations.

### Recommendations

To help identify, analyze, and respond to risks and protect sensitive information; prevent, detect, and respond to unauthorized or inappropriate access or use, manipulation, damage, or loss to its IT resources; and ensure changes to its IT resources do not adversely affect security or operations, the County needs to update and implement policies and procedures over its IT resources. The most significant recommendations are described below. Our report provides guidance and best practices to help the County implement these recommendations.

- **County-wide risk-assessment process**—The risk-assessment process should include the identification of risk scenarios, including the scenario's likelihood and magnitude; documentation and dissemination of results; review by appropriate personnel; and prioritization of risks identified for remediation.
- **Sensitive information**—Security measures should be developed to identify, classify, and inventory sensitive information and protect it.
- **User access**—A periodic, comprehensive review should be performed of all existing employee accounts to help ensure that network and system access granted is needed and compatible with employee job responsibilities.
- **Logging and log monitoring**—Key user activity should be logged and monitored, particularly for users with elevated access privileges.
- **Change management processes**—A change management process should be established for each type of change, and all changes should be documented, authorized, reviewed, tested, and approved.
- **IT standards and best practices**—IT policies and procedures should be reviewed against current IT standards and best practices, updated where needed, and implemented county-wide, as appropriate.