



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Single Audit

Navajo County

Year Ended June 30, 2006



Debra K. Davenport
Auditor General

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Navajo County
Single Audit Reporting Package
Year Ended June 30, 2006

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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, 2006, which collectively comprise the County's basic financial statements, and have issued our report thereon dated April 20, 2008. 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 initiate, record, process, 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 06-01 through 06-06.

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 06-01 through 06-06 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 06-01 and 06-06.

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

April 20, 2008



**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, 2006. 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 of 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 Number)	Compliance Requirement	Finding Number
Special Supplemental Nutrition Program for Women, Infants, and Children (10.557)	Single audit report submission, Eligibility, Equipment and real property management	06-101, 06-102, 06-103, 06-104, 06-105

Program Title (CFDA Number)	Compliance Requirement	Finding Number
Emergency Watershed Protection Program (10.923)	Single audit report submission	06-101, 06-102, 06-103
Community Development Block Grants/State's Program (14.228)	Single audit report submission, Equipment and real property management, Procurement, Special tests and provisions	06-101, 06-102, 06-103, 06-104, 06-108, 06-109
Payments in Lieu of Taxes (15.226)	Single audit report submission	06-101, 06-102, 06-103
Centers for Disease Control and Prevention— Investigations and Technical Assistance (93.283)	Single audit report submission, Activities allowed or unallowed, Allowable costs/cost principles, Equipment and real property management	06-101, 06-102, 06-103, 06-104, 06-110
Child Support Enforcement (93.563)	Single audit report submission, Equipment and real property management	06-101, 06-102, 06-103, 06-104
Homeland Security Grant Program Cluster (97.004 and 97.067)	Single audit report submission, Equipment and real property management, Procurement	06-101, 06-102, 06-103, 06-104, 06-109

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, 2006. The results of our auditing procedures also disclosed other instances of noncompliance that are required to be reported in accordance with OMB Circular A-133 and are described in the accompanying Schedule of Findings and Questioned Costs as items 06-106, 06-107, 06-111, and 06-112.

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 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 06-101 through 06-112.

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 06-101, 06-102, 06-103, 06-104, 06-105, 06-107, 06-108, 06-109, and 06-110 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, 2006, which collectively comprise the County's basic financial statements, and have issued our report thereon dated April 20, 2008. 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

June 30, 2008, except for the Schedule
of Expenditures of Federal Awards, for which
the date is April 20, 2008

Navajo County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2006

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Grantor's Number	Expenditures
U.S. Department of Agriculture			
Passed through the Arizona Department of Health Services			
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	HG361082	\$ 271,424
State Administrative Matching Grants for Food Stamp Program	10.561	HG661039	74,962
Passed through the Arizona State Treasurer			
Schools and Roads—Grants to States	10.665	None	25,000
Emergency Watershed Protection Program	10.923		<u>438,389</u>
Total U.S. Department of Agriculture			<u>809,775</u>
U.S. Department of Housing and Urban Development			
Passed through the Arizona Department of Housing			
Community Development Block Grants/State's Program	14.228	142-04	457,634
Home Investment Partnership Program	14.239	307-04	<u>41,405</u>
Total U.S. Department of Housing and Urban Development			<u>499,039</u>
U.S. Department of the Interior			
Payments in Lieu of Taxes			
National Fire Plan—Wildland Urban Interface Community	15.226		744,028
Fire Assistance	15.228		<u>10,180</u>
Total U.S. Department of the Interior			<u>754,208</u>
U.S. Department of Justice			
Federal Bureau of Investigations	16.unknown		4,351
Southwest Border Prosecution Initiative	16.unknown		78,909
Federal Equitable Sharing Agreement	16.unknown		52,614
Domestic Cannabis Eradication/Suppression Program	16.unknown		5,455
Passed through the Arizona Criminal Justice Commission			
Crime Victim Compensation	16.576	VC-06-058	558
Edward Byrne Memorial Formula Grant Program	16.579	AC-180-06, PC-140-06, JAG-06-159	<u>177,826</u>
Total U.S. Department of Justice			<u>319,713</u>
U.S. Department of Labor			
Passed through the Arizona Department of Economic Security			
Workforce Investment Act (WIA) Cluster:			
WIA Adult Program	17.258	E5705009, E5706009	113,654
WIA Youth Activities	17.259	E5705009, E5706009	<u>98,554</u>
Total U.S. Department of Labor			<u>212,208</u>
U.S. Department of Transportation			
Passed through the Arizona Department of Transportation			
Reservation Roadway Maintenance	20.unknown	KR06-0664TRN, JPA-06-017T	10,742
Rehabilitation of Chevelon Creek Bridge	20.unknown	KR05-0993TRN, JPA-05-041	<u>56,580</u>
Total U.S. Department of Transportation			<u>67,322</u>

(Continued)

See accompanying notes to schedule.

Navajo County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2006
(Continued)

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Grantor's Number	Expenditures
U.S. Department of Education			
Passed through the Arizona State Supreme Court			
Title I Program for Neglected and Delinquent Children	84.013	26682	\$ 26,912
Special Education Cluster:			
Special Education—Grants to States	84.027	26682	<u>14,367</u>
Total Special Education Cluster			<u>14,367</u>
Safe and Drug-Free Schools and Communities—State Grants	84.186	26682	119
State Grants for Innovative Programs	84.298	26682	658
Improving Teacher Quality State Grants	84.367	26682	10,692
Passed through the Arizona State Department of Education			
Special Education Cluster:			
Special Education—Grants to States	84.027	H027A0030007, H027A040007 H027A010007, H027A050007	26,787
Special Education—Preschool Grants	84.173	H173A040003	<u>27</u>
Total Special Education Cluster			<u>26,814</u>
Improvement of Education	84.215	U215K050465	83,339
Reading First State Grants	84.357	S357A020003	63,971
State Grants for Innovative Programs	84.298	S298A020003	56
Improving Teacher Quality State Grants	84.367	S281A030003, S367A040049	64,114
Passed through Cochise County			
Education Technology State Grants—Enhancing Education through Technology	84.318	S318X040005	<u>60,523</u>
Total U.S. Department of Education			<u>351,565</u>
U.S. Department of Health and Human Services			
Passed through the Arizona Department of Health Services			
Immunization Grants	93.268	HG352200	32,321
Centers for Disease Control and Prevention—Investigations and Technical Assistance	93.283	252039	466,759
HIV Prevention Activities—Health Department Based	93.940	HG352259	11,619
Preventive Health Services—Sexually Transmitted Diseases Control Grants	93.977	HG354250	5,331
Preventive Health and Health Services Block Grant	93.991	HG354183	36,475
Maternal and Child Health Services Block Grant to the States	93.994	HG361315	75,618
Passed through the Arizona Department of Economic Security			
Child Support Enforcement	93.563	E7204017, E7205017, E7206017	<u>728,056</u>
Total U.S. Department of Health and Human Services			<u>1,356,179</u>
U.S. Department of Homeland Security			
Passed through the Arizona Department of Emergency and Military Affairs			
Homeland Security Grant Program Cluster:			
State Domestic Preparedness Equipment Support Program	97.004	2003-TE-CX-0196, 2004-GE-T4-0051	766,230
Homeland Security Grant Program	97.067	2005-GE-T5-0030	<u>156,712</u>
Total Homeland Security Grant Program Cluster			<u>922,942</u>
Total U.S. Department of Homeland Security			<u>922,942</u>
Total Expenditures of Federal Awards			<u>\$ 5,292,951</u>

See accompanying notes to schedule.

Navajo County
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2006

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 2006 *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, 2006.

Navajo County
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2006

Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Disclaimer of opinion on the basic financial statements taken as a whole

	Yes	No
Material weaknesses identified in internal control over financial reporting?	<u>X</u>	___
Reportable conditions identified not considered to be material weaknesses?	___	<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 conditions identified not considered to be material weaknesses?	<u>X</u>	___
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])?	<u>X</u>	___

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
10.923	Emergency Watershed Protection Program
14.228	Community Development Block Grants/State's Program
15.226	Payments in Lieu of Taxes
93.283	Centers for Disease Control and Prevention—Investigations and Technical Assistance
93.563	Child Support Enforcement
97.004/97.067	Homeland Security Grant Program Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000	
Auditee qualified as low-risk auditee?	___	<u>X</u>

Other Matters

Auditee's Summary Schedule of Prior Audit Findings required to be reported in accordance with Circular A-133 (section .315[b])?	<u>X</u>	___
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Navajo County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2006

Financial Statement Findings

06-01

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 22 months after year-end to issue its financial statements. Further, the County's financial statements were not accurate and prepared in accordance with generally accepted accounting principles. In addition, the County requested us not to audit its capital assets or employee benefits health insurance trust fund because the County did not have established controls for reporting these balances and transactions. See finding 06-02 for detailed recommendations regarding capital assets and the employee benefits health insurance trust fund.

Overall, the County lacked effective internal controls over the entire financial reporting process. For example, 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, the County was 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. This deficiency is considered a material internal control weakness over financial reporting and resulted in disclaimers of opinions on the County's financial statements.

These problems delayed the issuance of the County's Single Audit Reporting Package for the year ended June 30, 2006. The federal reporting deadline for the County's Single Audit Reporting Package was March 31, 2007; however, the County did not issue its Single Audit Reporting Package until July 2008.

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.
- Establish and follow written procedures for compiling the information and preparing the financial statements and accompanying notes, assign employees, and determine completion dates. These procedures should include detailed instructions for obtaining information from the accounting system, as well as obtaining information not readily available from the accounting system but necessary for financial statement preparation.

Navajo County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2006

- Require an employee not responsible for financial statements preparation to review them and the accompanying notes. This reviewer should ensure that the amounts are accurate and properly supported and the financial statements are presented in accordance with generally accepted accounting principles.
- Ensure that all federal award expenditures are separately identified and accurately recorded on the accounting system.

A similar recommendation was provided to the County in the prior 3 years.

06-02

The County should establish controls over capital assets and its employee benefits health insurance trust fund

Capital Assets

Over 63 percent of the County's total assets consist of capital assets. Therefore, it is essential that the County accurately report these assets to its lenders, the public, and other interested parties. However, the County lacked internal control policies and procedures for ensuring that its capital assets were properly valued, supported by historical records, and accurately reported in the financial statements in accordance with generally accepted accounting principles. Existing county capital assets records did not include sufficient documentation to support the amounts reported for capital assets, accumulated depreciation, and depreciation expense. As a result, the County requested us not to audit its capital assets balances. This deficiency is considered a material internal control weakness over financial reporting and resulted in disclaimers of opinions on the County's financial statements.

To help ensure that the County accurately reports its capital assets, the County should implement the following procedures:

- Maintain a capital assets list and records supporting the valuation of all capital assets. The list should include the location, tag or other identifying number, description, method of acquisition, source of funding, acquisition date, purchase document number, and historical or estimated historical cost, if purchased, or the estimated fair market value at date of donation, if donated, for each capital asset. In addition, the list should also separately identify those capital assets purchased with federal award monies.
- Perform a physical inventory of all capitalized machinery and equipment at least annually, reconcile the inventory to the capital assets list, and make all necessary corrections.
- Reconcile capital expenditures to capital asset additions and prior-year capital asset balances to current-year capital asset balances annually.

Employee Benefits Health Insurance Trust Fund

The County contracted with a third party to process and pay the claims for its employee benefits health insurance trust fund. However, the County did not require this contractor to have an effective system of internal controls in place to ensure that claims paid were accurate and supported. Further, the County did not monitor the contractor's activities to ensure that internal controls existed and were operating effectively

Navajo County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2006

and did not maintain documentation to support claims paid. As a result, we did not audit the employee benefits health insurance trust fund since the County requested us not to audit these activities. This deficiency is considered a material internal control weakness over financial reporting and resulted in disclaimers of opinions on the County's financial statements.

To help ensure that claims paid are accurate and supported, the County should require its contractor to have an effective system of internal controls over the processing and payment of claims. The County should either require the contractor to have an independent audit of its claims processing internal controls, or the County should monitor these activities itself and verify that internal controls are in place and operating effectively. In addition, the County should maintain sufficient documentation to support claims paid.

A similar recommendation was provided to the County in the prior 3 years.

06-03

The County should reconcile its cash and investment balances

The County invested over \$30 million with the County Treasurer who is responsible for safeguarding and investing county monies and acts as the bank for the County. To help ensure that the balances and transactions for cash and investments are accurately reported in the financial statements, the County should reconcile the balances recorded on its accounting system to the balances recorded by the County Treasurer each month and at fiscal year-end. However, the County failed to prepare these reconciliations. As a result, the balances reported for cash and investments in the County's financial statements could be misstated. This deficiency is considered a material internal control weakness over financial reporting.

To help ensure that the County's accounting records are accurate and the balances for cash and investments are correctly reported in the financial statements, the County should reconcile its balances to the County Treasurer's balances each month and at fiscal year-end. Written reconciliations should be prepared within 15 days of month-end. All differences noted should be investigated and resolved and adjustments made to either the County's accounting system or the County Treasurer's system as appropriate.

A similar recommendation was provided to the County in the prior 3 years.

06-04

The County needs to strengthen controls over payroll and purchasing

The majority of the County's expenditures are processed through its payroll and accounts payable departments. To minimize the risks of theft, fraud, and misuse of county monies, it is essential that the County have effective internal controls over these transactions. However, the County did not have effective internal controls since it did not ensure that employees' responsibilities were properly separated or that supervisory reviews were performed over the payroll and purchasing functions. In addition, the County did not have written policies and procedures for payroll and nonpayroll expenditures or for procuring goods and services through a competitive process. Further, the County did not have a policy requiring that conflicts of interest be disclosed by its elected officials and employees. This deficiency is considered a material internal control weakness over financial reporting.

Navajo County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2006

To help mitigate the risks of theft, fraud, and misuse of county monies and to improve internal control controls over payroll and purchasing, the County should:

- Separate responsibilities over both payroll and purchasing to ensure that no one employee is solely involved in a transaction from beginning to end, or require that such transactions are reviewed by a supervisor who is independent of these responsibilities.
- Establish written policies and procedures for payroll and nonpayroll expenditures and for procuring goods and services through a competitive process. These policies and procedures should also require that elected officials and employees disclose conflicts of interest consistent with Arizona Revised Statutes (A.R.S.) §38-503.

06-05

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. This deficiency is considered a material internal control weakness over financial reporting.

A properly designed disaster recovery plan helps ensure that proper procedures are in place to provide for the continuity of operations and helps ensure that electronic data files are not lost in the event of a service interruption. The County should develop a disaster recovery plan that includes:

- 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.

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

A similar recommendation was provided to the County in the prior 2 years.

Navajo County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2006

06-06

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 within 4 months after fiscal year-end, or by February 28 if the Auditor General grants a 120-day extension, as required by A.R.S. §41-1279.07(C). The AELR discloses 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, 2006, in a timely manner. The AELR is more than 20 months past the prescribed statutory October 31, 2006, deadline. As discussed in findings 06-01 through 06-05, several significant deficiencies in financial reporting have attributed to the late report submissions. The County could face sanctions if the County continues to not submit its AELRs by the deadline. This deficiency is considered a material internal control weakness and material noncompliance with A.R.S. §41-1279.07(C).

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 recommendation was provided to the County in the prior 3 years.

Navajo County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2006

Federal Award Findings and Questioned Costs

06-101

CFDA No.: 10.557 **Special Supplemental Nutrition Program for Women, Infants, and Children**
U.S. Department of Agriculture, passed through the Arizona Department of Health Services
Award Period: October 1, 2004 through September 30, 2007
Award Number: HG361082

CFDA No.: 10.923 **Emergency Watershed Protection Program**
U.S. Department of Agriculture
Award Period: September 8, 2005 through September 21, 2006
Award Number: 68-9457-4-441

CFDA No.: 14.228 **Community Development Block Grants/State's Program**
U.S. Department of Housing and Urban Development, passed through the Arizona Department of Housing
Award Period: October 9, 2003 through April 8, 2006
Award Number: 142-04

CFDA No.: 15.226 **Payments in Lieu of Taxes**
U.S. Department of the Interior
Award Period: July 1, 2005 through June 30, 2006

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: August 31, 2004 through August 30, 2006
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, 2004 through September 30, 2006
Award Numbers: E7204017, E7205017, and E7206017

Homeland Security Grant Program Cluster:

CFDA No.: 97.004 **State Domestic Preparedness Equipment Support Program**

97.067 **Homeland Security Grant Program**

U.S. Department of Homeland Security, passed through the Arizona Department of Emergency and Military Affairs

Award Periods: April 1, 2002 through March 31, 2006, December 1, 2003 through November 30, 2006, and October 1, 2004 through March 31, 2007

Award Numbers: 2003-TE-CX-0196, 2004-GE-T4-0051, and 2005-GE-T5-0030

Questioned Cost: None

Navajo County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2006

As discussed in financial statement finding 06-01, the County did not comply with its audit requirements because it did not complete and submit its fiscal year 2006 Single Audit Reporting Package within 9 months of the County's fiscal year-end, March 31, 2007, as required by OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. The County will submit its Single Audit Reporting Package over 15 months late.

No questioned costs resulted from this finding; however, this finding is considered a material internal control weakness and material noncompliance and could potentially affect all programs administered by the County. This finding is similar to a prior-year finding.

To comply with OMB Circular A-133 §.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 federal oversight agency approves an extension of this deadline.

06-102

CFDA No.: 10.557 **Special Supplemental Nutrition Program for Women, Infants, and Children**
U.S. Department of Agriculture, passed through the Arizona Department of Health Services
Award Period: October 1, 2004 through September 30, 2007
Award Number: HG361082

CFDA No.: 10.923 **Emergency Watershed Protection Program**
U.S. Department of Agriculture
Award Period: September 8, 2005 through September 21, 2006
Award Number: 68-9457-4-441

CFDA No.: 14.228 **Community Development Block Grants/State's Program**
U.S. Department of Housing and Urban Development, passed through the Arizona Department of Housing
Award Period: October 9, 2003 through April 8, 2006
Award Number: 142-04

CFDA No.: 15.226 **Payments in Lieu of Taxes**
U.S. Department of the Interior
Award Period: July 1, 2005 through June 30, 2006

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: August 31, 2004 through August 30, 2006
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, 2004 through September 30, 2006
Award Numbers: E7204017, E7205017, and E7206017

Navajo County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2006

Homeland Security Grant Program Cluster:

CFDA No.: 97.004 **State Domestic Preparedness Equipment Support Program**
97.067 **Homeland Security Grant Program**

U.S. Department of Homeland Security, passed through the Arizona Department of Emergency and Military Affairs

Award Periods: April 1, 2002 through March 31, 2006, December 1, 2003 through November 30, 2006, and October 1, 2004 through March 31, 2007

Award Numbers: 2003-TE-CX-0196, 2004-GE-T4-0051, and 2005-GE-T5-0030

Questioned Cost: Unknown

As discussed in financial statement finding 06-01, the County did not maintain its accounting records in a manner consistent with 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 federal programs tested for the fiscal year.

It was not practical to extend our auditing procedures sufficiently to determine questioned costs, if any, that may have resulted from this finding. This finding is considered a material internal control weakness and material noncompliance and could potentially affect all federal programs administered by the County. This finding is similar to a prior-year finding.

To comply with 7 Code of Federal Regulations (CFR) §246.13, 24 CFR §§85.20 and 570.502(a), 28 CFR 66.20, 43 CFR §12.60, and 45 CFR §92.20, as codified by the federal grantor agencies, the County should maintain its accounting system in a manner necessary to comply with federal award requirements. This includes recording transactions and balances in a manner consistent with generally accepted accounting principles.

06-103

CFDA No.: 10.557 **Special Supplemental Nutrition Program for Women, Infants, and Children**

U.S. Department of Agriculture, passed through the Arizona Department of Health Services

Award Period: October 1, 2004 through September 30, 2007

Award Number: HG361082

CFDA No.: 10.923 **Emergency Watershed Protection Program**

U.S. Department of Agriculture

Award Period: September 8, 2005 through September 21, 2006

Award Number: 68-9457-4-441

CFDA No.: 14.228 **Community Development Block Grants/State's Program**

U.S. Department of Housing and Urban Development, passed through the Arizona Department of Housing

Award Period: October 9, 2003 through April 8, 2006

Award Number: 142-04

Navajo County
Schedule of Findings and Questioned Costs
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CFDA No.: 15.226 **Payments in Lieu of Taxes**

U.S. Department of the Interior

Award Period: July 1, 2005 through June 30, 2006

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: August 31, 2004 through August 30, 2006

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, 2004 through September 30, 2006

Award Numbers: E7204017, E7205017, and E7206017

Homeland Security Grant Program Cluster:

CFDA No.: 97.004 **State Domestic Preparedness Equipment Support Program**

97.067 **Homeland Security Grant Program**

U.S. Department of Homeland Security, passed through the Arizona Department of Emergency and Military Affairs

Award Periods: April 1, 2002 through March 31, 2006, December 1, 2003 through November 30, 2006, and October 1, 2004 through March 31, 2007

Award Numbers: 2003-TE-CX-0196, 2004-GE-T4-0051, and 2005-GE-T5-0030

Questioned Cost: None

OMB Circular A-133 §.300 requires the County to identify, in its accounts, all federal awards received and expended and the federal programs under which they were received, and prepare appropriate financial statements, including a Schedule of Expenditures of Federal Awards (SEFA). The SEFA should include the Catalog of Federal Domestic Assistance (CFDA) title and number, amount expended, name of the federal awarding agency, and if applicable, name and identifying number of the pass-through grantor, for each of the County's federal awards in accordance with OMB Circular A-133 §.310(b). However, the County did not have adequate internal controls to properly identify federal awards in its records and accounting system and to prepare a SEFA that was accurate and complete and contained all of the required information. As a result, significant adjustments had to be made to properly state the County's SEFA. Specifically, auditors noted the following errors:

- One federal program was omitted from the SEFA.
- Expenditures for 16 federal programs were not accurately reported because state and locally funded expenditures were included.
- CFDA numbers were incorrect for five federal programs.
- Incorrect titles were presented for eight federal programs.
- Pass-through or federal grantors were not correctly identified for six federal programs.

Navajo County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2006

This finding is a material internal control weakness and material noncompliance with OMB Circular A-133 §§.300 and .310(b). This finding is similar to a prior-year finding.

The County's Finance Department should establish the following procedures to ensure that the SEFA is accurate, complete, and contains the required information:

- Develop written policies and procedures for recording federal award program revenues and expenditures in its accounting system and for preparing the SEFA.
- Assign each federal program its own account number in the accounting system to enable grant administrators to separately identify federal award revenues and expenditures by award period. State and locally funded programs should also be separately accounted for and identified.
- Monitor all departments administering federal programs to ensure that program expenditures are properly recorded.
- Confirm all federal program information reported on the SEFA with the departments responsible for administering the federal programs and the grant award documentation, or by contacting the grantor agency if necessary.
- Reconcile expenditures reported on the SEFA to the accounting system, review the SEFA for accuracy and completeness, and maintain copies of supporting documents, such as the grant awards provided by the departments, to support the federal award information reported on the SEFA.

06-104

CFDA No.: 10.557 **Special Supplemental Nutrition Program for Women, Infants, and Children**
U.S. Department of Agriculture, passed through the Arizona Department of Health Services
Award Period: October 1, 2004 through September 30, 2007
Award Number: HG361082

CFDA No.: 14.228 **Community Development Block Grants/State's Program**
U.S. Department of Housing and Urban Development, passed through the Arizona Department of Housing
Award Period: October 9, 2003 through April 8, 2006
Award Number: 142-04

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: August 31, 2004 through August 30, 2006
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, 2004 through September 30, 2006
Award Numbers: E7204017, E7205017, and E7206017

Navajo County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2006

Homeland Security Grant Program Cluster:

CFDA No.: 97.004 **State Domestic Preparedness Equipment Support Program**
97.067 **Homeland Security Grant Program**

U.S. Department of Homeland Security, passed through the Arizona Department of Emergency and Military Affairs

Award Periods: April 1, 2002 through March 31, 2006, December 1, 2003 through November 30, 2006, and October 1, 2004 through March 31, 2007

Award Numbers: 2003-TE-CX-0196, 2004-GE-T4-0051, and 2005-GE-T5-0030

Equipment and real property management

Questioned Cost: Unknown

As discussed in financial statement finding 06-02, 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. As such, the County was unable to comply with federal equipment and real property management requirements. Specifically, the County did not maintain a complete and updated capital assets list and did not perform a physical inventory of its capital assets. Consequently, the County could not provide auditors with a complete list of capital assets acquired with current and prior-year federal monies by program.

It was not practical to extend our auditing procedures sufficiently to determine questioned costs, if any, that may have resulted from this finding. This finding is considered a material internal control weakness and material noncompliance with the programs' equipment and real property management requirements. In addition, this finding could potentially affect other programs administered by the County for which equipment and real property management is applicable. This finding is similar to a prior-year finding.

To comply with 7 CFR §246.24, 24 CFR §§85.32 and 570.502(a), 28 CFR §66.32, and 45 CFR §92.32, the County should ensure that equipment with an acquisition cost of \$5,000 or more and a useful life of more than 1 year are capitalized, properly valued, supported by records, and included on the County's capital assets list. Capital assets acquired with federal monies should be identified by federal program. In addition, the County should perform a physical inventory of federal equipment annually, or at least once every 2 years, and ensure its capital assets list is up-to-date, accurate, and complete.

06-105

CFDA No.: 10.557 **Special Supplemental Nutrition Program for Women, Infants, and Children**

U.S. Department of Agriculture, passed through the Arizona Department of Health Services

Award Period: October 1, 2004 through September 30, 2007

Award Number: HG361082

Eligibility

Questioned Cost: Unknown

The County is required by the pass-through grantor's policies and procedures and grant agreement to verify and record eligibility information for all enrolled program participants on the Arizona in Motion (AIM) system. In addition, the County should maintain a signed rights and responsibilities form for each enrolled active and inactive participant to certify that the eligibility information recorded on the AIM system was

Navajo County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2006

accurate and was verified. The County should also monitor the AIM system to ensure that program benefits were not provided to participants whose benefits should have been terminated upon certification-end dates. However, the County did not have adequate internal controls to ensure that all necessary eligibility information and documentation was maintained and that program benefits were not provided to those who were not eligible to receive them. Specifically, auditors noted the following for the 77 participants' case files tested:

- For 1 case, the file could not be located.
- For 2 cases, the files did not have the required rights and responsibilities forms.
- For 9 cases, the files did not contain identifying documentation.
- For 4 cases, benefits were not terminated at the appropriate certification-end dates.
- For 5 cases, the files did not have adequate identifying documentation and the required signatures on the rights and responsibilities forms. In addition, benefits were not terminated at the appropriate certification-end dates.

It was not practical to extend our auditing procedures sufficiently to determine the questioned costs that may have resulted from this finding. This finding is considered a material internal control weakness and material noncompliance with the program's eligibility requirements.

To help ensure eligibility requirements are met and that program benefits are not provided to those who were not eligible to receive them, the County should:

- Review and verify the participant's eligibility information recorded on the AIM system to the information in the file for accuracy and completeness.
- Maintain a rights and responsibilities form, signed by both the participant and the individual who verified the participant's eligibility, in the participant's case file as required by the pass-through grantor.
- Monitor the AIM system and terminate benefits at certification-end dates to ensure that benefits are not provided to participants who have become ineligible to receive them.
- Retain all records in accordance with the pass-through grantor's policies and procedures and grant agreement. Specifically, records should be kept for 5 years and 5 months after the federal fiscal year-end of September 30, unless otherwise specified.

06-106

CFDA No.: 10.557 **Special Supplemental Nutrition Program for Women, Infants, and Children**

U.S. Department of Agriculture, passed through the Arizona Department of Health Services

Award Period: October 1, 2004 through September 30, 2007

Award Number: HG361082

Activities allowed or unallowed, allowable costs/cost principles, and reporting

Questioned Cost: None

The County did not have adequate policies and procedures for ensuring that program expenditures reported on monthly reimbursement requests, contractor's expenditure reports (CERs), were properly supported and that the CERs were submitted to the pass-through grantor in a timely manner. For one of four CERs tested, expenditures did not agree to the accounting records and the County was not able to

Navajo County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2006

provide specific documentation explaining the discrepancy. As a result, the County may not have been reimbursed for program expenditures in the amount of \$2,578 which were not reported on the CER. Additionally, for 3 of the 4 CERs tested, the County submitted the report between 2 to 25 days beyond the 30-day deadline.

No questioned costs resulted from this finding; however, this finding is a reportable condition and noncompliance with the program's activities allowed or unallowed, allowable costs/cost principles, and reporting requirements.

To help ensure that amounts charged to the program are properly supported, the County should establish policies and procedures for preparing and reviewing the monthly CERs. Further, the County should submit the CERs no later than 30 days from the end of the month to which it pertains as required by the grant agreement.

06-107

CFDA No.: 10.923 **Emergency Watershed Protection Program**

U.S. Department of Agriculture

Award Period: September 8, 2005 through September 21, 2006

Award Number: 68-9457-4-441

Homeland Security Grant Program Cluster:

CFDA No.: 97.004 **State Domestic Preparedness Equipment Support Program**

97.067 **Homeland Security Grant Program**

U.S. Department of Homeland Security, passed through the Arizona Department of Emergency and Military Affairs

Award Periods: April 1, 2002 through March 31, 2006, December 1, 2003 through November 30, 2006, and October 1, 2004 through March 31, 2007

Award Numbers: 2003-TE-CX-0196, 2004-GE-T4-0051, and 2005-GE-T5-0030

Suspension and debarment

Questioned Cost: None

The County did not obtain the required suspension and debarment certifications from the vendors contracted to provide goods and services for the Emergency Watershed Protection Program and the Homeland Security Grant Program Cluster as required by 7 CFR §3016.35 and 28 CFR §67, respectively. However, auditors verified that none of the vendors used for these programs during the audit period were suspended or debarred.

No questioned costs resulted from this finding; however, this finding is a material internal control weakness with the programs' suspension and debarment requirements.

To comply with 7 CFR §3016.35 and 28 CFR §67 and to help ensure that federal monies are not awarded to parties that are suspended or debarred, the County should include provisions in its contracts with vendors requiring them to certify that they are not suspended or debarred. Additionally, the County should verify with the Excluded Parties List System, maintained by the General Services Administration, that vendors are not suspended or debarred.

Navajo County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2006

06-108

CFDA No.: 14.228 **Community Development Block Grants/State's Program**

U.S. Department of Housing and Urban Development, passed through the Arizona Department of Housing

Award Period: October 9, 2003 through April 8, 2006

Award Number: 142-04

Special tests and provisions

Questioned Cost: Unknown

In accordance with 24 CFR §§58.18 and 58.38, the County must perform an environmental review of all projects. In addition, this review must be documented and retained. However, for two of the ten projects tested, there was no evidence that the required environmental reviews were performed.

It was not practical to extend our auditing procedures sufficiently to determine questioned costs, if any, that may have resulted from this finding. This finding is a material internal control weakness and material noncompliance with the program's special tests and provisions requirements.

To comply with 24 CFR §§58.18 and 58.38, the County should ensure that environmental reviews are performed and retained for all projects.

06-109

CFDA No.: 14.228 **Community Development Block Grants/State's Program**

U.S. Department of Housing and Urban Development, passed through the Arizona Department of Housing

Award Period: October 9, 2003 through April 8, 2006

Award Number: 142-04

Homeland Security Grant Program Cluster:

CFDA No.: 97.004 **State Domestic Preparedness Equipment Support Program**

97.067 **Homeland Security Grant Program**

U.S. Department of Homeland Security, passed through the Arizona Department of Emergency and Military Affairs

Award Periods: April 1, 2002 through March 31, 2006, December 1, 2003 through November 30, 2006, and October 1, 2004 through March 31, 2007

Award Numbers: 2003-TE-CX-0196, 2004-GE-T4-0051, and 2005-GE-T5-0030

Procurement

Questioned Cost: Unknown

In accordance with 24 CFR §§85.36 and 570.502(a) and 28 CFR §66.36, the County should follow the same policies and procedures for purchases made from federal award monies that it uses for purchases made from nonfederal monies. In addition, the County should maintain records in sufficient detail to support that a competitive procurement process was used, including documentation of the rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price. However, as discussed in finding 06-04, the County did not have adequate internal controls to ensure that competitive procurement procedures were followed. Specifically, eight out of ten

Navajo County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2006

contractor files tested for the Community Development Block Grants/State's Program did not contain evidence that a competitive procurement process was used. Similarly, for 3 of 15 expenditures tested for the Homeland Security Grant Program Cluster, there was no evidence that a competitive procurement process was used.

It was not practical to extend our auditing procedures sufficiently to determine questioned costs, if any, that may have resulted from this finding. This finding is a material internal control weakness and material noncompliance with the programs' procurement requirements. This finding could potentially affect other programs administered by the County for which procurement is applicable.

To comply with the 24 CFR §§85.36 and 570.502(a) and 28 CFR §66.36, the County should develop and implement written policies and procedures for procuring goods and services through a competitive process. In addition, the County should ensure that all procurement policies and procedures are followed for purchases made from federal award monies, including maintaining documentation to support that a competitive procurement process was used.

06-110

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: August 31, 2004 through August 30, 2006

Award Number: 252039

Activities allowed or unallowed and allowable costs/cost principles

Questioned Cost: \$5,739

The County did not have internal control policies and procedures for ensuring that amounts charged to the program were adequately supported by documentation and were allowed by the federal program's requirements. In addition, as discussed in finding 06-04, the County did not ensure that employees' responsibilities were properly separated, or that supervisory reviews were performed, over the purchasing function. Specifically, for 16 out of 55 nonpayroll expenditure transactions tested, the expenditure was not sufficiently supported or approved. Also, for 1 of the 55 transactions tested, the expenditure was approved by the employee who initiated the transaction. As such, auditors were unable to determine that expenditures charged to the program for these 17 transactions totaling \$5,739 were allowable costs.

It was not practical to extend our auditing procedures sufficiently to determine whether any additional questioned costs resulted from this finding. This finding is a material internal control weakness and material noncompliance with the program's activities allowed or unallowed and allowable costs/cost principles requirements. This finding is similar to a prior-year finding.

To help ensure that program expenditures are allowable charges of the federal program, the County should implement policies and procedures for maintaining documentation to support that the charges are allowable, as required by 45 CFR §92.22. In addition, a department supervisor or other designated employee should review all expenditures and related supporting documentation for accuracy and to ensure that the charges are allowed by the federal program's requirements.

Navajo County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2006

06-111

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, 2004 through September 30, 2006

Award Numbers: E7204017, E7205017, and E7206017

Special tests and provisions

Questioned Cost: Unknown

Under the Child Support Enforcement (CSE) program and 45 CFR §303.31(b)(7), the County must require health insurance coverage when medical support is to be provided by the noncustodial parent as part of a child support court order. Unless the County determines that health insurance was not available to the noncustodial parent at a reasonable cost, the County is required to verify that health insurance coverage was obtained or medical support was provided and pursue enforcement if necessary. However, the County did not have adequate internal control policies and procedures to consistently comply with these requirements. Specifically, 4 of 38 CSE case files tested did not contain evidence that enforcement of medical support was pursued with the noncustodial parent.

It was not practical to extend our auditing procedures sufficiently to determine questioned costs, if any, that may have resulted from this finding. This finding is a reportable condition and noncompliance with the program's special tests and provisions requirements.

To comply with 45 CFR §303.31(b)(7), the County should strengthen internal control policies and procedures for reviewing CSE cases to verify whether health insurance coverage was obtained or medical support was provided by the noncustodial parent when required by a child support court order. When medical support has not been provided by the noncustodial parent in accordance with the court order, the County should pursue enforcement with the noncustodial parent and ensure this is documented in the case file.

06-112

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, 2004 through September 30, 2006

Award Numbers: E7204017, E7205017, and E7206017

Reporting

Questioned Cost: None

The County is required to submit monthly financial reports to the pass-through grantor within 45 days following the report month. However, the County has not established adequate policies and procedures to ensure monthly financial reports are submitted in a timely manner. Specifically, of the 4 reports tested, all were submitted between 36-93 days beyond the 45-day deadline.

This finding is a reportable condition and noncompliance with the program's reporting requirements.

The County should establish policies and procedures for preparing and submitting monthly financial reports in a timely manner in accordance with the program's grant agreement.

**NAVAJO COUNTY
CORRECTIVE ACTION PLAN
YEAR ENDED JUNE 30, 2006**

Financial Statement Findings

06-01 The County should establish procedures to accurately record and report financial information in accordance with generally accepted accounting principles

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. The County Manager and Finance Director have met on several occasions with the Arizona Auditor General and her senior management team. The purpose of these meetings with the Arizona Office of the Auditor General (OAG) are to (1) ensure that there is ongoing communication between the County and the OAG, (2) determine that adequate progress is being made by the County toward ensuring that our financial reports are prepared accurately and timely, and (3) to review steps the County has taken to correct various reporting deficiencies that have existed. We expect that the County will issue its fiscal year 2006-07 audited financial statements and Single Audit reports by March 31, 2009. It is anticipated that the FY 2006-07 Single Audit will require the OAG significantly more time to complete due to additional test work that will be performed for the County's beginning fund balances, capital assets and health insurance trust fund.

06-02 The County should establish controls over capital assets and its employee benefits health insurance trust fund

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

- We contracted with an independent consultant to perform an analysis and valuation of the County's land, buildings and infrastructure. The 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 systems 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 will be complete by June 30, 2008. The Capital Asset Manager (a new County position as of September 2007) has the responsibility is to ensure that the County's capital assets are properly recorded, accounted for and reported accurately and timely.

Completion of an accurate capital asset listing has been prepared for inclusion in the County's Single Audit Reporting package for the fiscal year ended June 30, 2007.

Health Insurance Trust 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 the TPA is compliant with our audit requirements.

06-03 The County should reconcile its cash and investment balance

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 30 days of month-end.

06-04 The County needs to improve internal controls over payroll and purchases

Corrective Action Plan: Concur. The County will implement procedures to ensure that responsibilities are separated for payroll and purchases so that no one person is solely involved in a transaction from beginning to end or that such transactions are adequately reviewed. In addition, the County will implement written policies and procedures for making payroll and non-payroll disbursements and for procuring goods and services through a competitive process. We will also ensure our policies and procedures require the disclosure of conflicts of interest of the County's elected officials and employees.

06-05 The County should have a disaster recovery plan for its computer systems

Corrective Action Plan: Concur. The Board of Supervisors formally adopted a Continuity of Operations Plan (COOP) on September 18, 2006. 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 and contact information.
- 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.
- The disaster recovery plan will be stored off-site, and updated and tested annually.

06-06 The County should submit its Annual Expenditure Limitation Report in a timely manner

Corrective Action Plan: Concur. The County will implement procedures to ensure the AELR is submitted to the OAG as required by Arizona Revised Statutes. The County has committed to completing the delinquent AELR reports for submission to the OAG within 30 days after the applicable financial statements are issued.

Federal Award Findings and Questioned Costs

06-101 CFDA No.: 10.557 U.S. Department of Agriculture – Special Supplemental Nutrition Program for Women, Infants, and Children
CFDA No.: 10.923 U.S. Department of Agriculture – Emergency Watershed Protection Program
CFDA No.: 14.228 U.S. Department of Housing and Urban Development – Community Development Block Grants/State’s Program
CFDA No.: 15.226 U.S. Department of Interior – Payments in Lieu of Taxes
CFDA No.: 93.283 U.S. Department of Health and Human Services – Centers for Disease Control and Prevention—Investigations and Technical Assistance
CFDA No.: 93.563 U.S. Department of Health and Human Services – Child Support Enforcement
CFDA No.: 97.004/97.067 U.S. Department of Homeland Security – Homeland Security Grant Program Cluster

Corrective Action Plan: Concur. The County will implement procedures to ensure the Single Audit Reporting Package is submitted to the federal clearinghouse within nine months of the County’s fiscal year end. For the fiscal year 2006-07 Single Audit additional audit test work must be performed to ensure that certain of the County’s previous reporting deficiencies have been corrected. **Consequently, the County will issue its fiscal year 2006-07 audited financial statements and Single Audit reports by March 31, 2009.**

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

06-102 CFDA No.: 10.557 U.S. Department of Agriculture – Special Supplemental Nutrition Program for Women, Infants, and Children
CFDA No.: 10.923 U.S. Department of Agriculture – Emergency Watershed Protection Program
CFDA No.: 14.228 U.S. Department of Housing and Urban Development – Community Development Block Grants/State’s Program
CFDA No.: 15.226 U.S. Department of Interior – Payments in Lieu of Taxes
CFDA No.: 93.283 U.S. Department of Health and Human Services – Centers for Disease Control and Prevention—Investigations and Technical Assistance
CFDA No.: 93.563 U.S. Department of Health and Human Services – Child Support Enforcement
CFDA No.: 97.004/97.067 U.S. Department of Homeland Security – Homeland Security Grant Program Cluster

Corrective Action Plan: Concur. The County will implement procedures to ensure that our accounting system is maintained in compliance with federal award requirements and in a manner consistent with U.S. generally accepted accounting principles. Many of these procedures have been implemented and will be tested during our FY 2006-07 Single Audit. **The County will issue its fiscal year 2006-07 audited financial statements and Single Audit reports by March 31, 2009.**

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

06-103 CFDA No.: 10.557 U.S. Department of Agriculture – Special Supplemental Nutrition Program for Women, Infants, and Children
CFDA No.: 10.923 U.S. Department of Agriculture – Emergency Watershed Protection Program
CFDA No.: 14.228 U.S. Department of Housing and Urban Development – Community Development Block Grants/State’s Program
CFDA No.: 15.226 U.S. Department of Interior – Payments in Lieu of Taxes
CFDA No.: 93.283 U.S. Department of Health and Human Services – Centers for Disease Control and Prevention—Investigations and Technical Assistance
CFDA No.: 93.563 U.S. Department of Health and Human Services – Child Support Enforcement
CFDA No.: 97.004/97.067 U.S. Department of Homeland Security – Homeland Security Grant Program Cluster

Corrective Action Plan: Concur. The County will ensure that the Schedule of Expenditure of Federal Awards (SEFA) is accurate, complete, and contains the required information by implementing the following:

- Develop written policies and procedures for recording federal award program revenues and expenditures in the accounting system and for preparing the SEFA.
- Assign each federal program its own account number in the accounting system to enable grant administrators to separately identify federal award revenues and expenditures by award period.
- Monitor all departments administering federal programs to ensure program expenditures are properly recorded.
- Confirm all federal program information reported on the SEFA with the departments responsible for administering the federal programs including grant award documentation.
- Reconcile expenditures reported on the SEFA to the accounting system, review the SEFA for accuracy and completeness, and maintain a copy of applicable grant documentation in a centralized location.

The County will ensure these procedures are implemented by October 31, 2008.

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

06-104 CFDA No.: 10.557 U.S. Department of Agriculture – Special Supplemental Nutrition Program for Women, Infants, and Children
CFDA No.: 14.228 U.S. Department of Housing and Urban Development – Community Development Block Grants/State’s Program
CFDA No.: 93.283 U.S. Department of Health and Human Services – Centers for Disease Control and Prevention—Investigations and Technical Assistance
CFDA No.: 93.563 U.S. Department of Health and Human Services – Child Support Enforcement
CFDA No.: 97.004/97.067 U.S. Department of Homeland Security – Homeland Security Grant Program Cluster

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

- We have contracted with an independent consultant for the valuation of County 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 systems 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 will be complete by June 30, 2008. The Capital Asset Manager (a new County position as of September 2007) has the responsibility is to ensure that the County's capital assets are properly recorded, accounted for and reported accurately and timely.

Completion of an accurate capital asset listing has been prepared for inclusion in the County's Single Audit Reporting package for the fiscal year ended June 30, 2007. **Recording of capital assets in the County's financial accounting system will be complete prior to June 30, 2008.**

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

06-105 CFDA No.: 10.557 U.S. Department of Agriculture – Special Supplemental Nutrition Program for Women, Infants, and Children

Corrective Action Plan: Concur. The County will implement procedures to ensure adequate controls are in place as follows:

- Review and verify the participant's eligibility information recorded on the Arizona in Motion (AIM) system to the information filed.
- Maintain a rights and responsibilities form, signed by both the participant and the individual who verified the participant's eligibility.
- Monitor the AIM system and terminate cases at the certification-end date.
- Retain all records in accordance with the pass-through grantor's policies and procedures and grant agreement.

The County will ensure these procedures are implemented by October 31, 2008.

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

06-106 CFDA No.: 10.557 U.S. Department of Agriculture – Special Supplemental Nutrition Program for Women, Infants, and Children

Corrective Action Plan: Concur. The County will implement procedures to ensure that amounts charged to the program are properly supported. In addition, we will establish policies and procedures for preparing and reviewing the monthly Contractor's Expenditure Reports and to ensure they are submitted no later than 30 days from the end of the month to which they pertain. **The County will ensure these procedures are implemented by October 31, 2008.**

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

06-107 CFDA No.: 10.923 U.S. Department of Agriculture – Emergency Watershed Protection Program

CFDA No.: 97.004/97.067 U.S. Department of Homeland Security – Homeland Security Grant Program Cluster

Corrective Action Plan: Concur. The County will implement procedures to ensure that vendors used were not suspended or debarred. **The County will ensure these procedures are implemented by October 31, 2008.**

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

06-108 CFDA No.: 14.228 U.S. Department of Housing and Urban Development – Community Development Block Grants/State’s Program

Corrective Action Plan: Concur. The County will implement procedures to ensure an environmental review is performed on all contractors and that documentation is retained. **The County will ensure these procedures are implemented by October 31, 2008.**

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

06-109 CFDA No.: 14.228 U.S. Department of Housing and Urban Development – Community Development Block Grants/State’s Program

CFDA No.: 97.004/97.067 U.S. Department Homeland Security – Homeland Security Grant Program Cluster

Corrective Action Plan: Concur. The County will develop and implement written policies and procedures to ensure that goods and services are purchased through a competitive process and that applicable supporting documentation is maintained. **The County will ensure these procedures are implemented by October 31, 2008.**

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

06-110 CFDA No.: 93.283 U.S. Department of Health and Human Services – Centers for Disease Control and Prevention—Investigations and Technical Assistance

Corrective Action Plan: Concur. The County will implement procedures to ensure that all expenditures are adequately supported, approved and reported in sufficient detail to meet reporting requirements. **The County will ensure these procedures are implemented by October 31, 2008.**

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

06-111 CFDA No.: 93.563 U.S. Department of Health and Human Services – Child Support Enforcement

Corrective Action Plan: Concur. The County will implement procedures to ensure that that the medical support obligations with the noncustodial parent are properly enforced. **The County will ensure these procedures are implemented by October 31, 2008.**

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

06-112 CFDA No.: 93.563 U.S. Department of Health and Human Services – Child Support Enforcement

Corrective Action Plan: Concur. The County will implement procedures to ensure that that monthly financial reports are prepared accurately and submitted to the pass-through grantor agency timely. **The County will ensure these procedures are implemented by October 31, 2008.**

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

Navajo County
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2006

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 Grants/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 Assistance Grant
83.566 Fire Management Assistance Grant
93.563 Child Support Enforcement

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 audit test work to be performed for this deficiency during our FY 2006-07 Single Audit.

- 03-104** 10.557 Special Supplemental Nutrition Program for Woman, Infants and Children
10.904 Watershed Protection and Flood Prevention
14.228 Community Development Block Grants/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 Assistance Grant
83.566 Fire Management Assistance Grant
93.563 Child Support Enforcement CFDA No.: N/A
Grant Period: N/A
Questioned Costs: N/A

Status: Not corrected. This finding primarily relates to properly maintaining beginning fund balances. We expect audit test work to be performed for this deficiency during our FY 2006-07 Single 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 Grants/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 Assistance Grant
83.566 Fire Management Assistance Grant
93.563 Child Support Enforcement

Status: Not corrected. The Arizona Office of the Auditor General is working closely with Navajo County to help ensure that all required financial reports and audits are completed on a timely basis and in accordance with federal and state requirements. The FY 2006-07 Single Audit will be issued by March 31, 2009, or 12 months after the date due.

- 04-101** 10.557 Special Supplemental Nutrition Program for Woman, 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 Activities39.011 Election Reform Payments
93.563 Child Support Enforcement
97.004 State Domestic Preparedness Equipment Support Program

Status: Not corrected. The Arizona Office of the Auditor General is working closely with Navajo County to help ensure that all required financial reports and audits are completed on a timely basis and in accordance with federal and state requirements. The FY 2006-07 Single Audit will be issued by March 31, 2009, or 12 months after the date due.

- 04-102** 10.557 Special Supplemental Nutrition Program for Women, Infants, and Children

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. Further, the Arizona Office of the Auditor General is working closely with Navajo County to help 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 Woman, Infants and Children
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

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 audit test work to be performed for this deficiency during our FY 2006-07 Single Audit.

- 04-104** 10.557 Special Supplemental Nutrition Program for Woman, 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

Status: Not corrected. This finding primarily relates to properly maintaining beginning fund balances. We expect audit test work to be performed for this deficiency during our FY 2006-07 Single Audit.

- 05-101** 15.226 Payments in Lieu of Taxes
16.579 Byrne Formula Grant Program
Workforce Investment Act Cluster:
 17.258 WIA Adult Program
 17.529 WIA Youth Activities
93.283 Centers for Disease Control and Prevention – Investigations & Technical
93.563 Child Support Enforcement

Status: Not corrected. The Arizona Office of the Auditor General is working closely with Navajo County to help ensure that all required financial reports and audits are completed on a timely basis and in accordance with federal and state requirements. The FY 2006-07 Single Audit will be issued by March 31, 2009, or 12 months after the date due.

05-102 Workforce Investment Act Cluster:
17.258 WIA Adult Program
17.529 WIA Youth Activities
93.283 Centers for Disease Control and Prevention – Investigations & Technical Assistance
93.563 Child Support Enforcement

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 audit test work to be performed for this deficiency during our FY 2006-07 Single Audit.

05-103 15.226 Payments in Lieu of Taxes
16.579 Byrne Formula Grant Program
Workforce Investment Act Cluster:
17.258 WIA Adult Program
17.529 WIA Youth Activities
93.283 Centers for Disease Control and Prevention – Investigations & Technical Assistance
93.563 Child Support Enforcement

Status: Not corrected. This finding primarily relates to properly maintaining beginning fund balances. We expect audit test work to be performed for this deficiency during our FY 2006-07 Single Audit.

05-104 93.283 Centers for Disease Control and Prevention—Investigations and Technical Assistance

Status: Not corrected. The Navajo County Health Department is working to provide additional training to ensure that pre-approval is obtained for grants expenditures and to ensure they are properly supported. In addition, the County has not received any correspondence from the federal agency requiring them to repay the \$27,421.

05-105 93.563 Child Support Enforcement

Status: Not corrected. The County Attorney's Office is working to provide additional training to Child Support Enforcement Department personnel to help ensure all noncustodial parents are tracked and properly reported.