Navajo County

Report on Internal Control and on Compliance

Year Ended June 30, 2023

A Report to the Arizona Legislature

Lindsey A. Perry
Auditor General

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DEPUTY AUDITOR GENERAL

Independent auditors' report on internal control over financial reporting and on compliance and other matters based on an audit of basic financial statements performed in accordance with *Government Auditing Standards*

Members of the Arizona State Legislature

The Board of Supervisors of
Navajo County, Arizona

We have audited, in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the U.S. Comptroller General, 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, 2023, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated December 29, 2023.

Report on internal control over financial reporting

In planning and performing our audit of the financial statements, we considered the County's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and recommendations, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the County's basic financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying schedule of findings and recommendations as item 2023-03 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and recommendations as items 2023-01 and 2023-02 to be significant deficiencies.

Report on compliance and other matters

As part of obtaining reasonable assurance about whether the County's basic financial statements are free from 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 financial statements. 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* and that are described in the accompanying schedule of findings and recommendations as item 2023-01.

County response to findings

Government Auditing Standards requires the auditor to perform limited procedures on the County's responses to the findings identified in our audit that are presented in its corrective action plan at the end of this report. The County is responsible for preparing a corrective action plan to address each finding. The County's responses and corrective action plan were not subjected to the other auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on them.

Purpose of this report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the County's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Lindsey A. Perry

Lindsey A. Perry, CPA, CFE
Auditor General

December 29, 2023

Financial statement findings

2023-01

The County paid nearly $38,000 for employees' fuel purchases without ensuring the fuel was used in County vehicles and $52 for unallowed alcoholic beverages using purchasing cards, contrary to County purchasing card policies, resulting in an elevated risk of misuse of public monies and possible violation of the Arizona Constitution

Condition—Contrary to its purchasing card policies, in fiscal year 2023, the County paid nearly $38,000 for employees' purchasing card fuel purchases without ensuring the fuel was used in County vehicles and $52 for unallowed alcoholic beverages. Specifically, we estimated that the County paid for approximately 750 purchasing card fuel purchases made by over 175 employees. We and the County could not determine whether these fuel purchases were for official County business purposes because the supporting documentation was not readily available and sufficient to conduct an in-depth review prior to issuing this report. Further, for 1 of 33 purchasing card purchases we tested totaling $27,683, we found the County paid $52 for unallowable alcoholic beverages during a business dinner after the National Association of Counties conference in Washington D.C. After we brought this purchase to the County's attention and nearly 6 months after the County had paid for it, the County received reimbursement for it.

Effect—The County put public monies at risk of abuse, misuse, and fraud and may have misspent over $38,000 of public monies in violation of the Arizona Constitution. Further, when public monies are misspent or misused, less money is available for use that could benefit the County and its residents.

Cause—The County does not have procedures to ensure that fuel purchases are for official County business. Specifically, the County does not have procedures to reconcile that fuel purchases were solely used for an authorized County vehicle, including maintaining County vehicle logs with mileage driven, trip purpose, fuel purchased, and responsible employee name. Further, the County does not have procedures requiring employees to document the County vehicle number or license plate number on the purchasing card fuel receipt and, when applicable, on the County travel form. Finally, for the $52 for unallowable alcoholic beverages, the purchasing card holder failed to follow the County's policies prohibiting the purchase of alcoholic beverages, and the purchasing card approver failed to identify, investigate, and report the violation.

Criteria—State law bans gifts of public monies by counties to individuals, including employees (Arizona Constitution, Art. IX, Sec. 7). County purchasing card policies prohibit employees from using their purchasing cards to buy alcoholic beverages and fuel for their personal vehicles, even if the employee's vehicle is used for County purposes, and requires County vehicles to be used for travel when possible (Navajo County. [2020]. *Purchasing Card Program Policy*, Section I, Subsections B and E).[1] The policies also require the purchasing card approver to review transactions, including itemized receipts, ensuring policies are followed and to investigate and report misuse to the purchase card administrator or procurement manager. For unallowable purchasing card purchases, the County's policy requires the purchasing cardholder to reimburse the County and for the County to consider canceling the purchasing card.

Recommendations—The County should:

1. Ensure all employees approved to use County purchasing cards follow County policies, which do not allow them to use their card to purchase fuel for personal vehicles, even when using a personal vehicle for official County business, by improving its procedures over purchasing card fuel purchases. Specifically, they should:
    a. Create and maintain vehicle logs for all County vehicles and require employees to document the date and vehicle odometer readings at the time of check-out and check-in, the public purpose for using the County vehicle, and any fuel purchased.
    b. Require employees to record the County vehicle and license plate number on the purchasing card fuel receipt and, when applicable, the travel form when purchasing fuel.
    c. Require the travel form approver to reconcile purchasing card fuel purchases to County vehicle logs.
    d. Periodically review purchasing card fuel costs to evaluate whether employees followed policies and fuel purchases appear reasonable, and investigate and take appropriate action for any questionable purchases.
2. Conduct an in-depth review of all employees' prior purchasing card fuel costs made during the fiscal year to determine whether they are reasonable and appropriate, investigate any questionable purchases, and take action such as seeking reimbursement from employees, as appropriate.
3. Ensure public monies are not spent on unallowable alcoholic beverages by enforcing existing purchasing card policies. Specifically, the County should:
    a. Require the purchasing card approver to review transactions, including itemized receipts, and investigate and report misuse to the purchase card administrator or procurement manager.
    b. For the cardholder who made the $52 purchase of alcoholic beverages, consider further corrective action, as appropriate, such as canceling the purchasing card.

The County's corrective action plan at the end of this report includes the views and planned corrective action of its responsible officials. We are not required to audit and have not audited these responses and planned corrective actions and therefore provide no assurances as to their accuracy.

This finding is similar to prior-year finding 2022-02 and was initially reported in fiscal year 2019.

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[1] When a County vehicle is not available, employees may obtain preapproval to use a personal vehicle for County purposes and are required to request mileage reimbursement on an approved travel form rather than using their purchasing card for fuel costs (Navajo County. [2021]. *Navajo County Fiscal Policy Manual* [2021], Section 12, Subsection 12.6.). Further, employees are required to include documentation of odometer readings or map or internet mileage calculations for each authorized trip to support the mileage reimbursement request (Navajo County. [2021]. *Navajo County Personnel Policies Manual* [2021], Section 6, Subsection 6.6).

2023-02

The County's deficiencies in its process for managing and documenting its risks may put its operations and IT systems and data at unintended and unnecessary risk of potential harm

Condition—The County's process for managing and documenting its risks did not include an overall risk-assessment process that included identifying, analyzing, and responding to the County-wide information technology (IT) risks, such as potential harm from unauthorized access, use, disclosure, disruption, modification, or destruction of IT systems and data. Also, it did not include classifying and inventorying sensitive information that might need stronger access and security controls.

Effect—The County's administration and IT management may put the County's operations and IT systems and data at unintended and unnecessary risk of potential harm.

Cause—The County's administration and IT management reported that they are in the process of implementing the IT risk assessment policies and procedures they developed and documented but have not yet fully implemented them due to the time it takes to do so.

Criteria—Establishing a process for managing risk that follows a credible industry source, such as the National Institute of Standards and Technology, helps the County to effectively manage risk related to IT systems and data. Effectively managing risk includes an entity-wide risk assessment process that involves members of the County's administration and IT management. An effective risk assessment process helps the County determine the risks it faces as the County seeks to achieve its objectives to not only report accurate financial information and protect its IT systems and data but to also carry out its overall mission and compliance and service objectives. Additionally, an effective risk management process provides the County the basis for developing appropriate responses based on identified risk tolerances and specific potential risks to which it might be subjected. To help ensure the County's objectives can be met, an effective annual risk assessment considers and identifies IT risk in the County's operating environment, analyzes and prioritizes each identified risk, and develops a plan to respond to each risk within the context of the County's defined objectives and risk tolerances. Finally, effectively managing risk includes the County's process for classifying, and inventorying sensitive information that might need stronger access and security controls to address the risk of unauthorized access and use, modification, or loss of that sensitive information.

Recommendations—The County administration and IT management should:

1. Plan for where to allocate resources and where to implement critical controls.
2. Perform an annual entity-wide IT risk assessment process that includes evaluating and documenting risks and safeguards. Such risks may include inappropriate access that would affect financial data, system changes that could adversely impact or disrupt system operations, and inadequate or outdated system security.
3. Evaluate and manage the risks of holding sensitive information by classifying, and inventorying the information the County holds to assess where stronger access and security controls may be needed to protect data in accordance with State statutes and federal regulations.

The County's corrective action plan at the end of this report includes the views and planned corrective action of its responsible officials. We are not required to audit and have not audited these responses and planned corrective actions and therefore provide no assurances as to their accuracy.

This finding is similar to prior-year finding 2022-03 and was initially reported in fiscal year 2016.

2023-03

The County's control procedures over IT systems and data were not sufficient, which increases the risk that the County may not adequately protect those systems and data

Condition—The County's control procedures were not sufficiently implemented to respond to risks associated with its IT systems and data. The County lacked sufficient procedures over the following:

- **Restricting access—**Procedures did not consistently help prevent or detect unauthorized or inappropriate access to its IT systems and data.
- **Managing system configurations and changes—**Procedures did not ensure configuration settings were securely maintained and all IT system changes were adequately managed.

Effect—There is an increased risk that the County may not adequately protect its IT systems and data, which could result in unauthorized or inappropriate access and/or the loss of confidentiality or integrity of systems and data.

Cause—The County's administration and IT management reported that they are in the process of implementing the IT access and system configuration and change management policies and procedures they developed and documented but have not yet fully implemented them due to the time it takes to do so.

Criteria—Implementing effective internal controls that follow a credible industry source, such as the National Institute of Standards and Technology, help the County to protect its IT systems and ensure the integrity and accuracy of the data it maintains as it seeks to achieve its financial reporting, compliance, and operational objectives. Effective internal controls include the following:

- **Restrict access through logical access controls—**Help to ensure systems and data are accessed by users who have a need, systems and data access granted is appropriate, and key systems and data access is monitored and reviewed.
- **Manage system configurations and changes through well-defined, documented configuration management process—**Ensures the County's IT system configurations are documented and that changes to the systems are identified, documented, evaluated for security implications, tested, and approved prior to implementation. This helps limit the possibility of an adverse impact on the system's security or operation. Separating responsibilities is an important control for system changes; the same person who has authority to make system changes should not put the change into production. If those responsibilities cannot be separated, a post-implementation review should be performed to ensure the change was implemented as designed and approved.

Recommendations—The County should:

1. Continue to implement comprehensive IT policies and procedures and develop a process to ensure the procedures are being consistently followed.

Restrict access—To restrict access to its IT systems, implement processes to:

2. Periodically review employee user access ensuring appropriateness and compatibility with job responsibilities.
3. Evaluate the use and appropriateness of accounts shared by 2 or more users and manage the credentials for such accounts.

4. Enhance authentication requirements for IT systems.

Manage system configurations and changes—To configure IT systems securely and manage system changes, implement processes to:

5. Separate responsibilities for the change management process or, if impractical, perform a post-implementation review to ensure the change was implemented as approved.
6. Maintain configurations for all system services, assets, and infrastructure; manage configuration changes; and monitor the system for unauthorized or unintended configuration changes.

The County's corrective action plan at the end of this report includes the views and planned corrective action of its responsible officials. We are not required to audit and have not audited these responses and planned corrective actions and therefore provide no assurances as to their accuracy.

This finding is similar to prior-year finding 2022-04 and was initially reported in fiscal years 2007 and 2014 for restricting access and managing system configurations and changes, respectively.

COUNTY RESPONSE

NAVAJO COUNTY

Administration

Bryan Layton
County Manager

Melissa W. Buckley
Clerk of the Board

Jayson Vowell
Finance Director

Rochelle Lacapa
Government Relations Director

"We are Navajo County"

February 22, 2024

Lindsey A. Perry
Arizona Auditor General
2910 N. 44th St., Ste. 410
Phoenix, AZ 85018

Dear Ms. Perry,

We have prepared the accompanying corrective action plan as required by the standards applicable to financial audits contained in *Governmental Auditing Standards* and by the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Specifically, for each finding, we are providing you with our responsible officials' views, the names of the contact people responsible for corrective action, the corrective action planned, and the anticipated completion date.

Sincerely,

Jayson Vowell

Jayson Vowell, Finance Director

Navajo County
Corrective Action Plan
Year ended June 30, 2023

Financial statement findings

2023-01
P-Card Purchases
Contact Person: Jayson Vowell, Finance Director
Anticipated completion date: June 30, 2024

Concur. The County does have P-Card procedures, but none that specifically address fuel tracking. The County realizes the need to implement a fuel tracking process that is affordable and reasonable to better track fuel purchased with County purchasing cards. County Administration does not believe that there was any intentional abuse of County P-Card fuel purchases or any misuse of County funds during fiscal year 2022-23. The County has had preliminary discussions regarding potential solutions to this issue. However, these solutions have been determined to be either inefficient as they involve multiple manual processes or too costly for the benefit received by implementing a new fuel management system. The County will continue to evaluate practical options that will address the issues identified by the auditors of being able to document that County policies were followed, that fuel purchases were for County vehicles only and used for official County business purposes.

Per County policy, business meals are allowed to be purchased when required to conduct official County business. The person who purchased the business meal is an employee of the Eastern Arizona Counties Organization (ECO) in which the County is the fiscal agent. As the fiscal agent for ECO, documentation for the business meal was reviewed by county staff. However, the $52 of alcoholic beverages was not identified as an unallowable purchase during the review process. Upon notification by the auditors, the person was contacted, and the purchase was reimbursed to the County, which is the normal practice in these instances. In the future, the County will emphasize mandatory P-Card training, require approvers to review transactions, investigate any misuse to the administrator and/or procurement manager, and require reimbursement for all unallowable purchases.

2023-02
Information Technology (IT) - Managing Risk
Contact Person: Ken Dewitt, Information Technology Director
Anticipated completion date: June 30, 2025

Concur. Navajo County takes all IT audit findings seriously and will make efforts to resolve deficiencies. County Administration and IT have made progress in automating data collection, but not to the point of satisfying this finding due to the amount of work to be accomplished. It is estimated that this project will take years to complete. The County will continue the process of evaluating and managing the risks of holding sensitive information by identifying, classifying, and inventorying the information the County holds. We are working on a formal plan to get a better understanding of the length of time it will take to implement something that will satisfy cyber security issues. As part of the formal plan, IT staff will be meeting with each department and office to evaluate their priorities concerning sensitive data.

2023-03
Information Technology (IT) - Controls
Contact Person: Ken Dewitt, Information Technology Director
Anticipated completion date: June 30, 2025

Concur. Navajo County takes all IT audit findings seriously and will make efforts to resolve deficiencies. The County has taken steps to mitigate IT audit findings and will continue to improve controls over IT resources. During the fiscal year, the County resolved most of the change control issues. The financial system access is reviewed on an annual basis and issues identified in the review are addressed at this time. The County has developed and created a new ticketing system that includes a change control module. The system was implemented on July 1, 2022, and used through the fiscal year. Even though there were a few errors in the installation, the County is pleased with the change control process. The County based some of the designs of the system on the recommendations given to the County by the auditors.

ARIZONA Auditor General

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