



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Single Audit

Cochise County Community College District

Year Ended June 30, 2013



Debra K. Davenport
Auditor General

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Cochise County Community College District
Single Audit Reporting Package
Year Ended June 30, 2013

Table of Contents	Page
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 <i>Government Auditing Standards</i>	1
Report on Compliance for Each Major Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133	3
Schedule of Expenditures of Federal Awards	7
Schedule of Findings and Questioned Costs	
Summary of Auditors' Results	9
Financial Statement Findings	11
Federal Award Findings and Questioned Costs	12
Corrective Action Plan	13
Summary Schedule of Prior Audit Findings	17
 Report Issued Separately 	
Comprehensive Annual Financial Report	



DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

**Independent Auditors' Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Basic Financial Statements
Performed in Accordance with *Government Auditing Standards***

Members of the Arizona State Legislature

The Governing Board of
Cochise County Community College District

We have audited the financial statements of the business-type activities and discretely presented component unit of Cochise County Community College District as of and for the year ended June 30, 2013, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 4, 2013. Our report includes a reference to other auditors who audited the financial statements of the Cochise College Foundation, the discretely presented component unit, as described in our report on the District's financial statements. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. However, the financial statements of the Cochise College Foundation were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or compliance associated with the Cochise College Foundation.

Internal Control over Financial Reporting

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

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 District's basic financial statements will not be prevented, or detected and corrected, on a timely basis. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control described in the accompanying Schedule of Findings and Questioned Costs as items 2013-01, 2013-02, and 2013-03 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District'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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Cochise County Community College District's Response to Findings

Cochise County Community College District's responses to the findings identified in our audit are presented on pages 13 through 15. The District's responses were not subjected to the 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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Jay Zsorey, CPA
Financial Audit Director

December 4, 2013



DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

Independent Auditors' Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

Members of the Arizona State Legislature

The Governing Board of
Cochise County Community College District

Report on Compliance for Each Major Federal Program

We have audited Cochise County Community College District's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013. The District's major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. 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 District'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 on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, Cochise County Community College District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the business-type activities and discretely presented component unit of Cochise County Community College District as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. We issued our report thereon dated December 4, 2013, that contained an unmodified opinion on those financial statements. Our report was modified to include a reference to our reliance on other auditors. Our audit was conducted for the purpose of forming our opinions on the financial statements that collectively comprise the District's basic financial statements. 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 is the responsibility of the District's

management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Jay Zsorey, CPA
Financial Audit Director

January 29, 2014

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**Cochise County Community College District
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2013**

Federal agency/CFDA number	Federal program name	Cluster title	Pass-through grantor	Pass-through grantor's number(s)	Program expenditures
Department of Labor					
17 267	Incentive Grants—WIA Section 503		Arizona Department of Education	13FAEAEI-370536-06A, 13FAECCP-370536-05A	\$ 139,035
National Science Foundation					
47 076	Education and Human Resources				16,656
47 076	Education and Human Resources		Finger Lakes Community College	CCURI	4,371
47 076	Education and Human Resources		Science Foundation Arizona	DUE-1003847	215,065
Total National Science Foundation					<u>236,092</u>
Small Business Administration					
59 037	Small Business Development Centers		Maricopa County Community College District	1-603001-Z-0003, 2-603001-Z-0003, 3-603001-Z-0003	131,560
Department of Education					
84 002	Adult Education—Basic Grants to States		Arizona Department of Education	13FAEABE-370536-03A; 13FAEAEF-370536-02A; 13FAEADL-370536-04A; 13FAEETE-370536-07A	604,372
84 042	TRIO-Student Support Services	TRIO-Student Support Services Cluster			244,424
84 048	Career and Technical Education - Basic Grants to States		AZ Department of Education	12FCTDBG-270536-04A, 13FCTDBG-370536-01A	174,909
84 051	Career and Technical Education - National Programs		AZ Department of Education	13SSEPSG-370536-08A	6,878
84 243	Tech-Prep Education		AZ Department of Education	11FCTDTP-170536-03A	8,613
Total Department of Education excluding Student Financial Assistance Cluster					<u>1,039,196</u>
84 007	Federal Supplemental Educational Opportunity Grants	Student Financial Assistance Cluster			79,201
84 033	Federal Work-Study Program	Student Financial Assistance Cluster			95,690
84 063	Federal Pell Grant Program	Student Financial Assistance Cluster			5,343,206
84 268	Federal Direct Student Loans	Student Financial Assistance Cluster			1,585,475
Department of Health and Human Services					
93 925	Scholarships For Health Professions Students from Disadvantaged Backgrounds	Student Financial Assistance Cluster			154,851
<i>Total Student Financial Assistance Cluster</i>					<u>7,258,423</u>
Total expenditures of federal awards					<u>\$ 8,804,306</u>

See accompanying notes to schedule

Cochise County Community College District
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2013

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Cochise County Community College District and is presented on the full 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) Numbers

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2013 *Catalog of Federal Domestic Assistance*.

Cochise County Community College District
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2013

Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:		Unmodified	
		Yes	No
Internal control over financial reporting:			
Material weakness identified?	—		<u>X</u>
Significant deficiencies identified?	<u>X</u>		—
Noncompliance material to the financial statements noted?	—		<u>X</u>

Federal Awards

Internal control over major programs:			
Material weakness identified?	—		<u>X</u>
Significant deficiencies identified?	—		<u>X</u> (None reported)
Type of auditors' report issued on compliance for major programs:			Unmodified
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:

CFDA Number	Name of Federal Program or Cluster
	Student Financial Assistance Cluster:
84.007	Federal Supplemental Educational Opportunity Grants
84.033	Federal Work-Study Program
84.063	Federal Pell Grant Program
84.268	Federal Direct Student Loans
93.925	Scholarships for Health Professions Students from Disadvantaged Backgrounds
84.002	Adult Education—Basic Grants to States

Cochise County Community College District
Schedule of Findings and Questioned Costs
Year Ended June 30, 2013

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee?

Yes	No
<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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Cochise County Community College District
Schedule of Findings and Questioned Costs
Year Ended June 30, 2013

Financial Statement Findings

2013-01

The District should strengthen access controls over its financial information

Criteria: The District's computerized financial information system processes and stores information that is vital to its daily operations. Therefore, the District should have adequate written internal control policies and procedures to prevent and detect unauthorized access to and modification of its financial information.

Condition and context: The District's written policies and procedures did not require periodically reviewing employee access rights or monitoring system logs for unusual or suspicious activity, and these two control activities were not performed. These control activities are essential for preventing and detecting unauthorized access and modification of financial information.

Effect: The District's financial information was exposed to an increased risk of theft, manipulation, or misuse because financial information could have been inappropriately accessed or modified without detection.

Cause: District management stated that it lacked the resources to develop and establish internal control policies and procedures and adequately monitor access to the financial information system.

Recommendation: To strengthen its controls over preventing unauthorized use or modification of its financial information, the District should:

- Develop and establish comprehensive written policies and procedures over employee access.
- Monitor system access logs for unusual or suspicious activity.

2013-02

The District should comply with its policies and procedures over capital assets

Criteria: The District should comply with its policies and procedures over capital assets by maintaining a reliable capital assets listing. This will help ensure that capital assets are adequately safeguarded and properly reported in its financial statements.

Condition and context: Capital assets comprise \$58.9 million, or 68.7 percent, of the District's total assets. The District used a contractor to inventory its capital assets; however, the District did not update its official capital assets listing with that inventory's results.

Effect: Although auditors found no errors, the District's financial statements could have been misstated because its capital asset listing may have been incomplete. Also, any theft or misuse of the District's capital assets may not have been detected because missing or misplaced items may not have been identified.

Cochise County Community College District
Schedule of Findings and Questioned Costs
Year Ended June 30, 2013

Cause: Management stated that the District did not follow its policies and procedures because it did not have the available resources to update its capital asset listing with the inventory's results.

Recommendation: To help ensure that the District's capital assets are properly reported in the financial statements and to help safeguard the District's capital assets against theft or misuse, the District should update its capital assets listing with the results of its capital assets inventory.

2013-03

The District should establish written policies and procedures over its transaction processing and financial statement preparation

Criteria: Written policies and procedures provide the basic framework needed for establishing employee accountability and serve as a reference tool for employees seeking guidance on how to handle complex or infrequent transactions and situations. Also, this framework helps to ensure that the financial statements and note disclosures are compiled accurately and in accordance with generally accepted accounting principles.

Condition and context: The District lacked written policies and procedures over its disbursements processing, journal-entry processing, and financial statement preparation.

Effect: The District's financial statements and supporting schedules could omit important and required information or contain other misstatements. In addition, the District could be at risk for errors, irregularities, and fraudulent activity without written policies and procedures. Both these risks could be magnified because of employee retirements or terminations in the finance department.

Cause: The District relied on the experience of its finance department employees and informal procedures to process its transactions and compile its financial statements.

Recommendation: To help ensure that transactions are processed correctly and that financial statements are compiled accurately, the District should:

- Develop comprehensive written policies and procedures for disbursements and journal-entry processing, including independent reviews of all journal entries proposed by finance department employees.
- Develop comprehensive written policies and procedures over financial statement preparation, including instructions for closing the general ledger at fiscal year-end; instructions for preparing common year-end financial statement adjustments; and a process for supervisory review of draft financial statements, supporting schedules, and note disclosures.

Federal Award Findings and Questioned Costs

None reported.



COCHISE COLLEGE

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January 16, 2014

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

Dear Ms. Davenport:

The accompanying Corrective Action Plan has been prepared as required by the standards applicable to financial audits contained in *Government Auditing Standards* and by U.S. Office of Management and Budget Circular A-133. Specifically, we are providing you with the corrective action planned for the financial reporting findings and the names of the contact persons responsible for corrective action, the corrective action planned, and the anticipated completion date for each finding included in the current year's Schedule of Findings and Questioned Costs.

Sincerely,

LaMont D. Schiers
Vice President for Administrative Affairs

Cochise County Community College District
Corrective Action Plan
Year Ended June 30, 2013

Financial Statement Findings

2013-01

The District should strengthen access controls over its financial information

Contact: Carlos Cantagena, VP for Information Technology

Anticipated completion date: January 2014

The District agrees with the recommendations and has implemented the following courses of action.

The District has developed Administrative Policy # 1016 (Administrative Information Systems - Employee Access) and related procedures which govern employee access control to the financial information system. The District approved the policy on September 2013.

The District completed a detailed users permissions security review to ensure that the proper security classifications are up to date and that employees are properly authorized and cleared to access the financial information system if required by their job function. Policy 1016.2 and 1016.3 outline the account activation and deactivation procedures. This review was completed in June 2013 and the automated security classification assignment process was completed in January 2014.

The District has researched Oracle logging practices and has developed processes that will red flag attempted activity by unauthorized users. These processes will run on a scheduled basis and were implemented in January 2014.

2013-02

The District should comply with its policies and procedures over capital assets

Contact: David Gage, Director of Finance/Controller

Anticipated completion date: June 30, 2014

The District's capital assets are \$58.9 million, or 68.7 percent of the District's total assets. However, of these capital assets, \$45.3 million is in buildings, \$8.0 million is in improvements to grounds and infrastructure, \$.7 million is for the land and other non-depreciable assets, and there was \$.8 million in construction in progress as of June 30, 2013. Policies and procedures for tracking capital assets will do little to improve the control, safeguard or reporting on these types of assets. However, for the remaining \$3.9 million, or 4.6% of total assets in equipment and collections, the District agrees that there is a need for improving these controls and agrees with the recommendations. The District has done the following.

The District has hired a third party company to perform and verify a complete inventory of the District's equipment to ensure each item has been properly identified and tagged. We are currently reconciling the third party list against our financial system fixed asset list, which is our inventory of depreciable equipment. The District has also written and implemented procedures for maintaining and controlling these assets, including necessary training for all employees.

Cochise County Community College District
Corrective Action Plan
Year Ended June 30, 2013

The District has modified and implemented additional procedures for the following three Administrative Policies: First; # 1007 (Transfer of College Equipment) with the modification of Procedure 1007.1 and the use of college forms for proper transferring of college equipment, specifically grant funded equipment. Second; # 2005 (Capital Expenditures, Tracking and Inventory) and the modification of Procedures 2005.1 & 2005.2 covering maintaining and tracking capital equipment and property control inventory. Third; # 2009 (Disposal of Property) in proper disposal of all surplus property. These three policy revisions were proposed in October and approved in November of 2013.

2013-03

The District should establish written policies and procedures over its transaction processing and financial statement preparation

Contact: LaMont Schiers, VP for Administration

Anticipated completion date: December 31, 2014

The District agrees with the recommendation. The District is in the process of developing comprehensive written policies for journal entry processing to include independent reviews of all journal entries initiated by District employees. The District is working on having written policies and procedures completed by FY2014 year end. Written procedures already exist for disbursement processing but the District will review and update these procedures as needed.

The District is simultaneously developing written policies and procedures over financial statement preparation including instructions for closing the general ledger at fiscal year-end; instructions for preparing common year-end financial statement adjustments; and a process for supervisory review of draft financial statements, supporting schedules, and note disclosures. These written policies and procedures will take time to develop and write but the District will have them completed within this calendar year.

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COCHISE COLLEGE

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January 16, 2014

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

Dear Ms. Davenport:

The accompanying Summary Schedule of Prior Audit Findings has been prepared as required by U.S. Office of Management and Budget Circular A-133. Specifically, we are reporting the status of audit findings included in the prior audit's Schedule of Findings and Questioned Costs related to federal awards. This schedule also includes audit findings reported in the prior audit's Summary Schedule of Prior Audit Findings that were not corrected.

Sincerely,

LaMont D. Schiers
Vice President for Administrative Affairs

Cochise County Community College District
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2013

Status of Federal Award Findings and Questioned Costs

CFDA No.: 84.048 **Career and Technical Education—Basic Grants to States**

Finding No.: 12-101

Status: Partially corrected

The District has hired a third party company to perform and verify a complete inventory of the District's equipment to ensure each item has been properly identified and tagged. We are currently reconciling the third party list against our financial system fixed asset list, which is our inventory of depreciable equipment. The District has also written and implemented procedures for maintaining and controlling these assets, including necessary training for all employees.

The District has modified and implemented additional procedures for the following three Administrative Policies: First; # 1007 (Transfer of College Equipment) with the modification of Procedure 1007.1 and the use of college forms for proper transferring of college equipment, specifically grant funded equipment. Second; # 2005 (Capital Expenditures, Tracking and Inventory) and the modification of Procedures 2005.1 & 2005.2 covering maintaining and tracking capital equipment and property control inventory. Third; # 2009 (Disposal of Property) in proper disposal of all surplus property. These three policy revisions were proposed in October and approved in November of 2013.