

**Gila County Provisional Community College
District**
(Gila Community College)

Annual Financial Report and
Report on Internal Control
and on Compliance

Year Ended June 30, 2017

A Report to the Arizona Legislature

Lindsey A. Perry
Auditor General





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Independent auditors' report

Members of the Arizona State Legislature

The Governing Board of
Gila County Provisional Community College District

Report on the financial statements

We have audited the accompanying financial statements of the governmental activities and general fund of the Gila County Provisional Community College District as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express opinions on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and general fund of Gila County Provisional Community College District as of June 30, 2017, and the respective changes in financial position for the year then ended in accordance with U.S. generally accepted accounting principles.

Other matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages a-1 through a-4 and the budgetary comparison schedule—general fund on pages 11 and 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other reporting required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2018, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Lindsey Perry, CPA, CFE
Auditor General

October 23, 2018



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- **Payson Campus:** PO Box 359 Payson, AZ 85547 Phone: (928) 468-8039 Fax: (928) 468- 8043
- **San Carlos Campus:** PO Box 152 San Carlos, AZ 85550 Phone: (928) 475-5981 Fax: (928) 475-5983

Management's Discussion and Analysis

Our discussion and analysis of the Gila County Provisional Community College District's (District's) financial performance provides an overview of the District's financial position and activities for the year ended June 30, 2017. Please read it in conjunction with the District's basic financial statements, which immediately follow.

Basic financial statements

The District is a special-purpose governmental unit governed by a separately elected governing body. The financial statements are presented in accordance with the reporting model prescribed by Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis*, and consist of the following:

The government-wide and fund financial statements are presented, with a reconciliation shown between them.

The governmental fund balance sheet/statement of net position and statement of governmental fund revenues, expenditures, and changes in fund balance/statement of activities combines information about the reporting government as a whole and the fund statements that report the general fund's financial position and the results of its operations. Government-wide financial statements are designed to provide readers with a broad overview of the District's finances. Fund accounting is designed to demonstrate legal compliance and focuses on near-term inflows and outflows of resources as well as the balances of spendable resources available at year-end.

The general fund is the District's general operating fund. It is used to account for all of the District's financial resources.

Financial highlights and analysis

In accordance with state statutes, the District does not offer degrees, certificates, or diplomas. As a result, the District has contracted with Eastern Arizona College (EAC) to provide educational programs and services.

The District and EAC entered into an intergovernmental agreement and operating agreement under which EAC provides educational programs and services to the District from July 1, 2005 through December 30, 2018. The agreement established that EAC will provide educational programs; certification of faculty; admission and registration of students; payroll services for EAC employees; academic records and transcripts; access to student information; financial aid counseling, processing, and distribution; student employment; curriculum and master schedule development; information technology services; collection of all tuition and fees for credit courses; cashiering for EAC-related functions; access to information relative to enrollments; and payment to adjunct faculty.

The District exercises primary tax levy authority for the generation of funds and collects other general revenues to pay for the contracted education and other general operating expenses. The District continues to act in a financially conservative manner during the budgetary process, looking to maintain a secure financial future for the institution.

Condensed financial information

The financial information in the statement of net position on page 1 reflects the District's assets, liabilities, and net position. The statement of activities on page 2 presents the District's operations. Over time, increases or decreases in net position may serve as a useful indicator of whether the District's financial position is improving or regressing. The following tables present summaries of the District's net position and the changes in net position for the years ended June 30, 2017 and 2016.

Net Position
As of June 30, 2017 and 2016

Assets:	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>Increase/(decrease)</u>
Current assets	\$ 4,507,067	\$ 3,910,061	\$597,006
Noncurrent assets:			
Capital assets, not being depreciated	1,210,000	1,220,063	(10,063)
Capital assets, net of accumulated depreciation	<u>5,010,417</u>	<u>4,904,830</u>	<u>105,587</u>
Total assets	<u>10,727,484</u>	<u>10,034,954</u>	<u>692,530</u>
Liabilities:			
Other liabilities	1,732,259	1,769,466	(37,207)
Long-term liabilities	<u>46,845</u>	<u>57,746</u>	<u>(10,901)</u>
Total liabilities	<u>1,779,104</u>	<u>1,827,212</u>	<u>(48,108)</u>
Net position:			
Net investment in capital assets	6,175,874	6,070,541	105,333
Unrestricted	<u>2,772,506</u>	<u>2,137,201</u>	<u>635,305</u>
Total net position	<u>\$ 8,948,380</u>	<u>\$ 8,207,742</u>	<u>\$740,638</u>

*Changes in Net Position
For the Years Ended June 30, 2017 and 2016*

Expenses:	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>Increase/(decrease)</u>
Education and general	\$5,062,821	\$5,217,437	\$(154,616)
Interest on long-term debt	<u>58</u>	<u>132</u>	<u>(74)</u>
Total expenses	<u>5,062,879</u>	<u>5,217,569</u>	<u>(154,690)</u>
Revenues:			
Program revenues:			
Charges for services	71,299	74,423	(3,124)
Operating grants and contracts	<u>946,425</u>	<u>778,687</u>	<u>167,738</u>
Total program revenues	<u>1,017,724</u>	<u>853,110</u>	<u>164,614</u>
General revenues:			
Property taxes	4,196,344	4,110,859	85,485
State appropriations	549,873	618,004	(68,131)
Investment earnings	2,640	1,402	1,238
Capital contributions	33,750		33,750
Other	<u>3,186</u>	<u>987</u>	<u>2,199</u>
Total general revenues	<u>4,785,793</u>	<u>4,731,252</u>	<u>54,541</u>
Total revenues	<u>5,803,517</u>	<u>5,584,362</u>	<u>219,155</u>
Change in net position	\$ 740,638	\$ 366,793	<u>\$ 373,845</u>
Beginning net position	<u>8,207,742</u>	<u>7,840,949</u>	
Ending net position	<u>\$8,948,380</u>	<u>\$8,207,742</u>	

Significant variances

For the fiscal year ended June 30, 2017, the financial data presented above is for analysis and comparison of significant variances relative to assets, liabilities, net position, revenues, and expenses.

- Total assets at June 30, 2017, were \$10,727,484 consisting primarily of cash and investments of \$4,231,495 and capital assets, net of accumulated depreciation, of \$6,220,417.
- The total liabilities of \$1,779,104 were composed of current obligations for educational and general expenses and long-term liabilities for long-term debt.
- The decrease in education and general expenses of \$154,616 was primarily due to a decrease in contractual expenses paid to EAC for the year.
- The increase in program revenues of \$164,614 was primarily because of increases in educational programs and services billed directly to the San Carlos Apache tribe.
- The increase in general revenues of \$54,541 was primarily due to an increase in property tax revenues and capital contributions received from Gila County.

General fund budget

The District's actual education and general expenditures were \$2,570,416 less than budgeted amounts primarily due to an anticipated increase in these expenditures for tuition that was budgeted but not realized because it was earned and reported by EAC and then deducted from amounts owed to EAC for contracted services.

Total revenues were \$928,935 less than budgeted. The difference in budgeted compared to actual charges for services in the amount of \$1,328,701 was primarily due to tuition that was budgeted but not realized

because tuition was earned and reported by EAC. The difference in budgeted compared to actual investment earnings was primarily due to a budgeting oversight by the District, which led to a variance of \$97,360 less than budgeted.

The District's actual beginning fund balance was \$1,267,090 more than budgeted due to changes in estimated fund balance between the time the budget was initially prepared and the year-end actual results.

Additional budgetary information can be found on pages 11 and 12 of this report.

Capital assets and debt administration

Capital assets. The District's total investment in capital assets, net of accumulated depreciation, was \$6,220,417 that was composed of land and land improvements, buildings and building improvements, equipment, vehicles, and library books. This is a net increase of \$95,524 from the prior year. The increase can be attributed primarily to additions of building improvements and equipment added during the year offset by depreciation expense recorded during the year.

Additional information on the District's capital assets can be found in note 4 in the notes to the financial statements.

Debt administration. At year-end, the District had \$46,845 in long-term debt outstanding, \$8,665 due within 1 year. This represents a decrease of \$10,901 that can be attributed to payments made during the year.

Additional information on the District's long-term debt can be found in note 6 in the notes to the financial statements.

Request for information

This financial report is designed to provide our citizens, taxpayers, and customers with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, please contact Senior Dean, Dr. Stephen Cullen, at (928) 425-8481.

Gila County Provisional Community College District
(Gila Community College)
Governmental fund balance sheet/statement of net position
June 30, 2017

	<u>Balance sheet— general fund</u>	<u>Reconciliation (Note 7)</u>	<u>Statement of net position— governmental activities</u>
Assets			
Current assets:			
Cash and investments	\$ 4,231,495		\$ 4,231,495
Property taxes receivable	161,162		161,162
Due from other governments	114,410		114,410
Total current assets	<u>4,507,067</u>		<u>4,507,067</u>
Noncurrent assets:			
Capital assets, not being depreciated		\$ 1,210,000	1,210,000
Capital assets, net of accumulated depreciation		<u>5,010,417</u>	<u>5,010,417</u>
Total noncurrent assets		<u>6,220,417</u>	<u>6,220,417</u>
Total assets	<u>4,507,067</u>	<u>6,220,417</u>	<u>10,727,484</u>
Liabilities			
Current liabilities:			
Accounts payable	28,226		28,226
Due to other governments	1,704,033		1,704,033
Current portion of long-term debt		<u>8,665</u>	<u>8,665</u>
Total current liabilities	<u>1,732,259</u>	<u>8,665</u>	<u>1,740,924</u>
Noncurrent liabilities:			
Long-term debt		<u>38,180</u>	<u>38,180</u>
Total noncurrent liabilities		<u>38,180</u>	<u>38,180</u>
Total liabilities	<u>1,732,259</u>	<u>46,845</u>	<u>1,779,104</u>
Deferred inflows of resources			
Unavailable revenues—property taxes	<u>146,078</u>	<u>(146,078)</u>	
Total deferred inflows of resources	<u>146,078</u>	<u>(146,078)</u>	
Fund balance/net position			
Fund balance:			
Unassigned	<u>2,628,730</u>	<u>(2,628,730)</u>	
Total fund balance	<u>2,628,730</u>	<u>(2,628,730)</u>	
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 4,507,067</u>		
Net position:			
Net investment in capital assets		6,175,874	6,175,874
Unrestricted		<u>2,772,506</u>	<u>2,772,506</u>
Total net position		<u>\$ 8,948,380</u>	<u>\$ 8,948,380</u>

See accompanying notes to financial statements.

Gila County Provisional Community College District
(Gila Community College)
Statement of governmental fund revenues, expenditures, and
changes in fund balance/statement of activities
Year ended June 30, 2017

	<u>General fund</u>	<u>Reconciliation (Note 7)</u>	<u>Statement of activities— governmental activities</u>
Expenditures/expenses			
Education and general	\$ 4,712,578	\$ 350,243	\$ 5,062,821
Debt service			
Principal retirement	10,901	(10,901)	
Interest on long-term debt	58		58
Capital outlay	<u>412,017</u>	<u>(412,017)</u>	
Total expenditures/expenses	<u>5,135,554</u>	<u>(72,675)</u>	<u>5,062,879</u>
 Program revenues			
Charges for services	71,299		71,299
Operating grants and contracts	<u>946,425</u>		<u>946,425</u>
Total program revenues	<u>1,017,724</u>		<u>1,017,724</u>
Net program expenses	<u>4,117,830</u>	<u>(72,675)</u>	<u>4,045,155</u>
 General revenues			
Property taxes	4,195,771	573	4,196,344
State appropriations	549,873		549,873
Investment earnings	2,640		2,640
Capital contributions		33,750	33,750
Other	<u>3,186</u>		<u>3,186</u>
Total general revenues	<u>4,751,470</u>	<u>34,323</u>	<u>4,785,793</u>
 Net change in fund balance (deficit)	633,640	(633,640)	
Change in net position		740,638	740,638
 Fund balance (deficit)/net position			
July 1, 2016	<u>1,995,090</u>	<u>6,212,652</u>	<u>8,207,742</u>
June 30, 2017	<u>\$ 2,628,730</u>	<u>\$ 6,319,650</u>	<u>\$ 8,948,380</u>

See accompanying notes to financial statements.

Gila County Provisional Community College District
(Gila Community College)
Notes to financial statements
June 30, 2017

Note 1 - Summary of significant accounting policies

The accounting policies of the Gila County Provisional Community College District (District) conform to generally accepted accounting principles (GAAP) applicable to public institutions engaged only in business-type activities adopted by the Governmental Accounting Standards Board (GASB).

A. Reporting entity

The District is a special-purpose government that is governed by a separately elected governing body. It is legally separate and fiscally independent of other state and local governments. The accompanying financial statements present the District's activities.

Because Gila County Provisional Community College District is a provisional district, it cannot offer degrees, certificates, or diplomas and, therefore, contracts with an accredited district. Educational programs and services are provided through intergovernmental agreements as follows:

The District and Eastern Arizona College (EAC) entered into an intergovernmental agreement and operating agreement under which EAC provides educational programs and services to the District from July 1, 2005 through December 30, 2018. The agreement established that EAC will provide educational programs; certification of faculty; admission and registration of students; payroll services for EAC employees; academic records and transcripts; access to student information; financial aid counseling, processing, and distribution; student employment; curriculum and master schedule development; information technology services; collection of all tuition and fees for credit courses; cashiering for EAC-related functions; access to information relative to enrollments; and payment to adjunct faculty. EAC charges the District a fee of 25 percent of the total disbursements it processes.

The District does not directly employ personnel. Instead, EAC employs staff. The cost of the personnel compensation and related benefits is paid to EAC through the intergovernmental agreement.

B. Basis of presentation and accounting

The financial statements include the governmental fund balance sheet/statement of net position and the statement of governmental fund revenues, expenditures, and changes in fund balance/statement of activities. Since the District is a single-program government, it presents the government-wide financial statements in combination with the fund financial statements.

The governmental fund balance sheet/statement of net position provides information about the assets, liabilities, deferred inflows of resources, and fund balance/net position of the District at the end of the year. Assets and liabilities are classified as either current or noncurrent. Net position is classified according to external donor restrictions or availability of assets to satisfy the District's obligations. Net investment in capital assets represents the value of capital assets net of accumulated depreciation, less any outstanding debt incurred to acquire or construct the assets. Unrestricted net position includes all other net resources, including those that management has designated to be used for other than general operating purposes.

Gila County Provisional Community College District
(Gila Community College)
Notes to financial statements
June 30, 2017

The statement of governmental fund revenues, expenditures, and changes in fund balance/statement of activities provides information about the District's financial activities during the year. Revenues are classified as either program or general, and all changes in net position are reported. Generally, revenues the District generates for instruction and student services, along with operating and capital grants and contributions, are considered to be program revenues. Other revenues used for instruction and student services, such as property taxes, state appropriations, and investment earnings, not classified as program revenues are considered to be general revenues.

The general fund is the District's primary operating fund.

The fund financial statements; the governmental fund balance sheet; and the statement of governmental fund revenues, expenditures, and changes in fund balance are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when they become both measurable and available. The District considers all revenues reported in the governmental fund to be available if the revenues are collected within 60 days after year-end. The District's major revenue sources susceptible to accrual are property taxes, state appropriations, government grants and contracts, and investment earnings. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, which are recognized as expenditures to the extent they are due and payable. General capital asset acquisitions are reported as expenditures in the general fund. Issuances of general long-term debt and acquisitions under capital lease agreements are reported as other financing sources.

The government-wide financial statements, the statement of net position, and the statement of activities are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Property taxes are recognized in the year in which they are levied. State appropriations are recognized as revenue in the year in which the appropriation is first made available for use. Grants and donations are recognized as revenue as soon as all of the provider's eligibility requirements have been met.

C. Cash and investments

The District's cash and cash equivalents are considered to be demand deposits and cash and investments held by the County Treasurer. All investments are stated at fair value.

D. Capital assets

Capital assets are reported at actual cost or estimated historical cost if historical records are not available. Donated assets are reported at acquisition value.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the financial statements are as follows:

Gila County Provisional Community College District
(Gila Community College)
Notes to financial statements
June 30, 2017

	Capitalization threshold	Depreciation method	Estimated useful life
Land	\$1	Not applicable	Not applicable
Buildings	\$5,000	Straight-line	15-40 years
Equipment	\$5,000	Straight-line	5-15 years
Improvements other than buildings	\$5,000	Straight-line	5-25 years
Library materials	\$1	Straight-line	10 years

E. Property tax revenues

The District's property tax rate is adopted by the Governing Board and reviewed on an annual basis. The Gila County Treasurer is responsible for collecting property taxes for all governmental entities within the County. The County levies real and personal property taxes on or before the third Monday in August that become due and payable in two equal installments. The first installment is due on the first day of October and becomes delinquent after the first business day of November. The second installment is due on the first day of March of the next year and becomes delinquent after the first business day of May.

A lien assessed against real and personal property attaches on the first day of January preceding assessment and levy.

F. Deferred inflows of resources

The balance sheet includes a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of fund balance that applies to future periods and will be recognized as a revenue in future periods.

G. Investment earnings

Investment earnings is composed of interest earned on the cash and investments and net changes in the fair value of investments held by the County Treasurer.

H. Fund balance classifications

Fund balance of the governmental fund is reported separately within classifications based on a hierarchy of the constraints placed on the use of those resources. The classifications are based on the relative strength of the constraints that control how the specific amounts can be spent. The classifications are nonspendable, restricted, and unrestricted, which includes committed, assigned, and unassigned fund balance classifications. Although the District did not use all of the fund balance classifications during the current year, descriptions of each classification and the District's policies follows.

The nonspendable fund balance classification includes amounts that cannot be spent because they are either not in spendable form, or are legally or contractually required to be maintained intact. Restricted fund balances are those that have externally imposed restrictions on their usage by creditors, such as through debt covenants, grantors, contributors, or laws or regulations.

Gila County Provisional Community College District
(Gila Community College)
Notes to financial statements
June 30, 2017

The unrestricted fund balance category is composed of committed, assigned, and unassigned resources. Committed fund balances are self-imposed limitations approved by the District's Governing Board, which is the highest level of decision-making authority within the District. The constraints placed on committed fund balances can be removed or changed by only the Board.

Assigned fund balances are resources constrained by the District's intent to be used for specific purposes but is neither restricted nor committed. Assigned amounts represent intended uses established by the Board or a management official delegated that authority by formal board action.

The unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not reported in the other classifications.

When an expenditure is incurred that can be paid from either restricted or unrestricted fund balances, the District will use restricted fund balance first. For the disbursement of unrestricted fund balances, the District will use committed amounts first, followed by assigned amounts, and lastly unassigned amounts.

Note 2 - Deposits and investments

Arizona Revised Statutes (A.R.S.) requires the District to deposit special tax levies for the District's maintenance or capital outlay with the County Treasurer. The statutes do not require the District to deposit other public monies in its custody with the County Treasurer; however, the District must act as a prudent person dealing with another's property when making investment decisions about those monies. A.R.S. requires collateral for deposits at 102 percent of all deposits not covered by federal depository insurance. The statutes do not include any requirements for credit risk, custodial credit risk, concentration of credit risk, interest rate risk, or foreign currency risk for the District's investments.

Deposits—At June 30, 2017, the carrying amount of the District's deposits was \$4,188,121, and the bank balance was \$5,101,189. The District does not have a formal policy with respect to custodial credit risk of deposits. At June 30, 2017, the District's deposits were entirely covered by federal depository insurance or by collateral held by the pledging financial institution.

Investments—The District's investment in the County Treasurer's investment pool is valued using the District's proportionate participation in the pool because the pool's structure does not provide for shares. The District's portion is not identified with specific investments, and therefore, it is not subject to custodial credit risk.

The District's investment balance measured at fair value at June 30, 2017, was as follows:

Investment type	Amount
County Treasurer's investment pool	\$43,174

Gila County Provisional Community College District
(Gila Community College)
Notes to financial statements
June 30, 2017

Credit risk—Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligation. The District does not have a formal policy with respect to credit risk. At June 30, 2017, credit risk for the District’s investments was as follows:

Investment type	Rating	Rating agency	Amount
County Treasurer’s investment pool	Unrated	Not applicable	\$43,174

Interest rate risk—Interest rate risk is the risk that changes in interest rates will adversely affect an investment’s fair value. The District does not have a formal policy regarding interest rate risk for investments. At June 30, 2017, the District had the following investments:

Investment type	Average maturity	Amount
County Treasurer’s investment pool	1.06 years	\$43,174

A reconciliation of cash, deposits, and investments to amounts shown on the statement of net position follows:

Cash, deposits, and investments:		Statement of net position:	
Petty cash	\$ 200	Cash and investments	\$4,231,495
Amount of deposits	4,188,121		
Amount of investments	<u>43,174</u>		
Total	<u>\$4,231,495</u>	Total	<u>\$4,231,495</u>

Note 3 - Due from other governments

Due from other governments at June 30, 2017, as reported in the statement of net position is composed of \$114,410 due from Eastern Arizona College.

Note 4 - Capital assets

Capital asset activity for the year ended June 30, 2017, was as follows:

	Balance July 1, 2016	Increases	Decreases	Balance June 30, 2017
Capital assets not being depreciated:				
Land	\$ 1,210,000			\$ 1,210,000
Construction in progress	<u>10,063</u>	<u>\$ 146,052</u>	<u>\$(156,115)</u>	<u>114,000</u>
Total capital assets not being depreciated	<u>1,220,063</u>	<u>146,052</u>	<u>(156,115)</u>	<u>1,210,000</u>
Capital assets being depreciated:				
Buildings and improvements	5,173,102	185,714		5,358,816
Land improvements	88,763	25,933		114,696
Equipment	1,038,867	95,346		1,134,213
Vehicles	198,174			198,174
Library books	<u>361,668</u>			<u>361,668</u>
Total capital assets being depreciated	<u>6,860,574</u>	<u>306,993</u>		<u>7,167,567</u>

Gila County Provisional Community College District
(Gila Community College)
Notes to financial statements
June 30, 2017

	Balance July 1, 2016,	Increases	Decreases	Balance June 30, 2017
Less accumulated depreciation for:				
Buildings and improvements	\$ (573,892)	\$(140,889)		\$ (714,781)
Land improvements	(4,091)	(4,818)		(8,909)
Equipment	(866,087)	(38,173)		(904,260)
Vehicles	(189,744)	(3,879)		(193,623)
Library books	<u>(321,930)</u>	<u>(13,647)</u>		<u>(335,577)</u>
Total accumulated depreciation	<u>(1,955,744)</u>	<u>(201,406)</u>		<u>(2,157,150)</u>
Total capital assets, being depreciated, net	<u>4,904,830</u>	<u>105,587</u>		<u>5,010,417</u>
Total capital assets, net	<u>\$ 6,124,893</u>	<u>\$ 251,639</u>	<u>\$156,115</u>	<u>\$ 6,220,417</u>

Note 5 - Due to other governments

At June 30, 2017, the District had reported a total amount due to other governments of \$1,704,033. A portion of this liability in the amount of \$1,348,213 is owed to EAC for providing educational programs and services during the year. The remaining amount of \$355,820 is owed to the State of Arizona related to erroneous sales tax distributions in prior years.

Note 6 - Long-term liabilities

The following schedule details the District's long-term liability and obligation activity for the year ended June 30, 2017:

	Balance July 1, 2016	Additions	Reductions	Balance June 30, 2017	Due within 1 year
Capital leases payable	\$ 5,140		\$ 2,838	\$ 2,302	\$2,302
Installment purchase obligation	1,700		1,700		
Loan payable	<u>50,906</u>		<u>6,363</u>	<u>44,543</u>	<u>6,363</u>
Total long-term debt	<u>\$57,746</u>	<u>\$ -</u>	<u>\$10,901</u>	<u>\$46,845</u>	<u>\$8,665</u>

Capital leases—The District has acquired equipment under the provisions of various long-term lease agreements classified as capital leases for accounting purposes because they provide for a transfer of ownership by the end of the lease term or are in place for greater than 75 percent of the economic life of the asset.

The assets acquired through capital leases are as follows:

Equipment	\$ 15,585
Less: accumulated depreciation	<u>(14,009)</u>
Carrying value	<u>\$ 1,576</u>

Gila County Provisional Community College District
(Gila Community College)
Notes to financial statements
June 30, 2017

The following schedule details debt service requirements to maturity for the District's long-term debt at June 30, 2017:

Year ending June 30:		
	2018	<u>\$2,358</u>
Total minimum lease payments		2,358
Less: amount representing interest		<u>(56)</u>
Present value of net minimum lease payments		<u>\$2,302</u>

Loan payable—The District acquired a building and equipment for its cosmetology program partially through an IGA with Northern Arizona Vocational Institute of Technology (NAVIT). In accordance with the agreement, NAVIT provided the District with \$187,264 in fiscal year 2014, and the District is required to pay back \$63,632.

The following schedule details debt service requirements to maturity for the District's long-term debt at June 30, 2017:

Year ending June 30:		
	2018	\$ 6,363
	2019	6,363
	2020	6,364
	2021	6,363
	2022	6,363
	2023-2024	<u>12,727</u>
Total payments		<u>\$44,543</u>

Note 7 - Reconciliations

The reconciliation of the governmental fund balance sheet to the statement of net position at June 30, 2017, was as follows:

Fund balances—governmental fund	\$2,628,730
Amounts reported for governmental activities in the statement of net position are different because:	
Some receivables are not available to pay for current-period expenditures and, therefore, are deferred in the governmental fund	146,078
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental fund	6,220,417
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental fund	<u>(46,845)</u>
Net position of governmental activities	<u>\$8,948,380</u>

Gila County Provisional Community College District
(Gila Community College)
Notes to financial statements
June 30, 2017

The reconciliation of the statement of governmental fund revenues, expenditures, and changes in fund balance to the statement of activities for the year ended June 30, 2017, was as follows:

Net change in fund balance (deficit)—governmental fund		\$ 633,640
Amounts reported for governmental activities in the statement of activities are different because:		
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental fund		573
Governmental fund reports capital outlays as expenditures; however, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense		
Expenditures for capitalized assets	263,180	
Depreciation expense	<u>(201,406)</u>	
Net capital outlay		61,774
Donated capital assets are recorded as capital contributions in the statement of activities, but are not current financial resources in the governmental fund		33,750
Repayments of long-term debt principal are expenditures in the governmental fund, but the repayment reduces long-term liabilities in the statement of net position		<u>10,901</u>
Change in net position of governmental activities		<u>\$ 740,638</u>

Note 8 - Risk management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District, through EAC, carries commercial insurance for all such risks of loss, including workers' compensation and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Gila County Provisional Community College District
(Gila Community College)
Required supplementary information
Budgetary comparison schedule—general fund
Year ended June 30, 2017

	<u>Original and final budget</u>	<u>Actual amounts</u>	<u>Variance with final budget</u>
Revenues:			
Property taxes	\$ 4,335,129	\$ 4,195,771	\$ (139,358)
State appropriations	538,000	549,873	11,873
Charges for services	1,400,000	71,299	(1,328,701)
Operating grants and contracts	325,000	946,425	621,425
Investment earnings	100,000	2,640	(97,360)
Other	<u> </u>	<u>3,186</u>	<u>3,186</u>
Total revenues	<u>6,698,129</u>	<u>5,769,194</u>	<u>(928,935)</u>
Expenditures:			
Education and general	7,282,994	4,712,578	2,570,416
Debt service			
Principal retirement		10,901	(10,901)
Interest on long-term debt		58	(58)
Capital outlay	<u>142,500</u>	<u>412,017</u>	<u>(269,517)</u>
Total expenditures	<u>7,425,494</u>	<u>5,135,554</u>	<u>2,289,940</u>
Net change in fund balance (deficit)	(727,365)	633,640	1,361,005
Fund balance:			
July 1, 2016	<u>728,000</u>	<u>1,995,090</u>	<u>1,267,090</u>
June 30, 2017	<u>\$ 635</u>	<u>\$ 2,628,730</u>	<u>\$ 2,628,095</u>

See accompanying note to budgetary comparison schedule.

**Gila County Provisional Community College District
(Gila Community College)
Required supplementary information
Note to budgetary comparison schedule—general fund
June 30, 2017**

Note - Budgeting and budgetary control

Arizona Revised Statutes require the District to prepare and adopt a budget annually. The Governing Board must approve the operating and capital outlay budgets on or before June 20. The Governing Board shall not adopt the budget if the property tax requirements of the budget, excluding amounts budgeted and levied for secondary property taxes, exceed the amounts established by statute. The budget must contain the estimated cost of all operating, capital outlay, and debt service expenditures. The District budgets all general fund expenditures in total since all costs are paid through the agreement with Eastern Arizona College (EAC).

The District's budget is prepared on an accounting basis consistent with generally accepted accounting principles, except for the beginning unrestricted general fund balance presented on the general fund's budgetary comparison schedule, which is budgeted on the cash basis, and charges for services presented on the general fund's budgetary comparison schedule, which represents tuition and fees earned and reported by EAC and which are not reported in the District's financial statements.



MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

ARIZONA AUDITOR GENERAL
LINDSEY A. PERRY

JOSEPH D. MOORE
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
Gila County Provisional Community College District

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 Comptroller General of the United States, the financial statements of the governmental activities and general fund of Gila County Provisional Community College District as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 23, 2018.

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 opinions 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.

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 have not been identified. However, as described in the accompanying schedule of findings and recommendations, we identified certain deficiencies in internal control over financial reporting 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 District's basic financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and recommendations as items 2017-01, 2017-02, 2017-05, 2017-06, 2017-08, and 2017-09 to be material weaknesses.

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 2017-03, 2017-04, and 2017-07 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 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 items 2017-04, 2017-07, and 2017-09.

Gila County Provisional Community College District's response to findings

Gila County Provisional Community College District's responses to the findings identified in our audit are presented in its corrective action plan at the end of this report. 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.

Lindsey Perry, CPA, CFE
Auditor General

October 23, 2018



SCHEDULE OF FINDINGS AND RECOMMENDATIONS

Financial statement findings

2017-01

The District should improve its accounting system and recordkeeping

Criteria—The District must issue accurate, complete, and timely financial statements to satisfy state audit and reporting requirements and to demonstrate accountability to the public and public agencies from which the District receives funding. Therefore, the District is responsible for establishing and maintaining effective internal controls over financial reporting, such as keeping a complete and updated accounting system and adequate accounting records, to help ensure that it can prevent and detect the potential loss, theft, or misuse of public monies and prepare reliable and timely financial information for its stakeholders.

Condition and context—The District did not have adequate internal controls for maintaining a properly designed accounting system and accounting records. Specifically, the following deficiencies were noted:

- **Accounting system was not adequately controlled**—The District's accounting records were not entered into the accounting system until December 2016 by the District's contracted financial statement preparer, increasing the risk that detailed accounting records could be lost or misplaced. Further, the District did not record many of its transactions in detail, but instead recorded transactions at a summarized level, and accordingly, information entered into the accounting system could not be reconciled to the detailed accounting records. In addition, the District's contracted educational services provider maintained an accounting on its system of some transactions related to the District's governmental grants and contracts; however, these transactions were never reconciled to the District's detailed accounting records and were not recorded in the District's accounting system on a monthly basis until December 2016.
- **Inadequate recordkeeping for program revenues**—The District reported approximately \$1 million in program revenues for the year. However, the District lacked policies and procedures for preparing, reconciling, and maintaining detailed accounting records related to its operating grants and contracts to ensure that these cash receipts were properly collected, recorded, and deposited. Similarly, the District did not always establish fees and prepare, reconcile, and maintain adequate accounting records to support nearly \$71,300 reported as charges for services related to its cosmetology program and ensure that these cash receipts were collected, recorded, and deposited.
- **Inadequate recordkeeping for expenses**—The District reported approximately \$5.1 million in total expenses for the year, but lacked written policies and procedures for handling, authorizing, and recording cash disbursements and credit card purchases. As a result, the District did not prepare, reconcile, and maintain adequate accounting records to support over \$195,000 it reported as expenses, which primarily consisted of cash disbursements from the cosmetology program bank account and credit card purchases that did not have sufficient documentation to support they were made for an appropriate district purpose. In addition, the District's accounting records did not contain evidence that anyone reviewed and approved expenses totaling approximately \$81,600. Further, the District did not

obtain or review sufficient information to evaluate whether the billing invoice from its educational services provider, for which expenses totaled nearly \$4.3 million for the year, was accurate.

Effect—There is an increased risk that the District's financial statements may not be reliable if not supported by adequate accounting records. In addition, the District was at risk of exposing public monies to potential loss, theft, and misuse.

Cause—The District's management lacked the finance and accounting expertise to establish and maintain internal controls for maintaining a properly designed accounting system and records.

Recommendation—To help ensure that the District maintains an adequate accounting system and records, the District should:

- Employ or contract with persons who have the necessary finance and accounting expertise to develop and implement written policies and procedures for financial reporting and who will also perform the accounting system's ongoing recordkeeping and maintenance; prepare, organize, and maintain all supporting invoices and other records; and prepare appropriate journal entries when necessary.
- Evaluate its accounting system against accounting and reporting requirements and ensure that the system is designed to meet its needs or seek alternative solutions.
- Develop and implement written policies and procedures for keeping adequate accounting records; recording transactions into the accounting system in a timely manner, including transactions pertaining to the District recorded on the contracted educational services provider's accounting system; and reconciling these transactions to the District's accounting records. These policies and procedures should also include guidance for evaluation of the billing invoices of the contracted educational services provider to identify financial activity that the District should record and ensure the District follows the appropriate accounting treatment.
- Develop and implement written policies and procedures for preparing, maintaining, and reconciling detailed accounting records for the distinct types of transactions it processes to amounts recorded on the accounting system. These policies and procedures should specifically address numerically controlling and reconciling cash receipts for course-related fees charged to students. The policies and procedures should also require that the District's board-adopted fee schedule be followed for all fees charged to the public. Finally, policies and procedures should require that the accounting records for disbursements and expenses be sufficiently detailed to support that they are proper district expenses.
- Develop and implement written policies and procedures to help ensure that revenues and expenses related to scholarships are properly supported, reflected in the accounting records by student, and provided to the contracted educational services provider. These policies and procedures should also ensure that revenues from charges to students paid on their behalf by third parties are reported net of scholarship allowances.

The District's responsible officials' views and planned corrective action are in its corrective action plan at the end of this report.

This finding is similar to prior-year finding 2016-01.

2017-02

The District should develop detailed financial statement preparation policies and procedures

Criteria—The District is responsible for establishing effective internal controls over financial reporting and should have policies and procedures to help ensure that it prepares accurate and complete financial statements in accordance with U.S. generally accepted accounting principles (GAAP).

Condition and context—The District did not have written policies and procedures over its financial-statement-preparation process and did not have an adequate process for compiling its financial statements to ensure that they were accurate, complete, and prepared in accordance with GAAP. Consequently, the District's financial statements contained several errors. Specifically, the District incorrectly included note disclosures that either were not material or did not pertain to the District.

Effect—The District corrected its financial statements for the most significant errors. However, there is an increased risk that the District's financial statements could contain errors that management may not prevent or detect.

Cause—The District's management lacked the finance and accounting expertise to establish and maintain effective internal controls over the preparation of its financial statements.

Recommendation—To help ensure that the District's financial statements are complete and accurate and follow GAAP, the District should:

- Employ or contract with persons who have the necessary finance and accounting expertise to develop and implement written comprehensive policies and procedures over financial statement preparation, including instructions for recording transactions into the accounting system; preparing year-end closing journal entries; and a detailed process for compiling and reviewing the financial statements. These procedures should include detailed instructions for obtaining information from the accounting system, including the contracted educational services provider, and preparing the notes to the financial statements, required supplementary information, and supporting schedules.
- Require a person with finance and accounting expertise to review and approve all journal entries, supporting schedules and reconciliations, and the annual financial report prior to submitting it for audit.

The District's responsible officials' views and planned corrective action are in its corrective action plan at the end of this report.

This finding is similar to prior-year finding 2016-02.

2017-03

The District should establish policies and procedures for capital asset reporting and stewardship

Criteria—The District should maintain effective internal control policies and procedures to control, safeguard, record, and accurately report its capital assets in its financial statements.

Condition and context—A significant portion of the District's total assets, approximately \$6.2 million, or 58 percent, consists of capital assets. However, the District did not have adequate internal control policies and procedures for ensuring that its capital assets were properly controlled, safeguarded, and accurately recorded. As a result, the District did not have adequate accounting records to support approximately \$260,600 of capital assets, consisting primarily of equipment and vehicles, included on its capital assets list and reported in its financial statements. Specifically, the District did not:

- Have written policies and procedures for controlling, safeguarding, valuing, and recording its capital assets in its accounting records and financial statements.
- Maintain records and documentation supporting that a physical inventory of its capital assets was performed for the year and the inventory results were reconciled to the capital asset list as of June 30.
- Include in its capital asset list all necessary information for each capital asset, such as the acquisition value, tag number, serial number, specific location (i.e., campus, building, and room), and source of funding, if funded with federal, state, or local grants.
- Ensure that all equipment and vehicles were tagged or otherwise identified as district property.
- Consistently depreciate capital assets based on the estimated useful lives established by the District's existing practices.
- Prepare disposal forms for all capital asset disposals that document written approval was obtained prior to disposing of capital assets and the approved manner for how the capital asset was to be disposed.
- Review and update its capital asset list for any damaged or obsolete capital assets no longer in use.

Effect—The District's capital asset list was not complete and accurate. In addition, the District's capital assets were exposed to potential loss, theft, and misuse.

Cause—The District did not have written policies and procedures over capital asset reporting and stewardship. In addition, the District's management lacked the finance and accounting expertise to maintain internal controls over its capital assets.

Recommendation—To help ensure that the District's capital assets are properly recorded and safeguarded against loss, theft, and misuse, the District should:

- Develop and implement written policies and procedures for controlling, safeguarding, valuing, and reporting capital assets in its accounting records and financial statements. Policies and procedures should include detailed steps for performing and documenting a physical inventory; identifying and safeguarding equipment and vehicles; and capitalizing, depreciating, and disposing of capital assets.
- Perform a complete physical inventory of capital assets at least once every 2 years, or more frequently if required by district policies, and reconcile the results to the capital asset list as of June 30, updating the list as appropriate. Inventory documentation should be maintained and include sufficient detail on the capital assets inventoried, such as each capital asset's description, serial or tag number, and specific location, to reconcile the inventory results to the capital asset list.
- Maintain a capital asset list that includes all necessary information for each capital asset, such as the acquisition value, tag number, serial number, specific location (i.e., campus, building, and room), and source of funding, if funded with federal, state, or local grants. Update the capital asset list for current-year additions and deletions, physical inventory results, and any items identified as being damaged, obsolete, or no longer in use.
- Tag or otherwise identify all equipment and vehicles as district property.

- Follow established estimated useful life policies when allocating depreciation to capital assets, and perform an independent review of depreciation calculations for accuracy.
- Prepare a disposal form for each capital asset removed from the capital asset list that includes documentation that supervisory approval was obtained prior to the capital asset's disposal and the approved manner for the capital asset's disposal.

The District's responsible officials' views and planned corrective action are in its corrective action plan at the end of this report.

This finding is similar to prior-year finding 2016-03.

2017-04

The District should establish internal controls over its credit cards

Criteria—The District should maintain effective internal control policies and procedures for district credit card purchases to reduce its risk of fraud, waste, and abuse and to help ensure that the public monies it spends are for an authorized district purpose in accordance with Arizona Revised Statutes §35-301 and the Arizona Constitution, Article IX, Section 7. Additionally, the District should have effective internal control policies and procedures to help ensure that the accounting records for district credit card transactions are reconciled for completeness, supported by adequate documentation, and reviewed and approved for appropriateness.

Condition and context—The District did not have internal control policies and procedures sufficient to reduce its risk of fraud, waste, and abuse for the public monies that it spent using district credit cards. In addition, the District did not have adequate internal control policies and procedures to help ensure that the accounting records related to credit card transactions were reconciled for completeness, adequately supported by documentation, and reviewed and approved for appropriateness. Specifically, the District had credit cards from various banks and retailers for which it did not properly control access, establish purchase limits and guidelines for allowable purchases and use, and specify the documentation to be prepared and retained. Credit card transactions totaled approximately \$81,100 with expenses for various retailers and organizations for books, various supplies, fuel, food, travel, membership dues and events, and late fees. However, most of these transactions lacked sufficient documentation to support that they were for an authorized district purpose.

Effect—There is an increased risk of fraud, waste, and abuse and potential noncompliance with state laws governing the use of public monies that may not be prevented or detected by management if purchases made through the District's credit cards are not adequately supported by documentation and reviewed and approved.

Cause—The District lacked written policies and procedures for using its credit cards. Also, the District's management lacked the expertise to establish and maintain effective internal controls for credit card purchases and to ensure that the accounting records related to credit card transactions were reconciled for completeness, adequately supported by documentation, and reviewed and approved for appropriateness.

Recommendation—To help reduce the risk of fraud, waste, and abuse related to district credit card purchases, the District should develop and implement written policies and procedures for these purchases and limit the number and type of credit cards used. Specifically, the District should:

- Establish guidelines for allowable purchases and use and specify the documentation to be prepared and retained.
- Ensure that access to credit cards is controlled and that only authorized cardholders make purchases.
- Prepare and maintain accounting records related to credit card transactions, such as credit card statements, purchase logs, purchase receipts, and other documentation. Sufficiently document all credit card purchases to demonstrate that they are for an authorized district purpose.
- Perform a reconciliation of credit card statement purchases and posted transactions to documentation at least monthly, being alert for potential fraudulent transactions.
- Establish systematic controls, including transaction limits, monthly spending limits, and other blocks and controls for certain purchases, such as prohibiting purchases of alcohol or requiring the vehicle and mileage to be recorded for fleet and fuel cards. Such controls should prohibit credit card use for the purchase of negotiable instruments such as travelers' or cashiers' checks, money orders, and gift cards, and the withdrawal of cash from automated teller machines or other sources.
- Require each cardholder to sign an agreement before or at the time the card is issued to acknowledge his or her responsibilities and agree to abide by district policies and procedures. The agreement should outline the consequences for misusing the card.
- Promptly terminate credit cards held by cardholders who leave the District's employment.
- Ensure that credit cards are not used to circumvent competitive purchasing policies and procedures.

The District's responsible officials' views and planned corrective action are in its corrective action plan at the end of this report.

This finding is similar to prior-year finding 2016-04.

2017-05

The District should improve controls over bank accounts and cash-handling activities

Criteria—To demonstrate its fiscal accountability to the public and public agencies from which the District receives funding and to help ensure that it can prevent and detect the potential loss, theft, and misuse of public monies, the District should maintain effective internal control policies and procedures over its bank accounts and cash-handling activities.

Condition and context—The District's balances for cash and investments comprised over \$4.2 million, or 39 percent of total assets. Additionally, the District processed a significant amount of cash receipts and disbursements during the year. However, the District did not have adequate internal control policies and procedures over its bank accounts and cash-handling activities. For example, the same person performed many responsibilities over these areas without an independent review, which could make monies more susceptible to potential loss, theft, or misuse. Specifically, the District did not:

- Have written policies and procedures for handling cash receipts and disbursements, including making electronic transfers, payments, and withdrawals from bank accounts, and maintaining the records and documentation that should be prepared to process these transactions.
- Separate the responsibilities of collecting, recording, and depositing cash receipts; initiating and approving disbursements, withdrawals, and transfers; and reconciling bank accounts. One person was responsible for performing these duties without another person's independent review.
- Have procedures to control electronic payments and electronic transfers of funds between accounts.

- Reconcile all its bank accounts to the applicable check registers, cash receipt logs, and other accounting records at least monthly, resolving differences in a timely manner and adjusting the accounting records as appropriate. In addition, the District did not perform monthly reconciliations of its monies held with the County Treasurer. Also, the District did not properly adjust its accounting records for discrepancies or reconciling items until after year-end.

Effect—The District was at risk of exposing public monies to potential loss, theft, and misuse.

Cause—The District did not have written policies and procedures for managing and reconciling its bank accounts and properly handling and safeguarding cash. Also, the District’s management lacked the expertise to establish and maintain effective internal controls over these areas.

Recommendation—To demonstrate its fiscal accountability to the public and public agencies from which the District receives funding and to help ensure that it can prevent and detect the loss, theft, and misuse of public monies, the District should develop and implement written policies and procedures over its bank accounts and cash-handling activities that promote the proper separation of responsibilities. Specifically, the District should:

- Establish policies and procedures for handling cash receipts and disbursements, including making electronic transfers, payments, and withdrawals from bank accounts. Policies and procedures should also outline the records and documentation that should be prepared and maintained for processing these transactions, including evidence of a review and approval by a person who is independent of their preparation.
- Separate the responsibilities of collecting, recording, and depositing cash receipts; making disbursements, withdrawals, and transfers; and reconciling the bank accounts so that no one person can perform these responsibilities without another person’s independent review.
- Develop procedures for controlling electronic payments and electronic transfers of funds between accounts and require a daily or at least weekly independent review and approval of bank account activity and these transactions.
- Perform and document monthly bank and investment account reconciliations for all accounts that include a comparison of the bank and investment account balances and activities reflected on the statements to what is recorded in the detailed accounting records. Review, investigate, resolve and record any discrepancies in the accounting records in a timely manner. Bank and investment account reconciliations should also contain evidence of a review and approval by someone who is independent of the preparer.

The District’s responsible officials’ views and planned corrective action are in its corrective action plan at the end of this report.

This finding is similar to prior-year finding 2016-05.

2017-06

The District should establish internal controls for managing its accounting system

Criteria—Logical access and change management controls help protect the District’s system and data from unauthorized or inappropriate access or use, manipulation, damage, or loss. Therefore, the District should have effective internal control policies and procedures for managing access and changes to its system and data.

Condition and context—The District used an off-the-shelf software package as its accounting system, which did not have the capability of allowing the District to assign users' logical access in accordance with their job responsibilities to properly separate responsibilities for processing various transactions. In addition, system audit logs designed to monitor user activity and system edit checks designed to help prevent unreasonable data or unbalanced transactions from being input into the system either did not exist or had been disabled.

Effect—There is an increased risk that the District may not prevent or detect unauthorized or inappropriate access or use, manipulation, damage, or loss of its system and data.

Cause—The District did not have written policies and procedures for managing its accounting system. Also, the District's management lacked the expertise to establish effective internal control policies and procedures over its accounting system and data.

Recommendation—To help prevent and detect unauthorized or inappropriate access or use, manipulation, damage, or loss to its systems and data, the District should develop and implement written policies and procedures that include reviewing and monitoring key activity of users and enabling system controls, such as edit checks, if practicable, or instituting an independent review of information input into the system for reasonableness and accuracy.

The District's responsible officials' views and planned corrective action are in its corrective action plan at the end of this report.

This finding is similar to prior-year finding 2016-06.

2017-07

The District should improve internal controls over purchasing

Criteria—The District spends a significant amount of public monies, including monies from federal, state, and other intergovernmental grants and contracts, to acquire goods and services. To follow best practices and to comply with grants and contracts that have requirements to use competitive purchasing methods, the District should strengthen and follow its policies and procedures to help ensure that the District uses competitive purchasing methods when acquiring goods and services so it receives the best possible value for public monies it spends.

Condition and context—For purchases with four vendors totaling over \$115,000, the District did not maintain adequate documentation to support that competitive purchasing procedures were used to ensure that the District received the best possible value for the monies it spent.

Effect—The District did not comply with its own policies and procedures when acquiring goods and services. This could have resulted in purchases made and contracts entered into that were not advantageous to the District.

Cause—The District developed written policies and procedures but did not ensure that its employees were properly trained on them and did not monitor employees involved in purchasing to help ensure that the policies and procedures were consistently followed.

Recommendation—To help ensure the District protects the public interest and ensure it receives the best value for goods and services it purchases or for which it contracts, the District should ensure that its detailed policies and procedures for purchasing include:

- Obtaining competitive sealed bids or proposals, as appropriate, for all purchases of construction, materials, and services exceeding the District's competitive bid threshold.
- Preparing and maintaining a bid file that contains a copy of the invitation to bid or an affidavit of publication, bid specifications, bids received from vendors, correspondence, and other documents related to the competitive bid and vendor selection process. This should include supporting documentation justifying the vendor selection if the vendor with the lowest price quotation is not selected. Retain bid files in accordance with federal and state regulations.
- Obtaining written contracts for all services that include the scope of the work to be performed, the amounts to be charged to the District, and other pertinent contract terms. Written contracts should be obtained prior to the vendor's commencement of the work and the District's payment to the vendor.
- Requiring a minimum number of vendors to be contacted for oral and written price quotations and document vendors contacted and their reasons for not providing quotations, if applicable.
- Establishing criteria for sole source determinations and require that documentation be prepared that clearly justifies there are no reasonable alternative sources prior to acquiring goods and services when a sole source is used for procurement.
- Developing a change order process for contracted goods, services, and construction projects that requires management's or the Governing Board's documented approval, as appropriate, for increases to the amounts originally contracted that exceed pre-established thresholds set by district policy.
- Training individuals involved in purchasing on the policies and procedures to follow.

The District's responsible officials' views and planned corrective action are in its corrective action plan at the end of this report.

This finding is similar to prior-year finding 2016-07.

2017-08

District management should improve reporting to Governing Board

Criteria—The District's Governing Board needs relevant, reliable information, both financial and nonfinancial, relating to external as well as internal events, to fulfill its oversight responsibilities. Therefore, it is essential that the District's management has effective internal control policies and procedures in place to help ensure that it provides accurate, complete, and regular financial reports and communications to the Governing Board.

Condition and context—The District did not have adequate policies and procedures to help ensure that its financial reporting and communications to the Governing Board were accurate, complete, and regularly occurring. Although district management provided regular financial reports to the Governing Board, those financial reports were not complete because they did not include the financial activities for all district bank accounts.

Effect—There is an increased risk that the District's Governing Board may not be able to effectively exercise its oversight responsibilities without accurate, complete, and timely information from district management.

Cause—The District lacked written policies and procedures for compiling and reporting information to the Governing Board and for ensuring that the information reported is accurate and complete and reporting occurs regularly. Also, the District’s management lacked the finance and accounting expertise necessary to establish and maintain effective internal controls.

Recommendation—To help ensure the District’s Governing Board gets relevant, reliable information, both financial and nonfinancial, relating to external as well as internal events, to fulfill its oversight responsibilities, the District should develop and implement internal control policies and procedures for providing accurate, complete, and regular financial reports and communications to the Governing Board. Such communication should include timely reports of the financial activities of all district bank accounts.

The District’s responsible officials’ views and planned corrective action are in its corrective action plan at the end of this report.

This finding is similar to prior-year finding 2016-08.

2017-09

The District should issue timely audited financial statements

Criteria—In accordance with Arizona Revised Statutes (A.R.S.) §41-1279.07(C), the District is required to issue audited financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP) within 9 months after fiscal year-end. Additionally, the District is required to issue its annual budgeted expenditure limitation report based on those financial statements within 9 months after fiscal year-end.

Condition and context—The District did not issue its financial statements until over 1 year after fiscal year-end because of internal control weaknesses described in items 2017-01 through 2017-05.

Effect—The District’s financial statements were not issued in a timely manner as required by A.R.S. §41-1279.07(C). In addition, the District’s budgeted expenditure limitation report was not issued within 9 months after fiscal year-end.

Cause—The District lacked an adequate accounting system, adequate internal controls for processing transactions and recordkeeping, written policies and procedures over its financial statement preparation, and management with finance and accounting skills and expertise.

Recommendation—To help ensure that the District issues its financial statements and annual budgeted expenditure limitation report in a timely manner and complies with its audit requirements, the District should implement corrective action recommendations as described in items 2017-01 through 2017-05.

The District’s responsible officials’ views and planned corrective action are in its corrective action plan at the end of this report.

This finding is similar to prior-year finding 2016-09.

DISTRICT RESPONSE



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October 23, 2018

Ms. Lindsey A. Perry
Auditor General
2910 N. 44th Street, 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 Government Auditing Standards for FY 2017.

Sincerely,

B. Stephen Cullen, Ph.D
Senior Dean

Audit 2017

Responses to Findings

Submitted by: Stephen Cullen, Ph.D.

October 23, 2018

2017-01

The District should improve its accounting system and recordkeeping.

Anticipated completion date: In fiscal year, 2018-19

Concur. The District has developed policies and procedures to improve its accounting system and recordkeeping in April 2018. The District will continue to develop policies and procedures.

2017-02

The District should develop detailed financial statement preparation policies and procedures.

Anticipated completion date: In fiscal year, 2017-18

Concur. The District has developed detailed policies and procedures for financial statement preparation in April 2018. Financial statements will be reviewed by the District prior to their submission.

2017-03

The district should establish policies and procedures to report and maintain stewardship over its capital assets.

Anticipated completion date: In fiscal year, 2017-18

Concur. The district has developed and implemented policies and procedures to report and maintain stewardship over its capital assets. The district will continue to develop policies and procedures.

2017-04

The District should establish internal controls over its credit cards.

Anticipated completion date: April 2018

Concur. The District established internal controls and developed written procedures over its credit cards in April 2018.

2017-05

The District should improve controls over bank accounts and cash-handling activities.

Anticipated completion date: In fiscal year, 2017-18

Concur. The District will maintain effective internal controls policies and procedures over its bank accounts and cash-handling activities.

2017-06

The District should establish internal controls for managing its accounting system.

Anticipated completion date: In fiscal year, 2018-19

Concur. The District will establish internal controls for managing its accounting system. The District is working with Eastern Arizona College to incorporate our system with theirs.

2017-07

The District should establish internal controls over purchasing.

Anticipated completion date: April 2018

Concur. In fiscal year 2016, the District has developed policies for obtaining competitive sealed bids or proposals. The District will develop a policy for construction projects.

2017-08

District management should improve reporting to governing board.

Anticipated completion date: April 2018

Concur. The District has developed a policy and procedure to ensure the governing board receives relevant and reliable information.

2017-09

The District should issue timely audited financial statements.

Anticipated completion date: March 2019

Concur. The District continues to improve and ensure financial statements are compiled and issued in a timely manner.

