



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Report on Internal Control and Compliance

Pima County Community College District

Year Ended June 30, 2012



Debra K. Davenport
Auditor General

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Pima County Community College District
Report on Internal Control and Compliance
Year Ended June 30, 2012

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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
Pima County Community College District

We have audited the financial statements of the business-type activities and discretely presented component unit of Pima County Community College District as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 14, 2012. Our report was modified to include a reference to our reliance on other auditors. 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. Other auditors audited the financial statements of the Pima Community College Foundation, Inc., the discretely presented component unit, as described in our report on the District's financial statements. The financial statements of the Pima Community College Foundation, Inc. were not audited by the other auditors in accordance with *Government Auditing Standards*. This report includes our consideration of the results of the other auditors' testing of internal control over financial reporting that are reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the report of the other auditors.

Internal Control over Financial Reporting

The District's management is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We and the other auditors did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Recommendations as items 12-01, 12-02, and 12-03 that we consider to be significant deficiencies in internal control over financial reporting. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Pima County Community College District's responses to the findings identified in our audit are presented on pages 5 through 7. We did not audit the responses, and accordingly, we express no opinion on them.

This report is intended solely for the information and use of the members of the Arizona State Legislature, the Governing Board, management, others within the District, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Jay Zsorey, CPA
Financial Audit Director

December 14, 2012

Pima County Community College District
Schedule of Findings and Recommendations
Year Ended June 30, 2012

Financial Statement Findings

12-01

The District should strengthen controls over purchasing card use

Criteria: The District's *Purchasing Card Manual* prohibits using purchasing cards to buy goods or services that are not allowed by applicable grant agreements.

Condition and context: For 1 of 25 purchasing card transactions tested, auditors found that the District used a purchasing card to pay for entertainment activities for a grant program. Under the grant agreement, the District is allowed to use monies to attract underprivileged youth to the College by providing cultural activities. However, entertainment activities such as bowling are not allowed. Auditors reviewed the spending records for the grant program and did not identify any other similar unallowable entertainment purchases. The District reimbursed the grant program \$599 for the unallowable purchase.

Effect: Noncompliance with the District's purchasing card policies and noncompliance with the provisions of a grant agreement.

Cause: According to the district official responsible for approving the transaction, the District believed the entertainment activity was allowable at the time of purchase.

Recommendation: The District should ensure purchasing card users and approvers know and understand the applicable grant requirements and restrictions when initiating or approving grant funded purchases. Providing comprehensive training in this area would be one way to help achieve this objective.

12-02

The District should strengthen controls over time sheet approval

Criteria: To help ensure the District's financial statements are accurate and to comply with the provisions of grant agreements, supervisors should have direct knowledge that the work reported on employee time sheets is accurate and complete. This means that supervisors must approve employee time sheets after the work was performed.

Condition and context: Auditors tested 21 time sheets and found that 15 were approved by the employee's supervisor before all work was performed. For one of these time sheets, the supervisor's approval was documented 2.5 weeks or more before the work was performed.

Effect: Work reported on time sheets may not reflect the actual amount of work as the time sheets were approved in advance. Because of this, the financial statements could be misstated, and payroll costs charged to federal programs may not be proper.

Cause: The District does not have a policy or procedure in place for appropriate timing of approving time sheets.

Pima County Community College District
Schedule of Findings and Recommendations
Year Ended June 30, 2012

Recommendation: The District should adopt and enforce policies and procedures requiring supervisory approval of time sheets after all work was performed.

12-03

The District should strengthen controls over purchasing

Criteria: The District's Purchasing Procedures 4.6, 4.14, and 4.17, respectively, states:

- Sole source procurements are to be avoided unless no other alternative exists, unless the director or assistant director of procurement determines that an extension of existing contracts or services is in the District's best interest.
- The director of purchasing will give adequate notice of the need for legal and professional services over \$30,000 through a Request for Proposal.
- The College is authorized to purchase furniture, equipment, materials, and supplies from competitively bid state or university cooperative agreements.

Condition and context: Auditors tested 14 purchases that required a formal competitive purchasing process and found 3 purchases of consulting services that were documented as a sole source contract extension and 1 purchase of legal services procured through a cooperative agreement. For the purchases of consulting services, the District was unable to demonstrate that the original contracts were competitively procured. Therefore, auditors determined that any subsequent contract extension was also not competitively procured and the contract extension should not have been granted. Additionally, although the original agreement was competitively procured, because the District's policies do not allow for legal services to be procured through cooperative agreements, the District should not have purchased legal services through cooperative agreements.

Effect: Noncompliance with District's purchasing policies. As a result, the District may not have received the consulting and legal services at the best price.

Cause: According to district officials, the buyers thought the purchases complied with the purchasing policies when the services were purchased. Because purchasing is decentralized, goods and services are sometimes purchased by buyers at the various campus locations, and the District Purchasing Office does not review all purchases before they are made.

Recommendation: The District should strengthen controls that restrict sole source and cooperative agreement purchases to only those purchases that meet the criteria of the District's policies. Further, sole source purchases should be approved only by district officials in those limited situations where sole source purchases are truly justified. To help accomplish this, the District should provide more training to campus purchasers and require the District Purchasing Office to verify prior to completing a sole source contract extension or cooperative agreement purchase that the purchase complies with district policy.



Office of the Executive Vice Chancellor
for Administration
4905C East Broadway Boulevard
Tucson, Arizona 85709-1005
Telephone (520) 206-4519
Fax (520) 206-4990
www.pima.edu

PimaCountyCommunityCollegeDistrict

January 30, 2013

Ms. Debbie Davenport
Auditor General
2910 N. 44th Street, Suite 410
Phoenix, AZ 85018

Dear Ms. Davenport:

The accompanying corrective action plan has been prepared as required by Government Auditing Standards. Specifically, we are providing you with the names of the contact people responsible for the corrective action, the corrective action planned, and the anticipated completion date for the audit finding included in the Schedule of Findings and Recommendations for the fiscal year ended June 30, 2012.

Sincerely,

David Bea, Ph.D.
Executive Vice Chancellor for Finance and Administration

Pima County Community College District
Corrective Action Plan
Year Ended June 30, 2012

12-01

The District should strengthen controls over purchasing card use.

Contact Person: Rachele Howell, Assistant Vice Chancellor for Grants, Planning & Institutional Research
Anticipated Completed Date: June 30, 2013

The District Grants Office held discussions with the Program Manager of the grant program in question and their supervisor regarding the appropriate usage of grant funds in order to maintain compliance with grant requirements. Future planned program activities were reviewed and, when necessary, revised to ensure allowability. The Grants Office also led discussions on the unallowability of entertainment costs at the monthly meeting of District-wide TRIO grant program supervisors, managers, and staff. The Grants Office has also proposed holding a day-long conference for District staff involved in grant-related activities that includes training on the topics of allowable and unallowable costs, understanding grant agreements, and managing grant operations in compliance with program requirements and objectives.

12-02

The District should strengthen controls over time sheet approval

Contact Person: Gwen Goodman, Director, Employee Service Center
Completed Date: November 17, 2012

The College's timekeeping system in place during fiscal year 2011-12 utilized paper timesheets that were printed and distributed for supervisor signatures before being sent to payroll. In order to process payroll and pay employees on a timely basis, the process included predictive timekeeping along with a process for timesheet corrections. Soon after the start of fiscal year 2013, the College implemented a new web-based timekeeping system that includes electronic submission and approval of timesheets, automated reminders, and improved reporting and tracking. With the implementation of the web-based timekeeping system, the College has effectively eliminated predictive timesheet submittal. The new system was implemented for exempt employees during the August 24, 2012 payroll and for non-exempt employees during the October 5, 2012 payroll.

12-03

The District should strengthen controls over purchasing

Contact Person: Tom Harrington, Director of Purchasing
Anticipated Completed Date: June 30, 2013

In early 2010, the College recognized that the purchasing policies for the distributed purchasing model needed to be reviewed and enhanced. As part of the installation of an automated requisition approval system, all of the bid thresholds and approval requirements were analyzed, standardized, and communicated to the campus business offices in a January 7, 2010 memorandum. Additional training was provided during sessions with campus and District buyers. Campus buyers are not authorized to create Purchase Orders above the threshold where competitive bidding is required and therefore where a sole source justification might be requested – these can only be approved by the Purchasing Director at the District Office. Beginning late 2010, District Purchasing began attaching a "Purchase Award Justification"

Pima County Community College District
Corrective Action Plan
Year Ended June 30, 2012

sheet to every Purchase Order it issued. This has served to provide a final opportunity to review the specific justification for each award. In May of 2012, these process modifications were formally included in the revised Purchasing Manual.

The College is also finalizing enhanced training for College employees who authorize purchases that will further emphasize the importance of competitive procurement and discourage noncompetitive requests.

