



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Report on Internal Control and Compliance

Pima County Community College District

Year Ended June 30, 2013



Debra K. Davenport
Auditor General

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Pima County Community College District
Report on Internal Control and Compliance
Year Ended June 30, 2013

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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, 2013, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 13, 2013. Our report includes a reference to other auditors who audited the financial statements of the Pima Community College Foundation, Inc. (Foundation), the discretely presented component unit, as described in our report on the District's financial statements. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. However, the financial statements of the Pima Community College Foundation, Inc. were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or compliance associated with the Foundation.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our 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.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control

that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control described in the accompanying Schedule of Findings and Recommendations as item 2013-01 that we consider to be a significant deficiency.

Compliance and Other Matters

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

Pima County Community College District's Response to Finding

Pima County Community College District's response to the finding identified in our audit is presented on page 4. The District's response was not subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on it.

Purpose of this Report

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

Jay Zsorey, CPA
Financial Audit Director

December 13, 2013

Pima County Community College District
Schedule of Findings and Recommendations
Year Ended June 30, 2013

Financial Statement Findings

2013-01

The District should ensure all required information in its deposits and investments note disclosure is accurate

Criteria: Government financial reporting standards require the District to disclose certain information regarding the District's investment risks in its notes to the financial statements. The required information to be disclosed includes the maturity dates and the credit quality ratings provided by rating agencies such as Moody's or Standard & Poor's, for the District's investments in debt securities. In addition, the District must accurately report a risk when it invests more than 5 percent of its monies in any one issuer.

Condition and context: When classifying its \$81.7 million of investments by maturity date and credit quality rating, the District misclassified more than \$13 million by maturity date and more than \$15 million by credit quality rating. In addition, the District incorrectly reported the percent invested in two individual issuers that each comprised more than 5 percent of the District's investments.

Effect: Because of the misclassified maturity dates and credit quality ratings and because of the incorrect percentages, the District did not accurately disclose its interest rate risk, credit risk, and concentration of credit risk. However, after auditors found the errors, and before the report was issued, the District made all necessary adjustments to accurately report its investment risks in its notes to its financial statements.

Cause: The District's established procedures were not adequate to ensure that all investment risk information was accurately reported.

Recommendation: The District should improve their procedures over the preparation of the required investment risk information included in its notes to the financial statements. Specifically, these procedures should include a more detailed review of the investment risk information to help ensure that all required risk information is accurately reported.



PimaCountyCommunityCollegeDistrict

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January 28, 2014

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. For the audit finding included in the Schedule of Findings and Recommendations for the fiscal year ended June 30, 2013, we are providing you with the name of the contact person responsible for the corrective action and the corrective action plan. The College has already remedied the identified issue and the corrective action plan has been completed.

Sincerely,

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

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

2013-01

The District should ensure all required information in its deposits and investments note disclosure is accurate

Contact person: Ina Lancaster, Director of Budget & Reporting

Anticipated completion date: January 31, 2014

Corrective Action:

Prior to March 2012, the District deposited the large majority of investments with the Arizona State Treasurer. Seeking a greater return on investments, the District contracted with an investment advisor. While preparing the footnotes to the District's financial statements for the year ended June 30, 2013, the District incorrectly reported the credit quality of some investments by using a report furnished by the investment advisor that is not subject to the same GASB reporting standards that are applicable to the District. These errors were subsequently corrected by the District prior to publication of the financial statements. Similarly, the District initially used estimated maturity dates for several bond investments rather than the actual maturity dates. These errors were discovered by the auditors during the preparation of the comprehensive annual financial report for fiscal year ended June 30, 2013. The District corrected the errors and no erroneous information was published or made public. The District has created procedural documentation to ensure that all investments will be reported accurately in the future.

