

## REPORT HIGHLIGHTS SINGLE AUDIT

### Subject

The District is responsible for preparing financial statements, maintaining strong internal controls, and demonstrating accountability for use of its public monies. As the auditors, our job is to determine whether the District has met its responsibilities.

### Our Conclusion

The information in the District's financial statements is fairly stated in all material respects, and the financial statements can be relied upon. Generally, the District maintained adequate internal controls over financial reporting, with seven exceptions. Also, the District maintained adequate internal controls over, and complied with, federal program requirements, with two exceptions. See pages 2 and 3 for further details



2007

Year Ended June 30, 2007

## District's Condensed Financial Information

The following tables present summarized information from the District's Statement of Net Assets and Statement of Revenues, Expenses, and Changes in Net Assets.

### Statement of Net Assets

The Statement of Net Assets reports all assets and liabilities using the accrual basis of accounting, which is similar to the accounting that most private-sector institutions use. Net assets, the difference between assets and liabilities, are one way to measure the District's financial health. The table to the right presents a condensed Statement of Net Assets as of June 30, 2007.

### Statement of Revenues, Expenses, and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets presents the District's operating results, as well as nonoperating revenues and expenses. The change in net assets indicates whether the District's financial health has improved or deteriorated as a result of current-year operations. The District's net assets increased by \$10.5 million during the fiscal year. The table to the right summarizes the District's revenues and expenses for the year ended June 30, 2007.

#### Statement of Net Assets As of June 30, 2007 (In Thousands)

	<u>2007</u>
<b>Assets</b>	
Current	\$26,957
Noncurrent, other than capital	7,546
Capital	<u>35,912</u>
Total assets	<u>70,415</u>
<b>Liabilities</b>	
Current	5,938
Noncurrent	<u>19,226</u>
Total liabilities	<u>25,164</u>
<b>Net Assets</b>	
Invested in capital assets, net of related debt	15,918
Restricted	6,976
Unrestricted	<u>22,357</u>
Total net assets	<u>\$45,251</u>

#### Revenues and Expenses For the Year Ended June 30, 2007 (In Thousands)

	<u>2007</u>
<b>Operating Revenues</b>	
Tuition and fees	\$ 5,156
Other	<u>2,135</u>
Total operating revenues	<u>7,291</u>
<b>Nonoperating Revenues</b>	
Property taxes	31,219
State appropriations	6,015
Grants and contracts	5,462
Other	<u>6,383</u>
Total nonoperating revenues	<u>49,079</u>
Total revenues	<u>\$56,370</u>
<b>Operating Expenses</b>	
Educational and general	\$39,783
Auxiliary enterprises	2,412
Depreciation	<u>2,562</u>
Total operating expenses	<u>44,757</u>
<b>Nonoperating Expenses</b>	
Interest expense	1,081
Other	<u>2</u>
Total nonoperating expenses	<u>1,083</u>
Total expenses	<u>\$45,840</u>
Increase in Net Assets	<u>\$10,530</u>

# The District Should Strengthen Internal Controls over Purchasing, Computer Operations, Capital Assets, and Employee Health Plan

It is critical that the District establish and enforce effective internal control policies and procedures. Auditors identified the following deficiencies in the design and operation of the District's internal controls over purchasing, computer operations, capital assets, employee health plan, and financial statement preparation.

## Purchasing

The District's purchasing policies and procedures were not always enforced and did not include detailed procedures for competitive purchases. As a result, the District either purchased goods or services without competition or did not maintain documentation to support that competitive purchasing procedures were followed. In addition, written documentation was not maintained when the lowest vendor was not selected or a sole source vendor was used. Further, the District did not always require employees to provide documentation for credit card purchases in a timely manner. The District needs to revise and enforce its procurement and credit card procedures to ensure that it receives the best possible value for the monies it spends.

## Computer Operations

The District needs to develop and implement written policies and procedures related to computer system access and program change controls. Auditors noted that the District did not properly limit access to its computer system since one employee prepared the financial statements, had access to subsystems not necessary to fulfill his responsibilities, and could create and modify financial data in subsystems other than the financial statement subsystem. In addition, the District did not have a current and tested disaster recovery plan. The District needs to strengthen its internal controls over computer operations to safeguard data and ensure that files are not lost in the event of a disaster.

## Capital Assets

The District's capital asset policies and procedures did not adequately address controls

over asset disposals, including those purchased with federal monies. Specifically, disposal forms were not always prepared and approved, no investigation of lost or stolen property was required, and disposals were not promptly removed from the listing. Further, the same employee who performed the physical inventory could remove items from the capital assets system without approval and also could initiate and approve purchases under \$5,000. The District needs to revise and enforce its capital asset policies and procedures to help ensure assets are properly disposed of, responsibilities are adequately separated, and investigations are performed when assets are lost or stolen.

## Employee Health Plan

The District did not adequately monitor a consulting firm who helped administer the employee benefits health plan. Specifically, the District relied on the firm to reconcile the employee bank account and provide reports on claims the firm paid on the District's behalf. In addition, the consulting firm was an authorized signer on the account and had access to \$895,000 of the District's monies at June 30, 2007. The District should monitor the financial activity recorded in the employee benefits account and minimize the account balance for the current month's expenses.

## Financial Statement Preparation

The District needs to complete their financial statements and supporting schedules to issue their financial statements in a timely manner. However, the District did not complete their financial statements and supporting schedules for approximately 12 months after fiscal year end. As a result, the District's Single Audit Report was not completed on time and in accordance with OMB Circular A-133. The District should establish a process to ensure that all financial information is compiled in an accurate and timely manner after fiscal year end.

# The District Did Not Always Comply with Federal Program Requirements

The District spent more than \$6.6 million for 18 federal programs during fiscal year 2007. Under the guidelines established by the Office of Management and Budget Circular A-133, auditors tested the Higher Education—Institutional Aid program and the Student Financial Assistance Cluster, which consisted of the following programs:

- Federal Supplemental Educational Opportunity Grants
- Federal Family Education Loans
- Federal Work-Study Program
- Federal Pell Grant Program
- Academic Competitiveness Grants

The District had the following two significant internal control deficiencies and two instances of noncompliance over its federal programs:

## Cash Management

The District receives some federal funding on a reimbursement basis which means that the District must pay eligible program costs before requesting reimbursement from the federal government. Auditors determined that one employee was responsible for compiling, approving, and submitting the required requests without supervisory review. Further, a reconciliation was not prepared between the finance subsystem and disbursement subsystem. As a result, the District requested monies that had already been reimbursed in the prior year.

The federal agency did not reimburse the District for this amount, so no questioned cost resulted; however, the District should assign a second employee to review all reimbursement requests and reconcile the disbursement and financial subsystems at least monthly.

## Procurement, Suspension, and Debarment

The District did not establish adequate internal control policies and procedures to ensure it obtains the required suspension and debarment certifications from its vendors. In addition, auditors noted that supervisors did not always document their approvals of contract awards in the files. The District should amend its procurement policies and procedures to address all federal requirements, including verifying that vendors being paid over \$25,000 in federal monies have not been suspended or debarred from doing business with governmental entities. Further, the District should enforce its policies and procedures when purchasing goods and services to ensure that the proper approvals are obtained and documented prior to awarding contracts.

### The Single Audit Fact Sheet

- Seven significant deficiencies in financial-reporting internal controls, including one material weakness.
- Two significant deficiencies in federal compliance internal controls that resulted in noncompliance with federal compliance requirements.
- No program costs were questioned as a result of our audit.

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**Pinal County Community  
College District**  
(Central Arizona College)

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Year Ended June 30, 2007