



A REPORT  
TO THE  
ARIZONA LEGISLATURE

Financial Audit Division

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Single Audit

# Cochise County Community College District

Year Ended June 30, 2012

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**Debra K. Davenport**  
Auditor General

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Cochise County Community College District  
Single Audit Reporting Package  
Year Ended June 30, 2012

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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  
Cochise County Community College District

We have audited the financial statements of the business-type activities and discretely presented component unit of Cochise County Community College District as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 29, 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 Cochise College Foundation, Inc., the discretely presented component unit, as described in our report on the District's financial statements. The financial statements of the Cochise 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 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 Questioned Costs 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*.

Cochise County Community College District's responses to the findings identified in our audit are presented on pages 15 through 17. We did not audit the District's 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

November 29, 2012



DEBRA K. DAVENPORT, CPA  
AUDITOR GENERAL

STATE OF ARIZONA  
OFFICE OF THE  
AUDITOR GENERAL

MELANIE M. CHESNEY  
DEPUTY AUDITOR GENERAL

**Independent Auditors' Report on Compliance with Requirements  
That Could Have a Direct and Material Effect on Each Major Program and on  
Internal Control over Compliance in Accordance with OMB Circular A-133**

Members of the Arizona State Legislature

The Governing Board of  
Cochise County Community College District

### **Compliance**

We have audited Cochise County Community College District's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. The District's major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

As described in item 12-101 in the accompanying Schedule of Findings and Questioned Costs, the District did not comply with the requirements regarding equipment and real property management that are applicable to its Career and Technical Education—Basic Grants to States program. Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to that program.

In our opinion, because of the effects of the noncompliance described in the preceding paragraph, Cochise County Community College District did not comply, in all material respects, with the requirements referred to above that could have a direct and material effect on the Career and Technical Education—

Basic Grants to States program. Also, in our opinion, Cochise County Community College District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its other major federal program for the year ended June 30, 2012.

### **Internal Control over Compliance**

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 12-101 to be a material weakness.

### **Schedule of Expenditures of Federal Awards**

We have audited the financial statements of the business-type activities and discretely presented component unit of Cochise County Community College District as of and for the year ended June 30, 2012, and have issued our report thereon dated November 29, 2012, that contained an unqualified opinion on those financial statements. Our report was modified to include a reference to our reliance on other auditors. Our audit was conducted for the purpose of forming our opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of the District's management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Cochise County Community College District's responses to the findings identified in our audit are presented on pages 15 through 17. We did not audit the District's 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

January 18, 2013



Cochise County Community College District  
 Schedule of Expenditures of Federal Awards  
 Year Ended June 30, 2012

Federal Grantor/Program Title/ Pass-Through Grantor	CFDA Number	Pass-Through Grantor's Number	Expenditures
<b>U.S. Department of Labor</b>			
Incentive Grants—WIA Section 503, passed through the Arizona Department of Education	17.267	12FAEAEI-270536-06A, 12FAECCP-270536-07A	\$ <u>134,594</u>
<b>National Endowment for the Arts</b>			
Promotion of the Arts—Grants to Organizations and Individuals	45.024		<u>9,611</u>
<b>National Science Foundation</b>			
Education and Human Resources, passed through Science Foundation Arizona	47.076	DUE-1003847	<u>81,176</u>
<b>U.S. Small Business Administration</b>			
Entrepreneurial Education and Development	59.000		20,227
Small Business Development Centers, passed through Maricopa County Community College District	59.037	0-603001-Z-0003-18, 1-603001-Z-0003-19, 2-603001-Z-0003	<u>103,610</u>
Total U.S. Small Business Administration			<u>123,837</u>
<b>U.S. Department of Education</b>			
Student Financial Assistance Cluster:			
Federal Supplemental Educational Opportunity Grants	84.007		69,868
Federal Work-Study Program	84.033		94,014
Federal Pell Grant Program	84.063		6,463,525
Federal Direct Student Loans	84.268		<u>1,729,164</u>
Total Student Financial Assistance Cluster			<u>8,356,571</u>
Adult Education—Basic Grants to States, passed through the Arizona Department of Education	84.002	12FAEABE-270536-02A, 12FAEAEF-270536-03A, 12FAEADL-270536-01A, 12FAEETE-270536-05A	545,659
TRIO—Student Support Services	84.042		213,339
Career and Technical Education—Basic Grants to States, passed through the Arizona Department of Education	84.048	11FCTDBG-170536-01A, 12FCTDBG-270536-04A	212,842

(Continued)

See accompanying notes to schedule.

Cochise County Community College District  
 Schedule of Expenditures of Federal Awards  
 Year Ended June 30, 2012  
 (Continued)

Federal Grantor/Program Title/ Pass-Through Grantor	CFDA Number	Pass-Through Grantor's Number	Expenditures
Tech-Prep Education, passed through the Arizona Department of Education	84.243	11FCTDTP-170536-03A	\$ 37,825
Grants to States for Workplace and Community Transition Training for Incarcerated Individuals, passed through the Arizona Department of Corrections	84.331	120009DC-Transition	51,271
Teacher Quality Partnership Grants, passed through Arizona Board of Regents	84.336	IGA-08-937	<u>7,740</u>
Total U.S. Department of Education			<u>9,425,247</u>
 Total Expenditures of Federal Awards			 <u>\$ 9,774,465</u>

See accompanying notes to schedule.

Cochise County Community College District  
Notes to Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2012

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Cochise County Community College District and is presented on the full accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

Note 2 - Catalog of Federal Domestic Assistance (CFDA) Numbers

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2012 *Catalog of Federal Domestic Assistance*.

Cochise County Community College District  
 Schedule of Findings and Questioned Costs  
 Year Ended June 30, 2012

**Summary of Auditors' Results**

**Financial Statements**

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

**Federal Awards**

Internal control over major programs:			
Material weakness identified?	<u>X</u>		—
Significant deficiencies identified?	—		<u>X</u> (None reported)
Type of auditors' report issued on compliance for major programs: Unqualified for all major programs except for the Career and Technical Education—Basic Grants to States program, which was adverse.			
Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (section .510[a])?			
	<u>X</u>		—

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
	Student Financial Assistance Cluster:
84.007	Federal Supplemental Educational Opportunity Grants
84.033	Federal Work-Study Program
84.063	Federal Pell Grant Program
84.268	Federal Direct Student Loans
84.002	Career and Technical Education—Basic Grants to States

Cochise County Community College District  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2012

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

	<b>Yes</b>	<b>No</b>
Auditee qualified as low-risk auditee?	___	<u>X</u>

***Other Matters***

Auditee's Summary Schedule of Prior Audit Findings required to be reported in accordance with Circular A-133 (section .315[b])?	<u>X</u>	___
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Cochise County Community College District  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2012

## Financial Statement Findings

12-01

### **The District should strengthen access controls over its financial information**

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

Condition and context: The District did not monitor access to its financial information system. Therefore, if financial information was incorrectly or inappropriately modified, the District would not have detected it. Also, the District did not have written policies and procedures for monitoring system access or reviewing employee access rights.

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

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

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

- Develop and establish comprehensive written policies and procedures over employee access.
- Perform a comprehensive review of all existing system users to help ensure that access granted is compatible with their job responsibilities.
- Monitor system access logs for unusual or suspicious activity.

12-02

### **The District needs to improve its controls over capital assets**

Criteria: The District should have effective internal controls over capital assets that are sufficiently detailed to control, safeguard, and report capital assets.

Condition and context: Capital assets comprise \$57.9 million, or 68.8 percent, of the District's total assets, however, the District lacked policies and procedures to ensure that capital assets were safeguarded and reported accurately in the financial statements. Specifically, auditors noted that:

- Two of ten assets listed on the District's June 30, 2012 capital assets report were sold in prior years.
- The District improperly recorded one capital asset addition and five capital asset deletions.
- Proceeds from sales of capital assets were not properly reported in the financial statements.
- Two assets recorded on the District's June 30, 2012 capital asset disposal report were sold in fiscal year 2011.

Cochise County Community College District  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2012

- The District had not performed an inventory of capital assets for more than 5 years and did not always properly tag capital assets to prevent theft or misuse.

Effect: The District corrected \$34,263 of misstatements so that all June 30, 2012, capital asset balances were accurately presented in the financial statements. In addition, the District's capital assets were exposed to potential theft or misuse because it had not performed an inventory of capital assets for more than 5 years and did not always properly tag capital assets. This may have an effect on federal programs where equipment was purchased.

Cause: The District lacked written internal control policies and procedures over its capital assets, which led to inconsistent practices and a lack of communication between the finance and property management departments. In addition, the District implemented new capital asset software but did not adequately train employees on its use. District management stated that it currently does not have the available resources to perform physical inventories.

Recommendation: To strengthen controls over capital asset reporting, and to safeguard the District's capital assets against theft or misuse, the District should:

- Develop and implement written policies and procedures for tracking and recording capital assets.
- Ensure that all capital assets are tagged when acquired.
- Properly report capital asset disposals and any related sales proceeds on the financial statements in the appropriate fiscal year.
- Dedicate sufficient resources to perform a physical inventory of capital assets at least every 2 years and reconcile the inventory results to the District's capital assets listings.

12-03

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

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

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

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

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

Cochise County Community College District  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2012

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

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

### Federal Award Findings and Questioned Costs

12-101

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

**U.S. Department of Education**

Passed through the Arizona Department of Education

Award Period: July 1, 2011 through June 30, 2012

Pass-Through Grantor's Number: 11FCTDBG-170536-01A, 12FCTDBG-270536-04A

Equipment and Real Property Management

Questioned Cost: Unknown

Criteria: 21 Code of Federal Regulations (CFR) §1403.32 and 44 CFR §13.32 require that a physical inventory of equipment be taken and reconciled with the capital asset records at least once every 2 years. In addition, a control system must be developed to help prevent loss of, damage to, or theft of the program's equipment.

Condition and context: As described in item 12-02, the District did not maintain accountability for equipment purchases with federal grant monies. Specifically, the program's equipment items were not tagged. In addition, the District did not perform a physical inventory of equipment for more than 5 years. Equipment purchases comprised 48 percent of fiscal year 2012 program expenditures.

Effect: Failure to maintain control over equipment purchased with federal grant monies can result in equipment being lost, stolen, or misused and cause noncompliance with federal regulations. It was not practical to extend our auditing procedures sufficiently to determine questioned costs, if any, that may have resulted from this finding. This may have an effect on other federal programs where equipment was purchased.

Cause: The District lacked capital assets policies and instructions for how and when to perform a physical inventory of equipment. Also, the District did not follow its policy for tagging equipment items.

Recommendation: To help ensure compliance with federal regulations and to help prevent loss, theft, or misuse of the program's equipment, the District should establish policies and procedures that require a physical inventory of equipment to be performed every 2 years and reconciled to the capital assets listing. Also, the District should ensure that its policies for tagging all equipment items are followed.



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Cochise County Community College District  
(Cochise College)  
Corrective Action Plan  
Year Ended June 30, 2012

## Financial Statement Findings

12-01

**The District should strengthen access controls over its financial information**

The District agrees with the recommendations.

The District is in the process of developing comprehensive written policies and procedures for access control to the financial information system. The District is working on having written policies and procedures completed by the end of FY 2013.

The District has already started a detailed users permissions security review to ensure that the proper security classifications are up to date and that employees are properly authorized and cleared to access the financial information system if required by their job function. This review is scheduled to be completed by the end of FY 2013.

The District will research Oracle logging practices and will develop, if necessary, automated processes that will red flag attempted activity by unauthorized users. We will be able to better determine a course of action once our research has been completed.

12-02

**The District needs to improve its controls over capital assets**

It is correct that the District's capital assets are \$57.9 million, or 68.8 percent of the District's total assets. However, of these capital assets, \$45.8 million is in buildings, \$5.9 million is in improvements to grounds and infrastructure, \$.7 million is for the land and other non-depreciable assets, and there was \$.9 million in construction in progress as of June 30, 2012. Policies and procedures for tracking capital assets will do little to improve the control, safeguard or reporting on these types of assets. However, for the remaining \$4.6 million, or 5.5% of total assets in equipment and collections, the District agrees that there is a need for improving these controls and with the recommendations.

The District currently is in the process of hiring a third party company to perform and verify a complete inventory and ensure each item is properly tagged. The District is also in the process of writing and implementing procedures for maintaining and controlling these assets and providing the necessary training for all employees. The District believes these steps will be completed prior to the end of FY2013.

Cochise County Community College District  
(Cochise College)  
Corrective Action Plan  
Year Ended June 30, 2012

12-03

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

The District agrees with the recommendations. The District is in the process of developing comprehensive written policies for journal entry processing to include independent reviews of all journal entries initiated by District employees. The District is working on having written policies and procedures completed by FY2013 year end. Written procedures already exist for payroll processing but the District will review and update these procedures as needed.

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

12-101

CFDA No.: 84.048 **Career and Technical Education—Basic Grants to States**  
**U.S. Department of Education**

Passed through the Arizona Department of Education

Award Period: July 1, 2011 through June 30, 2012

Pass-Through Grantor's Number: 11FCTDBG-170536-01A, 12FCTDBG-270536-04A

Equipment and Real Property Management

Questioned Cost: Unknown

The District agrees with the recommendations. The District currently is in the process of hiring a third party company to perform and verify a complete inventory, ensuring each item is properly tagged. The District is also in the process of writing and implementing procedures for maintaining and controlling these assets and providing the necessary training for all employees. The District believes that these steps will be completed prior to the end of FY2013.

Cochise County Community College District  
Summary Schedule of Prior Audit Findings  
Year Ended June 30, 2012

Status of Federal Award Findings and Questioned Costs

CFDA No.: 84.268 **Federal Direct Student Loans**  
Finding No.: 11-01  
Status: Fully corrected