

REPORT HIGHLIGHTS FINANCIAL STATEMENT AND SINGLE AUDITS

Our Conclusion

Navajo County Community College District is responsible for preparing annual financial statements and a schedule of expenditures of federal awards, maintaining effective internal controls, and being accountable for its use of public monies. Our Office is responsible for auditing the District's financial statements, schedule, and major federal programs annually. A summary of the financial statements and schedule of expenditures of federal awards is presented to the right.

Based on our audits, we issued reports that included our opinion on the District's financial statements, a report on its schedule of expenditures of federal awards, and reports on its internal control and compliance over financial reporting and major federal programs. The information in the District's fiscal year 2012 financial statements and schedule of federal awards is reliable. Our reports identified internal control deficiencies and instances of noncompliance over major federal programs. These findings are summarized on the next page.



2012

Year Ended June 30, 2012

Condensed financial information

Statement of net assets—This statement reports all assets, liabilities, and net assets. Net assets, the difference between assets and liabilities, are reported in three major categories:

- **Invested in capital assets, net of related debt**—shows the equity in property, buildings, and equipment.
- **Restricted**—shows the resources that must be used for restricted purposes as specified by donors and external entities, such as the federal government.
- **Unrestricted**—shows the resources available for general operations.

Statement of revenues, expenses, and changes in net assets—This statement reports all revenues, expenses, and other changes in net assets. The change in net assets indicates whether financial health has improved or deteriorated as a result of current-year activities. During fiscal year 2012, net assets increased by \$5.7 million, or 9 percent, as compared to an increase of \$7.9 million, or 13 percent, in fiscal year 2011.

Schedule of expenditures of federal awards—During fiscal year 2012, the District's educational and general operating expenses included \$4.8 million in federal awards expended. The District's federal award expenditures increased by \$84,000, or 2 percent, compared to fiscal year 2011.

Condensed statement of net assets As of June 30, 2012 (In thousands)

Assets	
Current assets	\$41,338
Noncurrent, other than capital	880
Capital assets, net of depreciation	33,031
Total assets	<u>75,249</u>
Liabilities	
Current	3,006
Noncurrent	87
Total liabilities	<u>3,093</u>
Net assets	
Invested in capital assets, net of related debt	33,031
Restricted	735
Unrestricted	<u>38,389</u>
Total net assets	<u>\$72,155</u>

Condensed statement of revenues, expenses, and changes in net assets For the year ended June 30, 2012 (In thousands)

Operating revenues	
Tuition and fees, net of scholarship allowances	\$ 2,690
Government contracts	2,638
Other	686
Total operating revenues	<u>6,014</u>
Operating expenses	
Educational and general	25,213
Auxiliary enterprises	405
Depreciation	<u>1,367</u>
Total operating expenses	<u>26,985</u>
Operating loss	(20,971)
Nonoperating revenues	
Property taxes	12,704
State appropriations	8,182
Government grants	5,502
Other	321
Net nonoperating revenues	<u>26,709</u>
Increase in net assets	5,738
Net assets—beginning	<u>66,417</u>
Net assets—ending	<u>\$72,155</u>

Condensed schedule of expenditures of federal awards by grantor agency Year ended June 30, 2012 (In thousands)

U.S. Department of Education	\$4,596
U.S. Department of Labor	124
U.S. Small Business Administration	85
Total federal expenditures	<u>\$4,805</u>

Summary of audit findings and recommendations

For the financial statement audit, we found internal control weaknesses over the District's information systems. For the federal compliance audit, we tested two federal programs under the major program guidelines established by the Single Audit Act and noted that the District did not always have adequate internal controls and did not always comply with certain federal program requirements for the Higher Education—Institutional Aid program. The Single Audit Reporting Package, which includes the auditors' reports on internal control and compliance over financial reporting and federal compliance and a Schedule of Findings and Questioned Costs, contains further details to help the District correct these deficiencies. The most significant findings and recommendations are summarized below.

Inadequate information system access, change, and recovery controls

The District did not have adequate procedures for granting, restricting, and monitoring system access rights, and for ensuring that all system and program changes were properly documented, authorized, tested, reviewed, and approved prior to implementation. In addition, the District did not have a documented and tested disaster recovery plan and backup process for its information system, which is vital to its daily operations.

Recommendations

The District should:

- Establish procedures for granting and restricting system access to help ensure that the access granted is appropriate for users, assigned to specific individual users for accountability, and immediately removed for terminated employees.
- Perform a comprehensive review of all existing system users annually to help ensure that access granted is compatible with their job responsibilities.
- Develop procedures for making system and program changes and separate responsibilities of developing and implementing changes from authorizing, testing, and approving them.
- Monitor system access for unusual or suspicious activity and investigate if found.
- Develop, implement, and test a disaster recovery plan and backup process.

Noncompliance with federal program requirements

During fiscal year 2012, for the Higher Education—Institutional Aid federal grant program, the District paid six contractors approximately \$287,000 for goods and services without verifying that the contractors were not suspended or debarred from doing business with the federal government prior to awarding the contracts. In addition, the District did not certify or confirm that its employees who were paid \$79,000 of this grant program's monies represented employees' actual time and effort spent on program activities. The District's fiscal year 2012 federal award expenditures totaled \$435,000 for this grant program.

Recommendations

The District should:

- Establish procedures for verifying that contractors are not suspended or debarred from doing business with the federal government prior to awarding contracts.
- Develop procedures to certify or confirm that employee compensation charged to federal programs represent employees' actual time and effort spent on federal program activities.