



## REPORT HIGHLIGHTS SINGLE AUDIT

### Subject

Navajo County Community College District issues financial statements and a schedule of expenditures of federal awards annually. The District is responsible for preparing its statements and schedule, maintaining strong internal controls, demonstrating accountability for its use of public monies, and complying with federal program requirements. 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 Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to these financial statements. A summary of this information is presented on page 2. However, auditors identified internal control weaknesses and instances of noncompliance with federal program requirements, which are summarized on this page.



2011

Year Ended June 30, 2011

## Summary of Audit Findings

For the financial statement audit, auditors found internal control weaknesses over the District's information systems and noncompliance with state laws. For the federal compliance audit, auditors tested two federal programs under the guidelines established by the Single Audit Act and noted material internal control weaknesses and material noncompliance for the Career and Technical Education—Basic Grants to States program. The District's Single Audit Reporting Package contains further details and auditor recommendations. The most significant findings are summarized below.

### Financial Statement Findings—

#### Information System Access, Change, and Recovery Controls—

The District did not ensure that system users were granted appropriate access rights for their job responsibilities, remove user rights when employees terminated employment or transferred departments, or monitor the activities of users with unlimited system access. In addition, the District did not have policies and procedures in place to ensure that all system and program changes were properly documented, authorized, tested, and reviewed and approved prior to implementation. Finally, the District did not have a comprehensive disaster recovery plan for its information systems, which are vital to its daily operations.

#### Noncompliance with State Capital Appropriations Laws—

The District did not comply with state laws appropriating \$1.5 million to the District to construct a public safety and emergency services training facility that was to be operated and controlled by the District. Instead, the District contributed the monies to a not-for-profit corporation to construct the facility; however, the corporation owns, controls, and operates the facility. The District needs to evaluate

the existing arrangement and agreements with the corporation and consult with its legal counsel to remedy the legal noncompliance.

### Federal Award Findings—

#### Career and Technical Education—Basic Grants to States—

The District did not comply with the program's requirements related to equipment and real property management, and procurement and suspension and debarment. Specifically, the District did not properly identify equipment and machinery items acquired with program monies on its capital assets list because it did not record the identification number and location for these items. In addition, the District did not perform a physical inventory of capital assets acquired with program monies during the last 2 years. In addition, the District paid contractors over \$25,000 for goods and services during the year using program monies, but did not verify that the contractors were not suspended or debarred from doing business with federal government prior to awarding the contracts. The District's fiscal year 2011 federal award expenditures totaled nearly \$315,000 for this program.

## Summary of Financial Information

**Statement of Net Assets**—This statement reports all of the District's assets, liabilities, and net assets using the accrual basis of accounting. 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, plant, and equipment.
- Restricted net assets shows the net resources that must be used for restricted purposes as specified by external parties.
- Unrestricted net assets shows the net resources available for general operations.

**Statement of Revenues, Expenses, and Changes in Net Assets**—This statement shows how net assets changed during the year. Revenues and expenses are reported as either operating or nonoperating. 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 \$7.9 million during the fiscal year.

**Schedule of Expenditures of Federal Awards**—The District's expenses included \$4.7 million in federal awards expended. The District's federal award expenditures decreased by \$132,000, or 3 percent, compared to fiscal year 2010.

Condensed Statement of Net Assets June 30, 2011 (In Thousands)	
<b>Assets:</b>	
Current assets	\$35,836
Noncurrent, other than capital	822
Capital assets, net of depreciation	<u>31,587</u>
Total assets	<u>68,245</u>
<b>Liabilities:</b>	
Current	1,708
Noncurrent	<u>120</u>
Total liabilities	<u>1,828</u>
<b>Net assets:</b>	
Invested in capital assets, net of related debt	31,504
Restricted	718
Unrestricted	<u>34,195</u>
Total net assets	<u>\$66,417</u>

Condensed Statement of Revenues, Expenses, and Changes in Net Assets As of June 30, 2011 (In Thousands)	
<b>Operating revenues:</b>	
Tuition and fees, net of allowance	\$ 2,319
Government grants	2,060
Other	<u>744</u>
Total operating revenues	<u>5,123</u>
<b>Operating expenses:</b>	
Education and general	22,367
Auxiliary enterprises	1,218
Depreciation	<u>1,320</u>
Total operating expenses	<u>24,905</u>
Operating loss	<u>(19,782)</u>
<b>Nonoperating revenues and expenses:</b>	
Property taxes	11,989
State appropriations	10,214
Government grants	4,956
Other	<u>512</u>
Net nonoperating revenues	<u>27,671</u>
Increase in net assets	7,889
Net assets—July 1, 2010	<u>58,528</u>
Net assets—June 30, 2011	<u>\$66,417</u>

Condensed Schedule of Expenditures of Federal Awards by Grantor Agency Year Ended June 30, 2011 (In Thousands)	
U.S. Department of Education	\$4,473
U.S. Small Business Administration	138
U.S. Department of Labor	80
U.S. Department of Health and Human Services	<u>30</u>
Total federal expenditures	<u>\$4,721</u>

TO OBTAIN  
MORE INFORMATION

The District's Single  
Audit Report  
is available at:  
[www.azauditor.gov](http://www.azauditor.gov)

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Year Ended June 30, 2011