



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Single Audit

**Navajo County
Community College
District**

(Northland Pioneer College)
Year Ended June 30, 2014



Debra K. Davenport
Auditor General

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Navajo County Community College District
(Northland Pioneer College)
Single Audit Reporting Package
Year Ended June 30, 2014

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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
Navajo County Community College District

We have audited the financial statements of the business-type activities and aggregate discretely presented component units of Navajo County Community College District as of and for the year ended June 30, 2014, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 14, 2014. Our report includes a reference to other auditors who audited the financial statements of the aggregate discretely presented component units, 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 aggregate discretely presented component units were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the aggregate discretely presented component units.

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. We did identify a certain deficiency in internal control described in the accompanying Schedule of Findings and Questioned Costs as item 2014-01 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*.

Navajo County Community College District's Response to Findings

Navajo County Community College District's response to the finding identified in our audit is presented on page 13. 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

November 14, 2014



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 for Each Major Federal Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

Members of the Arizona State Legislature

The Governing Board of
Navajo County Community College District

Report on Compliance for Each Major Federal Program

We have audited Navajo 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, 2014. The District's major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, Navajo County Community College District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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.

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 a 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. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the business-type activities and aggregate discretely presented component units of Navajo County Community College District as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. We issued our report thereon dated November 14, 2014, that contained an unmodified opinion on those financial statements. Our report also included 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.

Jay Zsorey, CPA
Financial Audit Director

November 21, 2014

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**Navajo County Community College District
(Northland Pioneer College)
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014**

Federal agency/CFDA number (Note 2)	Federal program name	Cluster title	Pass-through grantor	Pass-through grantor's number	Program expenditures
Department of Labor					
17 282	Trade Adjustment Assistance Community College and Career Training (TAACCCT) Grants				\$ 267,526
Small Business Administration					
59 037	Small Business Development Centers		Maricopa County Community College District	SBAHQ-14-B-0050	<u>113,820</u>
Department of Education					
84 002	Adult Education - Basic Grants to States		Arizona Department of Education	V002A1100003	142,129
84 007	Federal Supplemental Educational Opportunity Grants	Student Financial Assistance Cluster			65,952
84 033	Federal Work-Study Program	Student Financial Assistance Cluster			88,650
84 063	Federal Pell Grant Program	Student Financial Assistance Cluster			<u>2,650,323</u>
	<i>Total Student Financial Assistance Cluster</i>				<u>2,804,925</u>
84 031	Higher Education - Institutional Aid				505,840
84 048	Career and Technical Education - Basic Grants to States		Arizona Department of Education	V048A110003	<u>292,112</u>
	Total Department of Education				<u>3,745,006</u>
	Total expenditures of federal awards				<u>\$ 4,126,352</u>

See accompanying notes to schedule.

Navajo County Community College District
(Northland Pioneer College)
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Navajo County Community College District and is presented on the accrual basis of accounting. The information on 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 2014 *Catalog of Federal Domestic Assistance*.

Navajo County Community College District
(Northland Pioneer College)
Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:		Unmodified	
		Yes	No
Internal control over financial reporting:			
Material weakness identified?	___		_X_
Significant deficiency identified?	_X_		___
Noncompliance material to the financial statements noted?	___		_X_

Federal Awards

Internal control over major programs:			
Material weakness identified?	___		_X_
Significant deficiency identified?	___		_X_ (None reported)
Type of auditors' report issued on compliance for major programs:			Unmodified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (section .510[a])?	___		_X_

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
	Student Financial Assistance Cluster:
84.007	Federal Supplemental Educational Opportunity Grants
84.033	Federal Work-Study Program
84.063	Federal Pell Grant Program
84.031	Higher Education—Institutional Aid

Navajo County Community College District
 (Northland Pioneer College)
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2014

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

Yes **No**

Auditee qualified as low-risk auditee? _____ X

Other Matters

Auditee's Summary Schedule of Prior Audit Findings required to be reported in accordance with Circular A-133 (section .315[b])? X _____

Navajo County Community College District
(Northland Pioneer College)
Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

Financial Statement Findings

2014-01

The District should improve procedures over capital assets reporting and stewardship

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

Condition and context: Capital assets comprise \$39.3 million, or 48 percent, of the District's total assets. However, the District did not have effective internal controls to control, safeguard, and accurately report its capital assets. Specifically, auditors noted the following deficiencies:

- The District improperly reported a completed building valued at \$5.3 million as construction in progress at June 30, 2014.
- For 6 of 12 equipment items tested, the District disposed of the items in prior fiscal years but did not remove the items from its capital assets listing.
- For 1 of 8 equipment items tested, the District recorded the incorrect location on its capital assets listing and did not tag the item as required under existing procedures.
- For the only current year equipment disposal tested, the District did not complete the disposal authorization form until 3 months after the end of the fiscal year.

Effect: The errors caused amounts to be incorrectly reported in the financial statements and related note disclosures. Specifically, construction in progress was overstated and buildings was understated by \$5.3 million at June 30, 2014. In addition, the District's June 30, 2014, equipment and related accumulated depreciation balances were overstated by \$101,161 and \$90,735, respectively. The District adjusted its financial statements and related note disclosures for all significant errors. Further, the District's capital assets were exposed to an increased risk of theft or misuse.

Cause: The District's existing capital assets policies and procedures were not detailed enough to ensure construction projects completed during the fiscal year were properly reported in the financial statements or that equipment items disposed of were being removed from the accounting records in the correct fiscal year. Lastly, the District did not follow its own policies and procedures for tagging equipment and maintaining an accurate and complete capital assets listing.

Recommendation: To help ensure that capital assets are properly controlled, safeguarded, and reported in the financial statements, the District should follow its established policies and procedures and ensure all capital inventory is tagged and the capital assets listing is kept accurate and complete. In addition, the District should evaluate its existing policies and procedures to ensure they are sufficiently detailed to address:

- when construction projects are complete and should be reported as depreciable capital assets in the financial statements.
- the disposal of capital assets and their removal from the accounting records in the correct fiscal year.

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November 7, 2014

Ms. Debra K. Davenport
Auditor General
2910 North 44th Street, Suite 410
Phoenix, AZ 85018

Dear Ms. Davenport:

The accompanying Corrective Action Plan has been prepared as required by the standards applicable to financial audits contained in *Government Auditing Standards* and U.S. Office of Management and Budget Circular A-133. Specifically, we are providing you with the corrective action planned for the financial reporting finding and the name of the contact person responsible for corrective action, the corrective action planned, and the anticipated completion date for the audit finding included in the current year's Schedule of Finding and Questioned Costs.

Sincerely,

V. Blaine Hatch
Vice President for Administrative Services

Quality education you can afford.

Navajo County Community College District
(Northland Pioneer College)
Corrective Action Plan
Year Ended June 30, 2014

Financial Statement Finding

2014-01

The District should improve procedures over capital assets reporting and stewardship.

Maderia Ellison, Director of Financial Services

Anticipated completion date: June 30, 2015

Corrective Action Plan:

The District has been made aware of the issues related to capital asset and concurs with the finding and recommendations.

The District will make the necessary changes to improve procedures over capital asset reporting and stewardship; specifically it will:

- Evaluate and update existing policies and procedures to address when construction projects are determined to be substantially complete and reported as depreciable capital assets in accounting records.
- Evaluate and update its existing policies and procedures to address disposal of assets and removal from accounting records.
- Evaluate and enhance existing training processes to ensure assets are properly recorded in the accounting records, with an emphasis on the following:
 - Newly acquired equipment will be properly tagged and recorded with accurate location.
 - Disposal of equipment will commence with completion of proper forms and end when assets are removed from asset list and properly disposed of.
- Evaluate overall internal controls to address proper level of segregation of duties and management oversight.

October 29, 2014

Ms. Debra K. Davenport
Auditor General
2910 North 44th Street, Suite 410
Phoenix, AZ 85018

Dear Ms. Davenport:

The accompanying Summary Schedule of Prior Audit Findings has been prepared as required by U.S. Office of Management and Budget Circular A-133. Specifically, we are reporting the status of audit findings included in the prior audit's Schedule of Findings and Questioned Costs related to federal awards.

Sincerely,

V. Blaine Hatch
Vice President for Administrative Services

Quality education you can afford.

Navajo County Community College District
(Northland Pioneer College)
Summary Schedule of Prior Year Audit Findings
Year Ended June 30, 2014

Status of Prior Year Federal Award Findings and Questioned Costs

CFDA No.: 84.031 Higher Education — Institutional Aid, U. S. Department of Education

Finding Number: **2013-101**

Status: Fully Corrected.

CFDA No.: 84.002 Adult Education – Basic Grants to States, U. S. Department of Education

Finding Number: **2013-102**

Status: Fully Corrected.