



A REPORT  
TO THE  
ARIZONA LEGISLATURE

Financial Audit Division

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Management Letter

**Cochise County**  
**Community College District**  
Year Ended June 30, 2002

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**Debra K. Davenport**  
Auditor General

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**STATE OF ARIZONA  
OFFICE OF THE  
AUDITOR GENERAL**

**DEBRA K. DAVENPORT, CPA**  
AUDITOR GENERAL

**WILLIAM THOMSON**  
DEPUTY AUDITOR GENERAL

May 30, 2003

Governing Board  
Cochise County Community College District  
4190 W. Highway 80  
Douglas, AZ 85607-9724

Members of the Board:

In planning and conducting our single audit of Cochise County Community College District for the year ended June 30, 2002, we performed the following as required by *Government Auditing Standards* (GAS) and Office of Management and Budget (OMB) Circular A-133:

- Considered the District's internal controls over financial reporting,
- Tested its internal controls over major federal programs, and
- Tested its compliance with laws and regulations that could have a direct and material effect on its financial statements and major federal programs.

There are no audit findings that are required to be reported by GAS and OMB Circular A-133. However, our audit disclosed internal control weaknesses and instances of noncompliance with laws and regulations that do not meet the reporting criteria. Management should correct these deficiencies to ensure that it fulfills its responsibility to establish and maintain adequate internal controls and comply with laws and regulations. Our recommendations are described in the accompanying summary.

This letter is intended solely for the information of the Cochise County Community College District Governing Board and is not intended to be and should not be used by anyone other than the specified party. However, this letter is a matter of public record, and its distribution is not limited.

Should you have any questions concerning its contents, please let us know.

Sincerely,

Dennis L. Mattheisen, CPA  
Financial Audit Director

Attachment

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District Response

## The District should strengthen controls over its cash

Because cash is highly susceptible to theft or misuse, the District should establish and maintain effective internal controls to better safeguard cash. Employee responsibilities for receiving cash, performing cash drawer reconciliations, preparing cash collections for deposit, and making deposits should be separated to ensure that District monies are properly safeguarded and promptly deposited intact. Further, to ensure that District monies are disbursed only for authorized purposes, employee responsibilities for approving cash disbursements, recording those disbursements on the accounting system, and preparing checks should be separated. Finally, the District should ensure that bank reconciliations are properly prepared and completed monthly.

However, the District did not have effective controls over its cash. For example, the employee who collected cash also reconciled the cash drawer, and prepared and made the deposits at the Douglas, Sierra Vista, Benson, Wilcox, Fort Huachuca, and Pima Flight offices. In another example, the controller, accounting supervisor, and accounts payable clerk were allowed to approve disbursements, record those disbursements, and prepare checks without an independent review. As a final example, the District's bank reconciliation was prepared, but left an irreconcilable difference of \$35,080 between the District's cash balance and the bank's balance.

The following procedures can help the District ensure that cash is better safeguarded.

- Assign a limited number of people to receive cash.
- Assign the responsibility for reconciling the cash drawer and making deposits to an employee who does not receive cash. An employee should not be responsible for both cash-handling and recordkeeping activities.
- If, because of small staff size at remote locations, one employee must perform incompatible duties, a District official should review and approve transactions at appropriate points in the process.
- Require an independent review and approval of all cash disbursements.
- Provide written instructions for performing bank reconciliations, including guidance for investigating and resolving differences between the District and bank.

## The District needs additional controls to protect its computer system from unrestricted or unauthorized access

The District records critical information on its computer system. Therefore, the District should protect the system from unrestricted or unauthorized access by establishing strong access controls. Auditors noted the District's internal controls were inadequate to protect the computer system against such access. For example, the District's database administrator was granted unrestricted access to the computer system. Employees with unrestricted access increase the District's risk that improper activity will occur within the computer system. When the District must grant unrestricted access to an employee, the District should ensure controls are established to minimize its risk. In another example, the District did not require employees to change computer passwords. Periodic changes to passwords help ensure that only authorized individuals obtain access to the District's computer system. Finally, the District lacked documented policies and procedures for controlling computer room access and for establishing user access to the computer system. Written policies and procedures would help ensure that physical access to the computer room is restricted only to authorized individuals and that computer system access is established at the appropriate levels and only for authorized users.

The District should establish adequate internal controls to protect its computer system from unrestricted or unauthorized access. Such controls should include:

- Prohibiting employees from having unrestricted access to the computer system.
- Monitoring employee computer access by generating and reviewing access reports.
- Requiring computer passwords to be changed on a regular basis.
- Developing written policies and procedures over physical access to the District's computer room and logical access to the District's computer system.

# The District should improve its stewardship over its collection of art and historical treasures

The District maintains a collection of art and historical treasures that includes paintings, sculptures, ceramics, and other miscellaneous items. Good stewardship requires the District to take a periodic physical inventory of its assets and properly insure the assets against unforeseen loss. Generally accepted accounting principles require such collections to be reported as capital assets in the District's financial statements, unless the District has adopted a formal policy that demonstrates the District's intent to hold the collections for other than financial gain, protect and care for the collections, and use any proceeds from the sale of collection items to acquire other items for its collections.

Auditors noted that the District last inventoried its collection over 25 years ago, when the collection was originally donated to the District. At the time of donation, the collection had an appraised value of \$200,000. The District insures its collection based on that appraised value, even though the appraisal was obtained over 25 years ago. Finally, the District did not have a formal policy requiring the District to use any proceeds from the sales of collection items to acquire additional items. As a result, the District should have reported this collection as a capital asset in its financial statements.

The following procedures can help the District ensure that its collection of art and historical treasures is properly safeguarded, adequately insured, and accurately reported on the District's financial statements:

- Perform a physical inventory of the collection of art and historical treasures at least once every three years.
- Update the District's capital assets list for changes in the collection based on the physical inventory.
- Determine whether the insurance coverage for the collection is adequate to cover any appreciation on the collection's current value.
- Develop a policy that addresses the District's intent to hold the collections for other than financial gain, protect and care for the collections, and use any proceeds from the sale of collection items to acquire other items for its collections.
- In the absence of an appropriate policy regarding the collection, report the estimated fair market value of the collection at the time received as a capital asset in its financial statements.

May 16, 2003

Debbie Davenport  
Auditor General  
Office of the Auditor General  
2910 North 44<sup>th</sup> Street, Suite 410  
Phoenix, AZ 85018

Dear Ms. Davenport:

The following is Cochise Community College District's response to the management letter for fiscal year ended June 30, 2002.

**The District should strengthened controls over its cash**

Concur.

The District will review its internal control over cash. Subsequent to the review, the District will develop and implement procedures to improve safeguards and controls. As part of the internal review, the District will ensure proper segregation of duties or secondary review processes to meet this requirement.

The District will develop written bank reconciliation procedures that require personnel to perform monthly bank reconciliations and resolve discrepancies in a timely fashion.

**The District needs additional controls to protect its computer system from unrestricted or unauthorized access**

Concur.

The District will perform a comprehensive review of its internal computer security procedures. Subsequent to the review, modifications to security access will be made to control the District's computer access. Quarterly, management will review an access report to assure that no unauthorized or unrestricted access is permitted.

**The District should improve its stewardship over its collection of art and historical treasures**

Concur.

The District prepared a Request for Proposals (RFP) appraisal of its collection of art and historical treasures in April 2003. In response to the RFP, the contract was awarded and the appraisal is scheduled to begin June 6, 2003. Concurrently with the appraisal, a complete inventory will be taken.



Following the completion of this endeavor, the District will review its capitalization policy relative to its collection of art and historical treasures. The District will capitalize the assets if policy remains as it is currently written, otherwise, they will be handled in accordance with newly developed policy.

Sincerely,

Michael J. Carter, PhD, CPA  
Vice President for Administration