



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Management Letter

Mohave County Community College District

Year Ended June 30, 2002



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

October 8, 2003

Governing Board
Mohave County Community College District
1971 Jagerson Avenue
Kingman, AZ 86401

Members of the Board:

In planning and conducting our single audit of Mohave 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 Mohave 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

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The District needs to better prepare for implementation of new accounting standards

The District must issue accurate and timely financial statements to satisfy the audit requirements imposed by federal and state laws and regulations, grant contracts, and long-term debt covenants. For fiscal year 2002, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 35, which prescribes a new reporting model for colleges and universities that are operated as business-type activities. However, the District did not prepare accurate and timely financial statements. When the District prepared its financial statements using the new reporting model, auditors noted significant deficiencies that took the District months to correct. The delays were primarily due to District employees not knowing how to obtain certain information from the District's accounting records to comply with the new reporting requirements. As a result, these problems delayed the issuance of the District's Single Audit Reporting Package for the year ended June 30, 2002, and required significant effort by auditors to assist the District in adjusting its financial statements.

It took the District almost one year after fiscal year end to prepare complete financial statements with accompanying notes in accordance with the new reporting model.

To help ensure that financial statements are prepared accurately and issued in a timely manner, the District should allocate resources to:

- Research all accounting and reporting requirements to ensure the financial statements are properly presented in accordance with authoritative pronouncements.
- Obtain information from the accounting system necessary for financial statement preparation, such as scholarship allowances for various revenue sources.
- Establish a process for obtaining information not readily available from the accounting system necessary for financial statement preparation. Examples of such information include current-year increases and decreases in compensated absences and long-term debt and much of the information necessary to prepare the Statement of Cash Flows.
- Establish a process for compiling the information and preparing financial statements and notes including assigned employees and completion dates.
- Have an employee who did not prepare the financial statements review them and the accompanying notes to help ensure that the amounts are accurate and properly supported and the statements are presented in accordance with authoritative pronouncements.

The District should establish procedures to accurately record and report financial information

Accurate financial information is necessary to demonstrate accountability to the Governing Board, Federal and State Grantors, and the Public .

The District's Governing Board depends on accurate information so it can fulfill its oversight responsibility. The District should also report accurate information to the public and agencies from which it receives funding. To achieve the objective, management should ensure that balance and transaction amounts are recorded accurately, in the appropriate accounts, and in the proper fiscal year. However, the District did not accomplish this objective because the District recorded some balances and transactions incorrectly or did not apply the accrual basis of accounting when reporting them. Also, the District incorrectly reported some balances and transactions in its financial statements or certain balances reported were not properly supported by or reconciled to its accounting records. The District adjusted its financial statements for all significant errors noted.

The District can correct the deficiencies auditors noted by implementing the following additional procedures:

Accounting Records

- Record prior-year audit adjustments in the accounting records to ensure that beginning net assets are accurate.
- Make sure that interfund receivables or transfers-in are offset by interfund payables or transfers-out in the corresponding funds.
- Reconcile transactions occurring in trustee accounts from the accounting records to bank trustee statements at least quarterly to help ensure that all transactions, such as construction costs and amounts payable to contractors, are accurately recorded. This will also help ensure that restricted monies are properly reported in the financial statements.
- Calculate and record allowances for uncollectible accounts for property taxes and student loans receivable.
- Reconcile capital expenses recorded in the accounting records to assets added to the capital assets system to ensure assets are properly capitalized.

Financial Statements

- Report revenues, such as property tax revenues, when earned regardless of when cash is received. In addition, report expenses, such as interest expense on debt, when incurred regardless of when payment is made.
- Report long-term debt principal payments as reductions in liabilities.
- Eliminate capital expenditures for depreciable assets.
- Correctly classify operating and nonoperating expenses.
- Make sure that balances reported are properly supported by and reconciled to the accounting records.

The District should protect its computer system against system or equipment failure

The District records critical financial and student information on its computer system. Consequently, the system should be protected from a system or equipment failure by a current and tested disaster recovery plan. Such a plan will help ensure that proper procedures are in place to provide for the continuity of operations and that electronic data files are not lost in the event of a disaster or other interruption. In addition, written policies and procedures that provide instructions to employees for processing daily transactions in the event of a disaster are also necessary. However, the District's computer system lacked protection in these areas. Specifically, the District's disaster recovery plan has not been updated since 1994, has never been tested, and did not include detailed instructions.

To help ensure the District's computer system is protected against system or equipment failure and to help prevent loss of data from a service interruption, the District should update and test its disaster recovery plan annually. In addition, the District should ensure the plan includes the following:

- A listing of employees assigned to disaster teams including telephone numbers.
- Employee assignments and responsibilities.
- A risk analysis identifying critical transaction cycles.
- A designated alternative computer facility.
- Details of off-site storage locations.
- A list of procedures for processing critical transactions including forms or other documents to use.

The District's depreciation expense and accumulated depreciation should be calculated accurately

The implementation of GASB Statement No. 35 requires the District to record depreciation expense and report its depreciable capital assets, net of accumulated depreciation. Since the District's capital assets represented a significant portion of total District assets, it is essential that the District maintain records to accurately calculate and record its depreciation expense and accumulated depreciation. However, auditors noted numerous errors in the District's spreadsheets used to

calculate depreciation expense and the balance of accumulated depreciation. For example, the District designed its spreadsheets with many incorrect formulas including those for assets' remaining useful lives. In addition, the District began depreciating buildings when payments were made for construction services, rather than when buildings were placed in service. Also, some useful lives for building improvements extended beyond the buildings' useful lives they occupied. Significant effort was made by auditors to determine the extent of errors and propose correcting entries to the financial statements.

To help ensure the accuracy of depreciation expense and accumulated depreciation reported on the financial statements, the District should establish procedures that include:

- Determining appropriate acquisition dates for all capital assets.
- Verifying that formulas for calculating remaining useful lives are accurate and in accordance with District policy.
- Reviewing the mathematical accuracy and reasonableness of all other formulas used in the spreadsheets.
- Assigning an employee who did not prepare the spreadsheets to review and approve the calculations.

The District should maintain effective controls over financial transactions

To minimize the risks of theft, fraud, and misuse of District assets, the District should maintain effective controls over all financial transactions. However, the District did not establish effective controls to provide proper accountability and separate responsibilities for document preparation and approval over certain transactions. For example, several employees had access to the same cash drawer at the District's registration offices. In addition, year-end adjusting journal entries were not reviewed and approved by someone other than the preparer.

To maintain effective controls over financial transactions, the District should implement the following procedures:

- Maintain a cash drawer for each cashier, or establish alternative procedures, to help ensure accountability for tuition and fee collections at the registration offices. This will enable the District to determine cash overages and shortages for each cashier.
- Ensure that all year-end adjusting journal entries are reviewed and approved by someone other than the preparer. This procedure is extremely important since year-end adjusting journal entries may be more significant than adjusting journal entries for the rest of the year.



Board of Governors

Stuart Anderson
Dean Finkbeiner
Dan Hargrove
Sally Eggers Hero
Victor Wakimoto

MANAGEMENT LETTER RESPONSE

September 29, 2003

Office of the Auditor General
2910 North 44th Street, Suite 410
Phoenix, AZ 85018

Mohave County Community College District concurs with the findings reported in the management letter based on the single audit for the year ended June 30, 2002.

During July 2002, there was a change of senior management at the District, including a new President, Vice President for Administration and Comptroller. At that time the District began an evaluation of the College to ensure that best practices are followed in all the District's policies and procedures. Though the internal review is a continuing process some of the progress to date is as follows.

- A reorganization of the District to increase functionality and communication and to assure proper reporting and accountability.
- The District contracted with Collegis to manage the Technology Support Services Department. This will ensure the integrity of the District's data and financial records.
- An evaluation of the District's policies and procedures is on going. The review will ensure that internal controls are adequate, effective and properly documented; that financial records are complete, and accurate, and that financial accounting and reporting is in compliance with generally accepted accounting principles, government reporting requirements, and other authoritative accounting standards and pronouncements.

This year the District implemented early the new reporting model as outlined by the Governmental Accounting Standards Board (GASB) Statement No. 35. Implementation of the new reporting model required a significant change in both the accumulation and presentation of financial information. Because of the many intricacies of the new reporting model the District worked closely with the Office of the Auditor General (OAG) to ensure the accuracy and fair presentation of the financial statements using the new guidelines. We appreciate the commitment to excellence displayed by the OAG and in particular we commend the staff assigned to perform the audit for the professionalism and courtesy that was extended to us during this transition period.

We wish to express our gratitude to the Office of the Auditor General for performing the audit of Mohave County Community College District's Single Audit Report Package for the year ended June 30, 2002.

James Menlove, Comptroller

Thomas C. Henry, Ph.D.

President
1971 Jagerson Ave.
Kingman, AZ 86401
(928) 757-0801

Bullhead City Campus

3400 Highway 95
Bullhead City, AZ 86442
(928) 758-3926

Kingman Campus

1971 Jagerson Ave.
Kingman, AZ 86401
(928) 757-4331

Lake Havasu Campus

1977 West Acoma Blvd.
Lake Havasu City, AZ 86403
(928) 855-7812

North Mohave Campus

P.O. Box 980
Colorado City, AZ 86021
(928) 875-2799