



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Management Letter

Navajo County Community College District

Year Ended June 30, 2003



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 13, 2006

Governing Board
Navajo County Community College District
P.O. Box 610
Holbrook, AZ 86025-0610

Members of the Board:

In planning and conducting our single audit of Navajo County Community College District for the year ended June 30, 2003, 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.

All audit findings that are required to be reported by GAS and OMB Circular A-133 have been included in the District's Single Audit Reporting Package for the year ended June 30, 2003. In addition, 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 below.

The District should ensure the accuracy of its accounting records

The District's Governing Board depends on accurate information to fulfill its oversight responsibility. Additionally, the District must issue accurate and timely financial statements to ensure compliance with audit requirements imposed by federal and state laws and regulations, grant contracts, and long-term debt covenants. To achieve this objective, management should ensure that financial transactions are accurately recorded in its accounting records. However, the District did not fully accomplish this objective because the District did not always properly classify financial transactions in its accounting records. For example, the District incorrectly classified approximately \$1 million in long-term debt principal payments as interest expense and \$249,000 of interest expense on long-term debt as a reduction of long-term debt. Further, auditors noted other misclassifications of intergovernmental revenues, investments, accrued interest, property taxes, and compensated absences totaling \$1,058,727. As a result, these problems delayed the issuance of the District's financial statements for the year ended June 30, 2003, and required significant effort by auditors to assist the District in adjusting its financial statements.

To help ensure that the District accurately records and reports its financial activities, the District should identify and classify financial transactions using the District's chart of accounts before they are posted to the accounting records. In addition, the District should research financial accounting and reporting requirements, and ensure financial transactions are properly recorded to comply with those requirements.

A similar recommendation was previously provided to the District in our prior year's management letter.

The District should strengthen controls over its bank accounts

Since cash can be easily stolen or misused, it is essential that the District have effective controls over its bank accounts, including preparing complete and accurate bank reconciliations in a timely manner. However, the District did not prepare monthly bank reconciliations in a timely manner. Auditors noted reconciliations that were not prepared for up to 3 months after month-end. In addition, the reconciliations were inaccurate and were not reviewed and approved.

To help strengthen controls over bank accounts, the District should institute the following procedures:

- Prepare complete, accurate, and timely monthly bank reconciliations for all bank accounts within 2 weeks of the end of the month. Investigate and correct all discrepancies noted.
- Require a supervisor not responsible for making deposits or issuing checks to review and approve the monthly bank reconciliations.

This letter is intended solely for the information of the Navajo 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



Northland Pioneer College

5 October 2006

Debbie Davenport
Auditor General
Office of the Auditor General
2910 N. 44th Street, Suite 410
Phoenix, Arizona 85018

Dear Ms. Davenport,

The following is Navajo County Community College District's response to the findings reported in the management letter related to the single audit for the year ended June 30, 2003.

The District should ensure the accuracy of its accounting records.

The District will identify and classify financial transactions using the chart of accounts before they are posted to the accounting records. Additionally, the District will research financial accounting and reporting requirements, and ensure financial transactions are properly recorded to comply with those requirements.

The District should strengthen controls over its bank accounts.

The District will prepare complete, accurate, and timely bank reconciliations each month for all bank accounts. All reconciling items will be properly recorded and discrepancies will be investigated and corrected in a timely manner. An administrator will review and approve the monthly bank reconciliations.

Thank you for the professional activities of your audit staff and their assistance in identifying areas of concern along with the recommendations for improvement. .

Sincerely,

V. Blaine Hatch
Vice President for Administrative Services

Navajo County Community College District
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(928) 524-7600