



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Report on Internal Control and Compliance

Pima County Community College District

Year Ended June 30, 2008



Debra K. Davenport
Auditor General

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Pima County Community College District
Report on Internal Control and Compliance
Year Ended June 30, 2008

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

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

**Independent Auditors' Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance with *Government Auditing Standards***

Members of the Arizona State Legislature

The Governing Board of
Pima County Community College District

We have audited the financial statements of the business-type activities and discretely presented component unit of Pima County Community College District as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 3, 2008. Our report was modified to include a reference to our reliance on other auditors and as to consistency because of the implementation of Governmental Accounting Standards Board Statement Nos. 45 and 50. 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. Other auditors audited the financial statements of the Pima Community College Foundation, Inc., the discretely presented component unit, as described in our report on the District's financial statements. The financial statements of the Pima Community College Foundation, Inc. were not audited by the other auditors in accordance with *Government Auditing Standards*. This report includes our consideration of the results of the other auditors' testing of internal control over financial reporting that are reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we and the other auditors identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's basic financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider items 08-01 through 08-03 described in the accompanying Schedule of Findings and Recommendations to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the basic financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's basic financial statements are free of 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*.

The District's responses to the findings identified in our audit are included herein. We did not audit the District's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the members of the Arizona State Legislature, the Governing Board, and management and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Jay Zsorey, CPA
Financial Audit Director

December 3, 2008

Pima County Community College District
Schedule of Findings and Recommendations
Year Ended June 30, 2008

Pima County Community College District Finding

08-01

The District should strengthen internal controls over purchasing

The District purchases over \$30 million each year from many different vendors. To help ensure that the District receives quality goods and services at the best possible price, it needs to strictly follow its purchasing policies and procedures. However, auditors found that the District did not always follow its policies and had not developed adequate procedures concerning processing vendor payments and monitoring purchasing card activity.

Vendor payments

The District's current written policies and procedures were not adequate to help ensure that vendors received timely payment for only legitimate district purchases. Auditors noted that review and approval of vendor invoices was required before invoices were processed and paid, and did not note any improper vendor payments. However, auditors determined that the current policies and procedures could allow duplicate payments to vendors for the same invoice or payments to fictitious vendors, or result in late payments to vendors.

Purchasing Cards

District employees often use purchasing cards to make purchases, and the District has written policies and procedures to help ensure that purchasing cards are used appropriately. The current policies included a listing of unallowable items or vendors and transaction spending limits for cardholders. They also prohibited splitting purchases to avoid exceeding a cardholder's approved transaction limit and required cardholders to obtain bids and quotations for purchases exceeding \$1,000. However, auditors noted that the District's policies were not in line with current practices, did not include all areas of purchasing card usage, and were not always followed. For example, it was common practice that cardholders were given preapproval to circumvent the policies because they sometimes exceeded their designated limits, bought unallowable items, or used unallowable vendors. However, auditors examined 55 purchasing card transactions and noted many such violations that were neither preapproved nor detected. In addition, auditors noted several instances in which cardholders did not obtain bids or quotations.

The District should strengthen its internal controls over vendor payments and update and strengthen its policies and procedures over purchasing card transactions. Specifically, the District should ensure that it implements and practices the following procedures:

Vendor payments

- Input vendor invoices into the accounting system prior to forwarding them to departments for approval.
- Track invoices in a suspense file until the departmental approvals are received.
- Monitor invoices in the suspense file and ensure invoices get departmental approval within a specified time frame.
- Require that all invoice numbers are entered into the accounting system exactly as shown without any extra spaces or characters and periodically audit this process.

Pima County Community College District
Schedule of Findings and Recommendations
Year Ended June 30, 2008

- Separate the responsibilities for entering new vendors into the accounting system, inputting and processing invoices, and processing and verifying the accuracy of checks.

Purchasing card transactions

- Update purchasing card policies and procedures to reflect current practices for allowable purchases, vendors, and limits.
- Develop policies and procedures for all areas of purchasing card usage, including approvals, reconciliations, and monitoring violations.
- Reinforce existing policies that require bids and quotations for purchases exceeding \$1,000 and that prohibit splitting purchasing card purchases to avoid exceeding transaction limits.
- Take corrective action, such as canceling or suspending the cardholder's purchasing card privileges, when the cardholders do not comply with policies.

Component Unit Findings

The other auditors who audited the Pima Community College Foundation, Inc. reported the following significant deficiencies for that component unit.

08-02

Pima Community College Foundation, Inc.

Cash Receipts

There were instances noted during the audit in which two signatures were not apparent on the mail log, thus we were unable to verify two individuals opened the mail on that specific day. Additionally, while a log is prepared when mail is opened, the original log is being maintained by the mail opener who also maintains the cash receipts. This increases the risk of the log being altered and checks being misappropriated. We recommend that mail be opened by two individuals, at all times, that the original log be maintained by one of the individuals opening the mail that does not have access to the physical checks, and that the log be reconciled to the deposits by a person independent of the mail opening and cash receipts process.

08-03

Pima Community College Foundation, Inc.

Segregation of Duties

It was noted during the current year audit that the Executive Director, who is a check signer, also has full access to the accounting system. Although she does not appear to process transactions or perform any accounting functions, in order to adequately segregate the accounting (recording) and check signing (authority) functions, we recommend that she have read-only access to the accounting system.

Schedule of Findings and Recommendations Year Ended June 30, 2008

Pima Community College reviewed the audit findings and has taken measures to correct deficiencies identified in the audit report.

Item: **08-01**

The District should strengthen internal controls over purchasing.

Vendor Payments – The District should strengthen its internal controls over vendor payments. Specifically, the District should ensure that it implements and practices the following.

- Input vendor invoices into the system prior to forwarding them to departments for their approval.
- Track invoices in a suspense file until the proper departmental approvals are received
- Monitor invoices in the suspense file and ensure invoices get departmental approval within a specified timeframe.

Corrective Action

In the fall of 2007, the Accounts Payable invoice tracking procedures were changed to address this deficiency by requiring: (1) inputting all invoices into the Banner system upon receipt; (2) standardizing college-wide approval routing schedules; and (3) using the Banner Invoice Aging Report (FARIAGE) to cue Accounts Payable staff of unpaid *In Progress* invoices that are over 30 days aged. It was subsequently discovered that the Invoice Aging Report tracks only those invoices that have been processed to completion in the system although the check may not have been generated. No other Banner report was discovered that would compile a list of invoices designated as *In Progress*. Improvements to procedures have already been implemented. The Finance Department is developing reports to track all invoices that have been entered into Banner and the reports will classify the *In Progress* invoices by the number of days outstanding so Accounts Payable can ensure that vendor payments are made in a timely manner. The Director of Fiscal Services will ensure that the improvements are completed by June 30, 2009.

- Require that all invoice numbers are entered into the system exactly as shown without any extra spaces or characters and audit this process as practicable.

Corrective Action

In October 2008, the Director of Fiscal Services implemented the following procedures to reduce incidences of duplicate payments:

- (1) Prior to entering an invoice for payment in Banner, the specialist will review the vendor payment history to verify that the invoice has not been paid or is not in process of being paid.
- (2) The staff will discontinue the practice of adding their initials to the invoice number recorded in Banner. This will allow the Banner system to perform an edit check

function that compares a new invoice number to previously processed invoice numbers and alert the staff that the new entry is a duplicate invoice number.

(3) The staff has developed standardized commodity description acronyms to develop exception reports that may be used to monitor invoice payment activity.

- Segregate the responsibilities for entering new vendors into the system, inputting and processing invoices, and processing and verifying the accuracy of checks.

Corrective Action:

The process of setting up new vendor files has been moved to the Purchasing Department to ensure adequate separation of duties. Accounts Payable staff no longer have access to vendor profile and maintenance forms. Prior to printing checks, a quality control check will be performed on each batch of pending payables by a specialist who did not prepare the payment batch. The quality control check includes steps to ensure that the payee name, amount, invoice number, etc. agrees to the source documentation before the check is issued. A user identification report is checked periodically to ensure that only authorized users are processing payments and that duties are appropriately segregated. The corrective action has already been completed and the Director of Fiscal Services will continue to monitor the procedures for compliance.

Purchasing Cards – The District should update and strengthen its policies and procedures over purchasing card transactions. Specifically, the District should ensure that it implements and practices the following.

- Update purchasing card policies and procedures with current practices.
- Develop policies and procedures for all areas of purchasing card usage, including approvals, reconciliations, and monitoring for split transactions and proper bids and quotations.
- Reinforce existing policies that require bids and quotations for purchases exceeding \$1,000 and that prohibit the splitting of purchasing card purchases to avoid exceeding the purchasing card's transaction limit.
- Take corrective action, such as canceling or suspending the cardholder's purchasing card privileges, when the cardholders do not comply with policies.

Corrective Action:

In December 2008, the College administration approved a revised Purchasing Card (PCard) Manual. The PCard Manual is a comprehensive policy manual and includes procedures that thoroughly inform PCard participants of regulations and requirements. The Manual describes authorization procedures, spending limits, and specifically states that certain transactions are not allowed. The Manual is available via the College website. The District Purchasing unit is currently updating mandatory training materials. Quality control reviews were initiated in December 2008. Exception reports will be developed in order to identify transactions that may exceed allowable transaction limits. The PCard Manual specifically states that cardholders who do not adhere to College policy and procedures regarding the use of the card may be subject to disciplinary actions. The Director of Purchasing will be responsible for ensuring that the College is trained on the updated procedures in the new PCard Manual. Training is underway and will be completed College-wide by June 30, 2009.



Component Unit Findings

Item: **08-02**

Cash Receipts

The Foundation staff received instruction that two people must always be present when opening the mail and that both employees must initial the log after cash and checks are entered to verify the accuracy of the log entry.

Item: **08-03**

Segregation of Duties

The Executive Director's access to the accounting system was changed to read-only.