



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Management Letter

Pinal County Community College District

(Central Arizona College)

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

December 22, 2003

Governing Board
Pinal County Community College District
8470 North Overfield Road
Coolidge, AZ 85228

Members of the Board:

In planning and conducting our single audit of Pinal 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.

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, 2002. 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 in the accompanying summary.

This letter is intended solely for the information of the Pinal 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 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 timely financial statements. The delays were primarily due to district employees not planning how to implement the new reporting model and not making the issuance of its financial statements a priority. As a result, these problems delayed the issuance of the District's Single Audit Reporting Package for the year ended June 30, 2002.

To help ensure that financial statements are 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.
- 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 statements are presented in accordance with authoritative pronouncements.

It took the District almost 1 year after fiscal year end to prepare complete financial statements with accompanying notes in accordance with the new reporting model.

The District should develop, implement, and test a disaster recovery plan

The District records critical financial and student information on its computer system. Consequently, the District should ensure that it can continue to operate in the event of a system or equipment failure by developing, implementing, and testing a 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 did not have a disaster recovery plan.

To help ensure the District can continue its operations in the event of a system or equipment failure and to help prevent loss of data from a service interruption, the District should develop and implement a disaster recovery plan and test it 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.

Proper accountability should be established for endowment monies

The District passed through \$30,000 of Higher Education—Institutional Aid Federal Program Scholarship monies to the Central Arizona College Foundation, a separate legal entity, to establish an endowment and serve as trustee for these monies. However, the District did not enter into a trust agreement with the Foundation to document both parties' responsibilities. As a result, the District did not have control over the monies passed through to the Foundation to ensure transactions were properly recorded and accounted for; accountability over assets was maintained; and applicable laws, regulations, and grant agreement provisions were followed. If the Foundation did not fulfill its fiduciary responsibilities over these monies, the District could be held liable, and sanctions could be brought against the District, which could include cancelling the federal program or repaying federal award monies to the federal government.

To help ensure that all federal monies are properly accounted for, the District should enter into a written agreement with the Foundation to administer certain scholarship monies. At a minimum, the agreement should include the following provisions:

- The Foundation must establish an endowment fund with the monies provided to them by the District.
- The Foundation must follow certain restrictions regarding the use of the endowment principal and interest.
- The Foundation is responsible for raising matching monies.
- The District is responsible for monitoring the endowment fund's transactions and issuing sanctions for contractual violations.

Departments should maintain effective internal controls and supporting records for federal programs

As a condition of receiving federal awards, the District agrees to comply with applicable laws, regulations, and the provisions of contract agreements, and to maintain internal controls and supporting documents to provide assurance that it complies with these requirements. Maintaining these controls and documents is essential because noncompliance with federal program requirements can result in significant sanctions to the District, including cancellation of a federal program and repayment of program monies to the federal government. However, in several instances, departments administering federal programs did not maintain supporting records to document their compliance with program requirements, including reporting, eligibility, activities allowed and unallowed, subrecipient monitoring. Individually and in aggregate, these instances did not meet the criteria for a reportable condition as described in OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, section .510(a).

District management should ensure that departments administering federal programs establish the necessary controls and maintain the necessary records to comply with federal program requirements. Specifically, the District should ensure that departments perform the following:

- Retain supporting documentation, including correspondence with federal grantor agencies, agreement modifications, billing statements, participant files, and internal transaction records, for all federal expenditures.
- Obtain written assurance from each subrecipient that the subrecipient has not been suspended or debarred from receiving federal awards.
- Document all agreements with subrecipients in writing.
- Establish and follow written policies and procedures for monitoring subrecipients.

November 20, 2003

Debbie Davenport
Auditor General
2910 N. 44th Street, Suite 410
Phoenix, AZ 85018

Dear Ms. Davenport:

The accompanying Response to the Management Letter has been prepared by the District. Specifically, we have provided our responses to the items within the Management Letter that include providing action plans for improvement.

Sincerely,

Dennis A. Jenkins
Vice President of Finance and Facilities

PINAL COUNTY COMMUNITY COLLEGE DISTRICT
RESPONSE TO MANAGEMENT LETTER
FISCAL YEAR ENDED JUNE 30, 2002

MANAGEMENT LETTER

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

RESPONSE – Because of the early implementation of the new reporting standards prescribed by GASB 35 along with other factors the District did not prepare the annual financial statements in a timely manner. To ensure the accurate and timely compilation of the annual financial statements, the District has made the fiscal year close and the compilation of the statements and supporting documentation a priority. In addition, the District will review the process for compiling the statements and support schedules and develop a written close-out timeline to ensure the information is compiled in accordance with authoritative pronouncements in a timely manner.

ITEM – The District should develop, implement, and test a disaster recovery plan.

RESPONSE – The District is developing an electronic files disaster recovery plan to augment current system back-up and data recovery procedures. The plan will examine the use of disaster prevention and recovery services provided by third party vendors as well as the deployment of a remote database back-up system. The disaster recovery plan is expected to be developed and fully implemented by the second quarter of calendar year 2004.

ITEM – Proper accountability should be established for endowment monies

RESPONSE – The District has entered into a formal, written agreement with the Central Arizona College Foundation outlining the recording, use, matching requirement, and disposition of federal grant funds to be used for endowment scholarships.

ITEM – Departments should maintain effective internal controls and supporting records for federal programs

RESPONSE – Procedures have been strengthened to ensure that the appropriate departments maintain the necessary documentation and controls for all grant subrecipients, such as correspondence with the grantor, maintaining participant files, and all reporting data necessary to comply with grant requirements. Procedures have further been modified to require a written agreement with each subrecipient and a statement of assurance from each subrecipient that the subrecipient has not been suspended or debarred from receiving federal awards. Also, subrecipients will be monitored on a periodic basis to ensure compliance with the subrecipient agreement and grant requirements.