



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Management Letter

**Pinal County Community
College District**
(Central Arizona College)
Year Ended June 30, 2004



Debra K. Davenport
Auditor General

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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

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

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

August 26, 2005

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, 2004, 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, 2004. In addition, our audit disclosed internal control weaknesses 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. 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,

Debbie Davenport
Auditor General

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The District should test and implement its disaster recovery plan

The District uses computerized information systems to process and store critical financial and student information. Therefore, it is vital that the District's disaster recovery plan be tested and updated periodically to help ensure that the plan functions as expected, will provide for the continuity of operations, and helps prevent the loss of electronic data files in the event of a disaster or other interruption. However, the District has not tested its plan.

To help ensure that the District can provide for continuity of its operations and to help prevent loss of data in the event of a system or equipment failure or from a service interruption, the District should test its disaster recovery plan annually. After testing, it should modify the plan to correct any problems to help ensure its effectiveness. Also, the District should train affected employees as to the plan's procedures.

A similar recommendation was previously provided in our prior-year Management Letter.

The District should not pay employees in excess of annual payroll contract limits

The District's payroll expenses represent 63 percent of its operating expenses, therefore, it is important that the District pays employees accurately. To help accomplish this objective, the District enters into annual contracts approved by the Governing Board with full-time employees. Contracts are approved by the administration on a semester basis for part-time faculty instructors. The contracts include the maximum dollar amounts instructors can be paid or the maximum credit hours instructors are allowed to teach each semester. Contracts that authorized the maximum credit hours taught did not always include maximum dollar earning limits. This made it difficult for the District administration office to monitor compliance with the approved contracts. Specifically, auditors noted one part-time instructor with an approved contract authorizing the instructor to teach 18 credit hours during fiscal year 2004. This part-time instructor taught 54 credit hours. The employee was paid based on the number of student enrollments and completions instead of credit hours, and therefore, the District's administration office did not monitor credit hours taught. The additional credit hours taught resulted in excessive student enrollments

and completions. As the employee's contract had no maximum earnings dollar limit, this part-time instructor earned in excess of \$97,000 during fiscal year 2004.

To ensure that all employees are paid as authorized, all contracts should include the employee's maximum dollar earning limits. In addition, the District should establish controls to prevent employees from working in excess of the credit hours and earning limits specified in the contracts. Such procedures should require specific approval when employees exceed the maximum credit hours for instruction or the maximum earning limit. Also, when an employee exceeds the maximum contract limits, the Governing Board and District administrators should approve revised contracts for full-time employees and for part-time faculty instructors, respectively, before the District prepares the payroll checks.

The District should strengthen controls over its capital assets

The District has invested a significant amount of money in its capital assets. Therefore, the District needs to have the necessary controls to properly safeguard and account for this significant group of assets. The District had written policies and procedures related to capital assets; however, its policies and procedures did not include adequate controls for the disposal of capital assets. Specifically, policies did not require that disposal authorization forms be prepared when capital assets were deleted from the capital assets system. In addition, the policies did not require an investigation of lost property or a police report be filed for stolen property. Furthermore, the Director of Purchasing Services was responsible for periodic physical inventories and also could delete items from the capital assets system without additional approval. Finally, asset disposals were not promptly removed from the capital assets listing.

The following procedures can help the District strengthen its controls over capital assets:

- Prepare disposal authorization forms for all capital assets to be disposed of, and have management approve the forms prior to removing the assets from the capital assets system.
- Separate responsibilities for capital assets so that the employee responsible for performing a capital asset physical inventory does not have the authority to delete assets from the capital assets system.
- Investigate and search for missing capital assets prior to removing them from the system.
- File a police report for all capital assets that are identified as stolen.
- Remove assets from the capital assets system within 30 days after verification of asset disposal.

In addition, the District should ensure that its capital asset policies and procedures are being followed by all employees.

July 11, 2005

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 response to the items within the Management Letter that includes providing an action plan for improvement.

Sincerely,

Dennis A. Jenkins
Vice President for Finance and
Community Development

PINAL COUNTY COMMUNITY COLLEGE DISTRICT
RESPONSE TO MANAGEMENT LETTER
FISCAL YEAR ENDED JUNE 30, 2004

MANAGEMENT LETTER

ITEM – The District should test and implement its disaster recovery plan

RESPONSE – The District has developed a written electronic files disaster recovery plan and data recovery procedures. Testing of the District's disaster recovery plan has been scheduled and will be completed in FY05-06.

ITEM – The District should not pay employees in excess of annual payroll contract limits.

RESPONSE – Procedures have been strengthened to ensure that part-time employment contracts have a stated maximum amount and those amounts are not exceeded.

ITEM – The District should strengthen controls over its capital assets

RESPONSE – Procedures have been strengthened to ensure missing capital items are properly investigated and the disposal of capital assets are properly authorized and documented. Further, responsibilities have been segregated so that employees responsible for performing capital asset inventories cannot delete assets from the capital assets system.