



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Management Letter

Mohave 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 25, 2004

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, 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.

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,

Debbie Davenport
Auditor General

TABLE OF CONTENTS



Recommendation 1: The District needs to prepare timely financial statements	1
Recommendation 2: The District should improve controls over cash and disbursements transactions	2
Recommendation 3: The District should follow proper procurement practices	3
Recommendation 4: The District should update and test its disaster recovery plan	4
District Response	

The District needs to prepare timely financial statements

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. In addition, the District's Governing Board depends on timely and accurate financial information to fulfill its oversight responsibility. However, the District did not prepare its fiscal year 2003 financial statements in a timely manner to meet reporting deadlines or provide the Board with timely financial information. The District indicated that its financial statements, complete with accompanying notes and supporting schedules, would be prepared by December 2003, so that its single audit reporting package could be issued by the prescribed federal deadline of March 31. However, the District did not complete its financial report until July 2004 due to delays in preparing reconciliations and recording adjustments to its accounting records. Furthermore, the District had difficulty obtaining necessary information from its accounting system to prepare its financial statements.

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

- Reconcile the accounting system monthly and at year-end to the detailed accounting records ensuring all adjustments including those at year-end are recorded timely, and record all adjustments that result from the annual financial audit to the accounting system shortly after its completion.
- Obtain information from its accounting system and records that is necessary for financial statement preparation, such as scholarship allowances for various revenue sources. In addition, procedures for obtaining this information should be documented to facilitate financial statement preparation.
- Allocate the appropriate resources and list employees, assignments, and completion dates for compiling and preparing the financial statements and supporting schedules.
- Provide auditors complete financial statements, including notes and supporting schedules, by the agreed-upon dates.

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

The District should improve controls over cash and disbursements transactions

To minimize the risk of theft, fraud, and misuse of District monies, it is essential that the District have effective internal controls over all financial transactions. However, the District did not establish effective controls over cash and disbursement transactions. Specifically, the District's business office did not safeguard and account for cash receipts prior to deposit. In addition, the District did not separate employee responsibilities for both cash receipts and payroll transactions at the District business office. Also, the District did not restrict access to unused checks or the check signature machine. Further, the District did not prepare bank reconciliations for trustee accounts.

Auditors also noted that the District did not establish controls to identify, monitor, or report related party transactions.

To help strengthen controls over cash and disbursements, the District should establish and follow the procedures listed below:

- Establish written policies and procedures for collecting, recording, reconciling, and depositing cash receipts at the business office and by other departments, and periodically monitor that the procedures are followed.
- Restrictively endorse all checks immediately upon receipt and prepare a mail log to ensure that all cash receipts collected at the District's business office are deposited and recorded.
- Separate employee responsibilities by assigning the responsibility for collecting cash receipts at the District's business office to an employee without authority to post to the accounting records or operate the check signature machine. In addition, the employee responsible for preparing the payroll should not reconcile the payroll or distribute checks.
- Safeguard unused checks and access to the check signature machine by storing the unused checks and signature machine key in a locked cabinet to which only one or two employees have access to the key. In addition, the signature machine operator should be prohibited from approving disbursements, obtaining blank checks, and distributing checks.
- Reconcile trustee account bank statements to the accounting records at least quarterly to ensure that all transactions are accurately recorded. In addition, establish written policies and procedures for performing and approving bank reconciliations.

Furthermore, the District should establish written policies and procedures requiring district governing board members and employees to record in the minutes or otherwise document potential conflicts of interest. The District should also maintain a centralized file for all known conflicts of interest in accordance with Arizona Revised Statutes (A.R.S.) §§38-503 and 38-509. Known conflicts of interest should be monitored when obtaining goods and services to help ensure arms-length transactions. In addition, procedures should be established for disclosing material related party transactions in the financial statements.

A similar recommendation was previously provided in our prior years' management letters.

The District should follow proper procurement practices

Because the District operates on public monies, it has a fiduciary responsibility to the public it serves to obtain goods and services at the best possible price promoting open and fair competition. Therefore, the District needs to ensure that goods and services are obtained in accordance with applicable laws and regulations and District purchasing policies. However, the District did not always follow these competitive purchasing requirements. Specifically, the District did not competitively bid services for its trucking program that exceeded \$15,000. Also, the District entered into a 7-year contract totaling \$9.9 million for the on-site operation and management of its information technology function considering the selected technology firm as the sole source for the service. The documentation prepared by the District to justify sole source procurement did not appear to be complete. The written justifications for choosing the selected technology firm did not provide verification of the services that firm could perform and did not document whether other technology firms were contacted to determine if they provide these services. Documentation comparing the selected technology firm to other potential firms providing technological services was prepared by the selected firm after the auditors brought this deficiency to the District's attention. However, this was not considered an objective and verifiable determination that no alternative sources existed. In addition, this contract violated the Arizona Administrative Code (A.A.C.) and state law as the contract obligated the District beyond 1 fiscal year providing no annual renewal options and requiring a fee be paid if the District chose to terminate the contract.

Additional instances of legal noncompliance resulted when the District purchased 2 parcels of land totaling \$30,800 in a prior fiscal year for the Mohave College Foundation. This was in violation of A.A.C. R7-1-901 because prior to 2002 Session Laws all real property acquired by community college districts was to be held in the name of the State Board of Directors for Community Colleges. The Foundation

reimbursed the District for the cost of this land; however, it never repaid \$1,700 of closing costs resulting in a gift of public monies in violation of A.R.S. §35-301. In fiscal year 2003, the Foundation transferred the title of this land to the District, which is in compliance with current law.

To strengthen controls over purchasing, the District should establish and follow the policies and procedures listed below:

- Require competitive sealed bidding for all purchases of goods and services in excess of the current established threshold of \$15,000 unless specifically exempted or sole source procurement is properly documented. The District may also adopt procurement policies in accordance with A.R.S. §15-1444(B)(6).
- Establish criteria to be used as a basis for sole source determinations and require that documentation be prepared prior to acquiring the goods or services that clearly justifies that there are no other reasonable alternative sources. Sole source procurement should be avoided except when no reasonable alternative vendor exists.
- Require that all long-term contracts include annual renewable options or can be voided without penalty at the end of the fiscal year as required by Laws 2002, Chapter 330 §58(B) and A.A.C. R7-1-505. Existing contracts should be amended to comply with this rule.
- Require district administrators or legal counsel to review all contracts including transactions with the Mohave College Foundation to ensure compliance with all applicable laws and regulations.

The District should update and test its disaster recovery plan

The District records critical financial and student information on its computer system. Although the District contracted its information technology operations to an outside vendor in January 2003, the District still has a responsibility to ensure that its system 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 lost in the event of a disaster or other interruption can be recovered. 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 that the District can provide for the 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 update its 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.

This recommendation was previously provided in our prior years' management letters.

October 12, 2004

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

Mohave County Community College District concurs with the recommendations reported in the management letter based on the single audit for the year ended June 30, 2003. In its continuing effort to implement and follow best practices, the District has been evaluating, reviewing and revising, as needed, all policies and procedures for the College. Revisions will consider all recommendations of the Office of the Auditor General.

Recommendation 1: The District needs to prepare timely financial statements.

Response: The District recognizes the importance of timely and accurate financial information. In January, 2004 the District reorganized the business office to separate oversight for financial and other reporting and the management of day-to-day operations. Although the fiscal year 2003 financial statements were delayed beyond normal reporting dates, the District kept the federal Department of Education aware of the situation and obtained appropriate approval for extensions of the deadline. The District's concern was to have complete and accurate financial reporting. Part of the District's improvement plan has been to schedule and assign employees involved with year-end financial activities.

Recommendation 2: The District should improve controls over cash and disbursements transactions.

Response: In fiscal year 2004, the District did improve its controls over cash and disbursements transactions. Business office employee responsibilities were reviewed and reassigned to separate duties to minimize risks associated with weak internal control. Procedures are being reviewed for compilation in a written procedures manual. Employees are cross-trained in various job responsibilities to cover essential job functions in the event of absences or unforeseen circumstances. Bank accounts, including trustee accounts, are being reconciled and reviewed.

Thomas C. Henry, Ph.D.
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Recommendation 3: The District should follow proper procurement practices.

Response: The District, in good faith, followed its established policies and procedures. To establish a truck driver training program, the District considered various programs offered in the state of Arizona and programs by other vendors. The selected vendor is the premier provider of professional truck driving programs for colleges in the United States, with the blessing of the Professional Truck Driver Institute of America, the accrediting body for truck driver programs. That status is extremely important since the largest misuse of federal financial aid has been attributed to truck driving programs. The District has interpreted its role as the pass-through for student payments to the vendor; i.e., the college collects the student tuition and fees and remits the fees to the truck driver training company. With regard to the contract for on-site operation and management of the District's information technology function, the District went to great lengths to ensure legal compliance, including working with the Mohave County Attorney's office, with subsequent contact by the attorney with the Office of the Auditor General. The District was assured by the County Attorney and an external, objective attorney that the contract met necessary requirements and that sole sourcing had been justified. The District understands the various positions of the Auditor General's office with respect to procurement and will seriously consider the concerns expressed in the recommendations in future contracting.

Recommendation 4: The District should update and test its disaster recovery plan.

Response: The District has been storing financial and student information off-site from the main computer system and has designated employees and contacts for various incidents; however, the District expects to complete the updating and revising of its total disaster recovery plan by the end of fiscal year 2005. The revised plan will incorporate the recommendations of the Auditor General. The District is working with the company operating and managing the District's information technology function to include provision for off-site data storage and an alternative computer facility in the event of a disaster that requires off-site operations.

The District expresses its gratitude to the Office of the Auditor General for the cooperation and assistance provided in completing the audit and publication of the Mohave County Community College District's Single Audit Report Package for the year ended June 30, 2003.

Sincerely,

William H. Lovejoy
Vice President for Administration

Cc: Dr. Thomas Henry, President
Members of the Mohave Community College District Governing Board