



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Management Letter

Navajo County Community College District

(Northland Pioneer 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

October 8, 2004

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, 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 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,

Debbie Davenport
Auditor General

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

The District must issue accurate and 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 accurate and timely financial statements. When the District prepared its financial statements using the new reporting model, auditors noted significant deficiencies that took the District months to correct. The delays were primarily due to district employees not knowing how to obtain certain information from the District's accounting records to comply with the new reporting requirements. As a result, these problems delayed the issuance of the District's Single Audit Reporting Package for the year ended June 30, 2002, and required significant effort by auditors to assist the District in adjusting its financial statements.

To help ensure that financial statements are prepared accurately and 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.
- Obtain information from the accounting system necessary for financial statement preparation, such as scholarship allowances for various revenue sources.
- 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 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 amounts are accurate and properly supported and the statements are presented in accordance with authoritative pronouncements.

The District should follow its purchasing policies and procedures

The District spends tax dollars to purchase various goods and services, so it is essential that the District follows procedures designed to help ensure that it obtains the best value for its money and that it properly processes those transactions. The District's Governing Board established purchasing policies and procedures; however, these procedures were not always followed. For example, the District did not always retain documentation of competitive purchasing procedures followed, oral and written price quotations obtained, or determinations of sole source purchases made. Also, some expenses were not supported by properly approved purchase orders or vendor invoices.

The District needs to ensure that its purchasing policies and procedures are followed. Specifically, the District should:

- Review the current written policies and procedures and update them if necessary,
- Ensure that employees involved in the purchasing process understand the importance of following the established policies and procedures, and
- Monitor purchases to ensure that policies and procedures are followed.

The District should reconcile expenses between the payroll system and general ledger system

Payroll expenses comprise approximately 60 percent of the District's total expenses, and therefore, the District's payroll expenses recorded in the general ledger should be supported by the amounts recorded in the District's payroll system. However, these amounts were not properly supported since the District did not reconcile the payroll registers to the general ledger system. At June 30, 2002, there was a difference of approximately \$5,500 between the two systems.

To help ensure payroll expenses are properly supported and recorded, the District should reconcile the payroll registers to the general ledger system for each pay period, investigate all differences, and make all necessary corrections.



Northland Pioneer College

28 September 2004

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, 2002.

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

The District has documented the accounting and reporting requirements for properly presented financial statements. Procedures have been implemented to obtain necessary information from the accounting system and to maintain all necessary information for financial statement preparation. Procedures have been implemented to prepare financial statements in a timely manner. Procedures will be implemented to review financial statements and the accompanying notes for accuracy, proper support and presentation.

The District should ensure established purchasing policies and procedures are followed.

Procedures have been strengthened to monitor departmental purchases to ensure that established purchasing policies and procedures are followed.

The District should reconcile expenditures between the payroll system and the general ledger.

Procedures have been implemented to reconcile the payroll registers to the general ledger for each payroll.

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