A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Report on Internal Control and Compliance

Gila County Provisional Community College District

(Gila Community College)

Year Ended June 30, 2009

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

Debra K. Davenport
Auditor General

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Gila County Provisional Community College District
(Gila Community College)
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Report Issued Separately

STATE OF ARIZONA

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

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

Members of the Arizona State Legislature

The Governing Board of
Gila County Provisional Community College District

We were engaged to 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, the financial statements of the governmental activities and general fund of Gila County Provisional Community College District as of and for the year ended June 30, 2009, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 17, 2015. Our report disclaims an opinion on such financial statements because Gila County Provisional Community College District had inadequate internal controls over its accounting system and had incomplete and inadequate accounting records for revenues, education and general expenses, and capital assets. As a result of these matters, we could not rely on the District's accounting system to generate reliable information. Further, the District's records did not permit us to apply auditing procedures sufficient to determine whether the amounts and information reported for revenues, education and general expenses, capital assets, and related note disclosures were accurate and complete. In addition, our report was modified to include an adverse opinion for the omission of the aggregate discretely presented component units.

Internal Control over Financial Reporting

In connection with our engagement to audit the financial statements of Gila County Provisional Community College District, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control 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 and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's basic financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Recommendations as items 2009-01 through 2009-04, that we consider to be material weaknesses.

Compliance and Other Matters

In connection with our engagement to audit the financial statements of Gila County Provisional Community College District, 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 engagement, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and that is described in the accompanying Schedule of Findings and Recommendations as item 2009-01. Additionally, if the scope of our work had been sufficient to enable us to express opinions on the basic financial statements, other instances of noncompliance or other matters may have been identified and reported herein.

District's Response to Findings

The District's responses to the findings identified in our engagement are presented on page 8. The District's responses were not subjected to the auditing procedures applied in the engagement to audit the basic financial statements, and accordingly, we express no opinion on them.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an engagement to perform an audit in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Jay Zsorey, CPA
Financial Audit Director

December 17, 2015

Financial Statement Findings

2009-01

The District must issue accurate and timely financial statements

Criteria: The District must issue accurate and timely financial statements to satisfy state audit and reporting requirements and demonstrate accountability to the public and public agencies from which the District receives funding. State laws require the District to submit to the Auditor General's Office within 9 months after fiscal year end its annual audited financial statements prepared in accordance with generally accepted accounting principles and, based on those financial statements, its annual budgeted expenditure limitation report (ABELR). Therefore, the District has the responsibility to establish effective internal controls over financial reporting, such as maintaining a sound accounting system and adequate records, to help ensure it can prepare reliable and timely financial information for its stakeholders.

Condition and context: The District did not maintain effective internal control policies and procedures over financial reporting and did not keep a sound accounting system or have adequate and complete accounting records to support amounts and disclosures reported in its financial statements. Also, portions of the District's revenues, education and general expenditures/expenses, and capital assets were reflected on the billing invoices of Eastern Arizona College (EAC), the District's contracted educational and operating services provider. However, the District did not have policies and procedures requiring the billing invoices to be evaluated for accuracy, compliance with the contract, and proper recording within the District's accounting records. Specifically, we could not audit the amounts reported for revenues, education and general expenditures/expenses, capital assets, and related disclosures because the District did not have sufficient records, and the possible effects of financial statement errors could have been both material and pervasive.

Effect: The District's financial statements were not reliable and could not be audited. In addition, the District did not meet its annual reporting requirements because it did not issue financial statements until approximately 6 years after fiscal year-end and failed to issue its ABELR. Also, the District's risks potential noncompliance with its educational services and operating contracts with EAC.

Cause: The District's management lacked the expertise to establish effective internal control policies and procedures and establish and maintain a sound financial reporting system to prepare accurate and timely financial statements.

Recommendation: To help ensure the District establishes and maintains effective internal control policies and procedures and that its financial statements are reliable, timely, and prepared in accordance with generally accepted accounting principles, the District should implement the following:

- Employ or contract with persons who have the necessary finance and accounting abilities to establish and implement written internal control policies and procedures for financial reporting and who will also perform the ongoing recordkeeping and maintenance of the accounting system; organize and maintain all supporting invoices and other records; prepare appropriate journal entries; reconcile accounting records; prepare and review the financial statements, including notes to the financial statements, required supplementary information, and all supporting schedules; and prepare and review the ABELR.
- Require a person with finance and accounting expertise to review and approve all adjusting journal entries, important supporting schedules and reconciliations, and the annual financial report prior to submitting it for audit.
- Assign someone with the necessary expertise to effectively oversee the EAC educational services and operating contracts and review its billing invoices to ensure compliance with the contracts' terms and conditions and that the terms and conditions are in the District's best interests.
- Develop and implement written policies and procedures for keeping adequate accounting records for grant revenues and other cash receipts and ensuring that they are properly recorded. These policies and procedures should also include guidance for evaluating the EAC billing invoices to identify financial activity that the District should record and ensure the District follows the appropriate accounting treatment.
- Develop and implement written policies and procedures that will ensure capital assets are appropriately safeguarded, inventoried, and reported. The District's policies should also specify its capitalization thresholds and valuation policies.
- Develop and implement written policies and procedures to help prevent or detect unauthorized use, damage, loss, or modification of the District's information technology resources and data, including defining, assigning, and approving system user roles and responsibilities based on job responsibilities, documenting all employee system-access assignments and authorizations, reviewing system users at least annually to ensure appropriateness, and monitoring system activity and audit logs for unusual or suspicious activity and investigating as necessary.

This finding is similar to a prior-year finding.

2009-02

The District needs policies and procedures for reporting its foundations

Criteria: To comply with generally accepted accounting principles (GAAP), specifically Governmental Accounting Standards Board (GASB) Statements Nos. 14 and 39, the District should obtain and report the financial information of its college foundations in its financial statements. These foundations receive or hold economic resources, such as donations for student scholarships and other resources, that directly benefit the District or its students.

Condition and context: The District had two college foundations that provided scholarships to students and conducted other fund-raising that benefited the District and its constituents. However, the District did not have complete and reliable financial statement information for these foundations. As such, the District omitted the financial statement information that should have been discretely presented in the District's financial statements.

Effect: The District did not report the required financial information for its foundations. As a result, the District's financial statements were not presented in accordance with GAAP.

Cause: The District lacked adequate policies and procedures for obtaining its college foundations' financial information and evaluating the foundations against criteria in GASB Statements Nos. 14 and 39 for inclusion in its financial statements. Also, the District's management lacked the finance and accounting expertise necessary to effectively oversee this process.

Recommendation: To help ensure that it implements and maintains effective internal control policies and procedures for correctly applying the GASB criteria to prepare its financial statements in accordance with GAAP, the District should obtain annual financial statements from its foundations and appropriately evaluate them and include them as part of its financial reporting entity. In addition, the District should prepare an annual accounting of the benefits and economic resources that it receives from its foundations, such as the monetary or capital donations, as well as the scholarships awarded to its students.

This finding is similar to a prior-year finding.

2009-03

The District needs policies and procedures for disclosing conflicts of interest and material related-party transactions

Criteria: As required by Arizona Revised Statutes (A.R.S.) §38-503 et seq., the District's governing board members, management, and employees should make known any substantial interest they have in any contract, sale, purchase, or service, and abstain from any involvement in a decision for which a conflict of interest exists. Also, all conflict-of-interest disclosures should be reflected in the District's records, monitored on a periodic basis, and maintained in a centralized file that is made available for public inspection. In addition, generally accepted accounting principles (GAAP) require the disclosure of material related-party transactions in the financial statements.

Condition and context: The District's management and employees are employees of Eastern Arizona College (EAC) and, accordingly, are required to follow EAC's established policies and procedures for disclosing conflicts of interest. However, the District's governing board members are not EAC employees and lacked policies and procedures to help ensure that their conflicts of interest were disclosed and that they abstained from any involvement in a decision for which a conflict of interest exists. In addition, the District did not have policies and procedures for ensuring that all material related-party transactions were monitored and disclosed in the financial statements. For example, the District had not identified scholarships awarded to its students or donations that it received from its college foundations during the year to disclose this information in the notes to its financial statements.

Effect: A risk of potential noncompliance with state laws regarding conflicts of interest that are set forth in A.R.S. §38-503 et seq., which could result in the District's entering into transactions that may not be the most advantageous. There is also a risk that the District could potentially violate federal laws, regulations, and contractual provisions that apply to its federal awards. Further, the occurrence of significant related-party transactions may not be identified and disclosed in the notes to the financial statements.

Cause: The District did not have policies and procedures in place to ensure that its governing board members complied with state laws requiring the disclosure of conflicts of interest. In addition, the District's management lacked the finance and accounting expertise necessary for identifying related-party transactions and disclosing them in the notes to the financial statements to comply with GAAP.

Recommendation: To help ensure that its governing board members comply with state and federal conflict-of-interest laws and regulations, and to help ensure significant related-party transactions are identified and disclosed in the notes to financial statements, the District should:

- Develop and implement policies and procedures that require the District's governing board members disclose any direct or indirect, including relatives, substantial interest in any district contract for goods or services. Members should disclose any conflict of interest in the District's governing board meeting minutes and other records. Also, these policies and procedures should require that the District's governing board members abstain from any involvement in decisions for which a conflict of interest exists.
- Maintain a centralized file of all conflict-of-interest disclosures that is available for public inspection as required by state laws.
- Require a person with the necessary financial and accounting expertise to identify and monitor related-party transactions, many of which are disclosed as conflicts of interest, and ensure that material related-party transactions are disclosed in the notes to the District's financial statements, as required by GAAP.

This finding is similar to a prior-year finding.

2009-04

The District needs policies and procedures over cash receipts and disbursements and reconciling its cash and investments

Criteria: To demonstrate its fiscal accountability to the public and public agencies from which the District receives funding, the District should have effective policies and procedures for processing cash receipts and disbursements, performing bank reconciliations, and ensuring responsibilities are adequately separated to help ensure that monies are safeguarded against the risk of theft and misappropriation. Further, the District should reconcile the bank balances and activity to its general ledger, in addition to the check registers and cash receipt logs, to help ensure that all financial activity and reconciling items are recorded in its accounting records.

Condition and context: The District's balances for cash and investments comprised over $1 million, or 76 percent of total assets. However, the District did not have adequate internal control policies and procedures for these balances because it did not separate the responsibilities of preparing bank deposits, authorizing disbursements and withdrawals, and performing bank reconciliations. Auditors noted that the same person completed these responsibilities without an independent review. Also, although the District reconciled its bank accounts to the check registers and cash receipt logs monthly, its procedures did not include verifying that the bank balances and activities reflected on the bank statements were properly recorded on the District's accounting records. Additionally, auditors noted that the District's cash receipts and check logs contained numerous refunds from vendors, indicating that duplicate payments and overpayments had been made to vendors when processing vendor invoices.

Effect: The District's accounting records, financial statements, and supporting schedules could omit important and required information or contain other misstatements. In addition, the District has an increased risk of errors due to fraud, such as theft and misappropriation, without effective internal control policies and procedures over cash.

Cause: The District's management lacked the finance and accounting expertise to establish effective internal control policies and procedures over cash receipts and disbursement and reconciling its cash and investments.

Recommendation: To help prevent and detect theft and misappropriation and to help establish an adequate internal control environment over cash and investments, the District should:

- Develop written policies and procedures that promote the proper separation of responsibilities and strong internal controls over cash and investments. Specifically, the responsibilities of preparing deposits, authorizing disbursements and withdrawals, and reconciling the bank accounts should be separated so that no one person can perform these responsibilities without another person's independent review.
- Ensure that monthly bank reconciliations include a comparison of the bank balances and activities reflected on the bank statements to what is recorded in its accounting records, and any discrepancies should be investigated, resolved, and recorded in the accounting records. Bank reconciliations should also contain evidence of an independent supervisor's review and approval.
- Require that vendor invoices are marked or stamped when paid to help prevent duplicate payments. Also, cash disbursements and invoices should be independently reviewed for accuracy prior to payment.

DISTRICT RESPONSE

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Audit 2009 Reponses to findings

Submitted by: Dr. Stephen Cullen

2009-01

Gila Community College (GCC) is in the process of developing accurate and timely financial statements. GCC is currently working to become current and will be compliant with their audits by the fall of 2016.

2009-02

Although unaudited, as of April 1, 2012, Friends of Rim Country provide financial statements to Gila Community College. In addition, The Pinal Mountain Foundation for High Education provides unaudited financial statements since 2010.

2009-03

The Gila Community College District Governing board passed a policy dated August 28, 2012 in order to establish a policy for disclosing conflicts of interest involving governing board members. This finding is the same as noted in previous year (FY2008).

2009-04

Gila Community College administration is currently working with Heinfeld and Meech to develop policies and procedures in order to address cash receipts, disbursements and reconciling its cash and investments. This effort began in January 2016.

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