



REPORT HIGHLIGHTS FINANCIAL STATEMENT AUDIT

District received unfavorable opinions on unreliable financial statements

Our Conclusion

Gila County Provisional Community College District (District) is responsible for preparing its financial statements, maintaining effective internal controls, and being accountable for its use of public monies. As the auditors, our job is to determine whether the District has met its responsibilities.

The District did not meet its responsibilities to prepare reliable financial statements, and auditors were unable to determine the full extent of financial statement errors relating to certain revenues, expenses, and other disclosures. In addition, the District did not report its nonprofit foundations' financial information as required by generally accepted accounting principles. Therefore, the District's financial statements were incomplete and inaccurate, and we gave unfavorable opinions on them. Finally, our report on internal control and compliance identified deficiencies in internal control that the District should correct. These are summarized on the next page.

District's accounting records were inadequate and incomplete and management lacked necessary financial expertise—Auditors found that the District's management did not maintain its accounting system, and its accounting records were inadequate and incomplete. The District's accounting system had not been updated with all necessary accounting adjustments for prior and current years. In addition, auditors uncovered accounting records that were not provided to the contracted financial statement preparers because management either was not aware that the records existed or how they related to financial statement preparation. Auditors also found that payments to vendors were sometimes duplicated because management had not realized that the vendors had already been paid by Eastern Arizona College (EAC) on behalf of the District.

Unlike other Arizona community college districts, the District's management consists of only a small number of administrative staff who do not have the necessary finance and accounting expertise to establish internal control policies and procedures, maintain proper accounting records, and oversee the preparation of financial statements to ensure they are reliable, complete, and timely. As a provisional district, the District operates under agreements with another community college district, EAC, that is responsible for hiring all of its employees, providing educational services, and handling other operations. In addition, the District contracts with an accounting firm to help prepare its financial statements. However, the District's management is still responsible to look after the District's interests and oversee and monitor the accounting records, finances, operating and educational services performed by EAC, and the financial statement preparation.

Auditors unable to determine extent of financial statement errors—Due to the lack of adequate accounting information, auditors were unable to determine the full extent of possible errors and, therefore, could not ensure that all amounts and disclosures reported in the District's financial statements were complete and accurate. Specifically, auditors could not determine whether the District's reported operating grants and contract revenue totaling \$120,521 was complete. Also, auditors could not determine the accuracy of reported education and general expenses totaling \$4,281,270 and the accuracy of other reported information such as capital assets, leases, and subsequent events and other required disclosures. Therefore, auditors were unable to express opinions on the fair presentation of the District's Governmental Activities and General Fund financial statements. In addition, the District did not obtain audited financial statements for its nonprofit foundations, and it did not report their financial information. Generally accepted accounting principles require the foundations' financial statements to be reported in the District's financial statements as discretely presented component units. Therefore, the District's financial statements were incomplete, and auditors gave an adverse opinion due to this omission.



2008

Year Ended June 30, 2008

Summary of audit findings and recommendations

Auditors found material internal control weaknesses over the accounting system, recordkeeping, and the financial statement preparation process. In addition, auditors found internal control weaknesses with respect to monitoring the operating and educational services agreement with EAC. Our Report on Internal Control and Compliance contains further details to help the District correct these deficiencies.

Inadequate controls over recordkeeping and financial statement preparation

The District did not have adequate procedures and controls in place to ensure that its accounting system and recordkeeping were up to date, complete, and accurate. As a result, the District lacked the financial records needed to ensure that all of its financial data reported for its Governmental Activities and General Fund was complete and accurate. In addition, the District issued its fiscal year 2008 financial statements over 5 years after fiscal year-end, despite a deadline of 9 months after fiscal year-end.

Recommendations

The District should:

- Employ or contract with persons who have the necessary finance and accounting expertise to oversee the District's recordkeeping and financial statement preparation.
- Establish and implement policies and procedures for various functions, such as recordkeeping; preparing and approving journal entries; and recording and reconciling capital assets, cash receipts, and disbursements.
- Gather all accounting records, including those maintained by EAC, and ensure that all information is reconciled and entered into the accounting system.
- Maintain a sufficiently detailed capital assets list that is updated annually and reconciled to a physical inventory performed at least once every 2 years.
- Evaluate and keep the agreements for all operating and capital leases to ensure that the leases are correctly classified and recorded.
- Include the District's foundations' financial statements in the District's financial statements.
- Keep records of subsequent events, related-party transactions, and other disclosures to help ensure that such information, if material, is included in the financial statements.

Inadequate oversight and monitoring of operating and educational services agreements

Approximately 97 percent of the District's total expenses for the fiscal year were for contracted educational programs and services provided by EAC. However, the District did not adequately monitor the revenues collected and the education and general expenses charged under the agreements with EAC. As a result, the District risked not receiving the services and financial information specified by the agreements' terms and conditions. In addition, the District was billed by EAC for incorrect amounts.

Recommendations

The District should:

- Employ or contract with persons who have the necessary finance and accounting expertise to oversee the operating and educational services agreements with EAC and to help look after the District's interests.
- Establish policies and procedures to monitor the agreements and obtain and reconcile detailed supporting documentation from EAC to help ensure that the charges being billed are accurate.