Maricopa County Community College District

Report on Internal Control
and on Compliance

Year Ended June 30, 2019

Lindsey A. Perry
Auditor General

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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 Board of Supervisors of
Maricopa County Community College District

We have audited the financial statements of the business-type activities and discretely presented component unit of Maricopa County Community College District as of and for the year ended June 30, 2019, 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 19, 2019. Our report includes a reference to other auditors who audited the financial statements of the Maricopa County Community College District Foundation, the discretely presented component unit, as described in our report on the District's financial statements. We conducted our 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. However, the Foundation's financial statements were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Foundation.

Internal control over financial reporting

In planning and performing our audit of the financial statements, 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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 have not been identified. However, as described in the accompanying schedule of findings and recommendations, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiency described in the accompanying schedule of findings and recommendations as item 2019-04 to be a material weakness.

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. We consider the deficiencies described in the accompanying schedule of findings and recommendations as items 2019-01, 2019-02, and 2019-03 to be significant deficiencies.

Compliance and other matters

As part of obtaining reasonable assurance about whether the District's basic financial statements are free from material misstatement, 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 audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and that are described in the accompanying schedule of findings and recommendations as item 2019-05.

District response to findings

The District's responses to the findings identified in our audit are presented in its corrective action plan at the end of this report. The District is responsible for preparing a corrective action plan to address each finding. The District's responses and corrective action plan were not subjected to the auditing procedures applied in the audit of 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 audit performed 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.

Lindsey Perry, CPA, CFE
Auditor General

December 19, 2019

Financial statement findings

2019-01
The District did not sufficiently test and review changes it made to its payroll system, which resulted in over and underpayments to faculty employees

Condition and context—During the fiscal year, the District made payroll overpayments and underpayments to adjunct faculty and faculty employees who were contracted for additional teaching assignments. The District resolved all of the underpayments and a majority of the overpayments during the fiscal year. However, there were a remaining 193 employees with $191,000 of unresolved overpayments at fiscal year-end because it has been difficult for the District to collect some of them from current and former employees. The overpayments and underpayments resulted from updates the District made to its payroll system effective for calendar year 2018. The updates included the District's payroll system capturing certain employment contract and assignment data from its student information system to calculate total payroll amounts. However, because the system changes were not sufficiently tested and reviewed, the correct employment contract and assignment data in the student information system was not always captured, and it miscalculated payroll amounts. The District has a repayment contract with each employee to collect the overpayments and made corrections to its systems to ensure payroll is accurately calculated.

Criteria—The District should have effective internal control policies and procedures for testing and reviewing system changes, including testing how such changes may affect a system's interface with other systems, to ensure its Information technology (IT) systems are properly functioning to accurately pay its faculty employees.

Effect—In making erroneous overpayments to its employees, the District inappropriately spent or loaned public monies in addition to spending extra resources to correct system errors and collect overpayments from employees, which could have been prevented or detected in a timely manner had the District sufficiently tested and reviewed changes to its payroll system.

Cause—The overpayments and underpayments occurred because the District did not thoroughly test and review changes made to its payroll system effective for calendar year 2018. The District corrected the system errors for calendar year 2019 so that they did not continue through the last 6 months of fiscal year 2019.

Recommendation—To help ensure that the District does not inappropriately spend or loan public monies and accurately pays its faculty for authorized and valid employment contract and assignment data, the District should:

- Continue to monitor employees' payments against their effective employment contracts and assignments to ensure employees are paid correctly and any overpayments or underpayments are rectified promptly.

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- Continue to provide adequate training to employees on its systems, particularly for major system updates, to ensure business processes, such as processing payroll payments, are functioning properly.
- Ensure that its IT change management process for major system upgrades and updates requires changes to be thoroughly tested and reviewed. This process should involve tests with interfacing systems and end users prior to the changes' implementation and a post-implementation review to ensure changes were implemented as designed and approved.

The District's responsible officials' views and planned corrective action are in its corrective action plan at the end of this report.

This finding is similar to prior year finding 2018-01.

2019-02

The District risked overpaying hourly employees because time sheets were not always reviewed and approved

Condition and context—The District paid approximately $34 million to hourly employees during the fiscal year but did not ensure all those employees' time sheets received supervisory review and approval in a timely manner. Therefore, it risked paying employees for hours they did not work.

Criteria—The District's policies and procedures require a supervisory review and approval of hourly employees' time sheets within the payroll system either prior to processing payroll or within a reasonable time period after to ensure the District pays employees for only authorized hours worked and can quickly rectify any errors. To ensure all employees are paid on time, the payroll system allows personnel in the payroll department to process unapproved time sheets for payment, and it is therefore important that District supervisors review and approve employees' time sheets in as timely a manner as possible.

Effect—The District risks paying hourly employees for hours they did not work, which could potentially result in inappropriate use of public monies. Because we did not test 100 percent of the population, we were unable to determine the total number of time sheets that were not reviewed and approved in a timely manner.

Cause—The District's assigned employee approvers did not always follow existing policies and procedures for reviewing and approving employees' time sheets, and the District did not appropriately follow up to ensure time sheets were reviewed and approved in a timely manner.

Recommendation—To help ensure that it pays employees for only authorized and approved hours worked, the District should follow its existing policies and procedures for reviewing and approving hourly employees' time sheets. This includes the District's existing policies to review reports within its payroll system to identify and monitor hourly employees' time sheets that were not approved prior to processing their pay and email all supervisors to approve the hourly employees' time sheets or make adjustments accordingly on the next pay cycle.

The District's responsible officials' views and planned corrective action are in its corrective action plan at the end of this report.

This finding is similar to prior-year finding 2018-02.

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2019-03
Managing risk

Condition and context—The District's process for managing and documenting its risks did not include an overall risk assessment process that included identifying, analyzing, and responding to the District-wide information technology (IT) risks, such as potential harm from unauthorized access, use, disclosure, disruption, modification, or destruction of IT data and systems. Also, it did not include identifying, classifying, and inventorying sensitive information that might need stronger access and security controls and evaluating and determining the business functions and IT systems that would need to be restored quickly if the District were impacted by disasters or other system interruptions.

Criteria—Effectively managing risk at the District includes an entity-wide risk assessment process that involves members of the District's administration and IT management to determine the risks the District faces as it seeks to achieve its objectives to not only report accurate financial information and protect its IT systems and data but to also carry out its overall mission and service objectives. The process should provide the basis for developing appropriate responses based on identified risk tolerances and specific potential risks to which the District might be subjected. To help ensure the District's objectives can be met, an annual risk assessment should consider IT risks. For each identified risk, the District should analyze the identified risk and develop a plan to respond within the context of the District's defined objectives and risk tolerances. The process of managing risks should also address the risk of unauthorized access and use, modification, or loss of sensitive information and the risk of losing the continuity of business operations in the event of a disaster or system interruption.

Effect—Without correcting these deficiencies, the District's administration and IT management may put the District's operations and IT systems and data at unintended and unnecessary risk.

Cause—The District updated its risk assessment policies and procedures to address IT security and data classification but has not fully implemented the risk assessment process or inventoried its data during the fiscal year due to staffing changes and restructuring of job positions.

Recommendations—The District should identify, analyze, and reduce risks to help prevent undesirable incidents and outcomes that could impact business functions and IT systems and data. It also should plan for where to allocate resources and where to implement critical controls. To help ensure it has effective entity-wide policies and procedures to achieve these objectives, the District should follow guidance from a credible industry source, such as the National Institute of Standards and Technology. Responsible administrative officials and management over finance, IT, and other entity functions should be asked for input in the District's process for managing risk. The District should conduct the following as part of its process for managing risk:

- Perform an annual entity-wide IT risk assessment process that includes evaluating and documenting risks and safeguards. Such risks may include inappropriate access that would affect financial data, system changes that could adversely impact or disrupt system operations, and inadequate or outdated system security.
- Evaluate and manage the risks of holding sensitive information by identifying, classifying, and inventorying the information the District holds to assess where stronger access and security controls may be needed to protect data in accordance with State statutes and federal regulations.

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- Evaluate and determine the critical organization functions and IT systems that would need to be restored quickly given the potential impact disasters or other IT system interruptions could have on the organization's operations, such as student services, and operations, such as payroll and accounting, and determine how to prioritize and plan for recovery.

The District's responsible officials' views and planned corrective action are in its corrective action plan included at the end of this report.

This finding is similar to prior year finding 2018-03.

2019-04

Information technology (IT) controls—access and security

Condition and context—The District's control procedures were not sufficiently designed, documented, and implemented to respond to risks associated with its IT systems and data. The District lacked adequate procedures over the following:

- **Restricting access to its IT systems and data**—Procedures did not consistently help prevent or detect unauthorized or inappropriate access.
- **Securing systems and data**—IT security policies and procedures lacked controls to prevent unauthorized or inappropriate access or use, manipulation, damage, or loss.

Criteria—The District should have effective internal controls to protect its IT systems and help ensure the integrity and accuracy of the data it maintains.

- **Logical access controls**—Help to ensure systems and data are accessed by users who have a need, systems and data access granted is appropriate, and key systems and data access is monitored and reviewed.
- **IT security internal control policies and procedures**—Help prevent, detect, and respond to instances of unauthorized or inappropriate access or use, manipulation, damage, or loss to its IT systems and data.

Effect—There is an increased risk that the District may not adequately protect its IT systems and data, which could result in unauthorized or inappropriate access and/or the loss of confidentiality or integrity of systems and data.

Cause—The District was unable to update and implement its IT access and security policies and procedures during the fiscal year because of time constraints and a lack of resources.

Recommendations—To help ensure the District has effective policies and procedures over its IT systems and data, the District should follow guidance from a credible industry source, such as the National Institute of Standards and Technology. To help achieve these control objectives, the District should develop, document, and implement control procedures in each IT control area described below:

Access
- Assign and periodically review employee user access ensuring appropriateness and compatibility with job responsibilities.
- Remove terminated employees' access to IT systems and data.

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- Review all other account access to ensure it remains appropriate and necessary.
- Evaluate the use and appropriateness of accounts shared by 2 or more users and manage the credentials for such accounts.
- Enhance authentication requirements for IT systems.

Security
- Perform proactive key user and system activity logging and log monitoring, particularly for users with administrative access privileges.

The District's responsible officials' views and planned corrective action are in its corrective action plan included at the end of this report.

This finding is similar to prior-year findings 2018-04.

2019-05

The District overstated its full-time equivalent student enrollment, which could potentially result in the District inappropriately receiving excess State sales tax distribution

Condition and context—The District made overstatements in its full-time equivalent student enrollment (FTSE) counts reported to us for our Arizona community college district annual FTSE report and did not provide us with timely support for certain FTSE counts it reported. The FTSE count overstatements resulted because the District incorrectly included class credit hours for students who were not enrolled in class as of the 45th day of the fall 2018 and spring 2019 semesters, and it reported class hours that the District's attendance sheets did not support for 23 of 41 skill center students tested and 1 of 41 adult basic education students tested.

Criteria—For us to complete our Arizona community college district annual FTSE report, A.R.S. §15-1466.02 requires the District to provide us a certified FTSE report by July 21 each year and all source records supporting its FTSE counts. FTSE counts should include only hours statute allows to be counted and that are properly supported. The District's State workforce development revenues are calculated based on its State-wide community college FTSE numbers in accordance with A.R.S. §15-1472(D).

Effect—By overstating FTSE counts, there is a risk the District could inappropriately receive more than its legally allocated proportional share of the total State-shared sales taxes distributed to all Arizona community college districts. This is because the State's proportional share calculation is based on the FTSE counts in our annual FTSE report. For fiscal year 2019, the District received approximately $12 million in State-shared sales taxes, which is approximately 55 percent of the total sales taxes distributed to all community college districts. Because we have determined reported FTSE calculations to be materially accurate, we believe this proportional share is accurate.

In addition, the Economic Estimates Commission uses FTSE counts from our annual FTSE report to help determine each district's expenditure limitation amounts. Therefore, if we did not detect the District's FTSE overstatement errors and ensure they were corrected in our FTSE report, it could have resulted in the District having more spending capacity in its expenditure limitation in future years (Arizona Constitution, Article 9, §21, and A.R.S. §41-563). Further, the District's untimely support submission resulted in delays in our obtaining the information necessary to complete our FTSE report examination, which is performed collectively for all Arizona community college districts. Because we were able to detect and correct the

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District's FTSE count errors and issue the collective FTSE report when due in October 2019, the District's reported FTSE count for FY 2019 was materially correct.

Cause—The District lacked adequate procedures to correctly record administrative drops, resulting in these drops being incorrectly reported on the District's 45th-day student enrollment reports used to calculate its FTSE counts. Also, the District lacked properly designed policies and procedures for compiling and reconciling its FTSE counts and source records, including adjustments, to help ensure that they were complete and accurate prior to providing them to us.

Recommendation—To help ensure that the District accurately reports its FTSE counts, the District should:

- Improve its procedures for recording and reviewing administrative drops to help ensure that the detail of students' enrollment status is reflected in the source records used to calculate the District's FTSE counts as of each semester's 45th day and to help ensure those students' class credit hours are not included in the District's FTSE counts.
- Dedicate appropriate resources to review the FTSE counts' underlying source records, such as student transcripts, class rosters, attendance sheets, and intergovernmental agreements, to help ensure the District's FTSE counts are accurate and properly supported.
- Require an employee who is independent of preparing the District's FTSE report to reconcile the report to all source records used for calculating the District's FTSE counts, including adjustments, and ensure they are complete and accurate. Any differences between the FTSE report and source records should be investigated and resolved in a timely manner prior to providing them to us.

The District's responsible officials' views and planned corrective action are in its corrective action plan at the end of this report.

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DISTRICT RESPONSE

February 12, 2020

Lindsey Perry
Auditor General
2910 N. 44th St., Ste. 410
Phoenix, AZ 85018

Dear Ms. Perry:

We have prepared the accompanying corrective action plan as required by the standards applicable to financial audits contained in Government Auditing Standards and by the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards. Specifically, for each finding we are providing you with our responsible officials' views, the names of the contact people responsible for corrective action, the corrective action planned, and the anticipated completion date.

Sincerely,

Kimberly Brainard Granio, CPA, M.Ed.
Associate Vice Chancellor, Business Services & Controller

Maricopa County Community College District
Corrective Action Plan
Year ended June 30, 2019

Financial statement findings

2019-01

The District did not sufficiently test and review changes it made to its payroll system, which resulted in over and underpayments to faculty employees
Name(s) of contact persons: Kim Granio and Martha Anderson
Anticipated completion date: June 2019

The District agrees with the finding. A system configuration to address integration issues was implemented in January 2019 to correct calculation errors. No errors occurred in this manner beginning with spring 2019. All outstanding overpayments have been processed through the District's standard collection methods. The District continues to improve its testing of and training for system changes prior to implementation.

2019-02

The District risked overpaying hourly employees because time sheets were not always reviewed and approved
Name(s) of contact persons: Kim Granio and Martha Anderson
Anticipated completion date: June 2020

The District agrees with the finding. The District's Human Capital Management System (HCM) is not currently configured to require supervisory approvals of time sheets prior to paying employees for hours recorded as Department of Labor regulations require that employees be paid for time worked regardless of approval status. A process to manually approve any time worked and paid, but not approved in HCM, was re-initiated in the fall 2019. Monitoring and additional efforts to increase compliance are underway.

2019-03

Managing Risk
Names of contact person: Jacob Vipond
Anticipated completion date: MCCCD expects the full implementation and adoption of NIST standards and related independent risk assessments to be completed by the 4th quarter of calendar year 2021. Execution of an annual internal risk assessment will begin in fiscal year 2019-2020.

The District agrees with the finding. The District is in the process of finalizing its risk mitigation strategy related to entity-wide IT security and is conducting a comprehensive IT security risk assessment that will identify any gaps. As part of our initiative to reduce the District IT security threat surface and decrease the risks to information governed by the District, the District is also adopting the NIST framework as a set of standards to help inform and advance the District-wide goals of improved information security, risk mitigation, and compliance, while also creating a

more informed security culture. This set of standards will include an annual entity-wide IT risk assessment, and adopting a continued improvement operational model.

2019-04
Information technology (IT) controls—access and security
Names of contact person: Jacob Vipond
Anticipated completion date: The District anticipates having all of these initiatives relating to this finding completed by the 2nd quarter of calendar year 2021.

The District agrees with the finding. The District recognizes the benefits of adopting guidance from a credible industry source, specifically the National Institute of Standards and Technology, and plans to conduct periodic reviews of employee access and apply principles of least privilege across all systems, specifically users with elevated permissions.

2019-05
The District overstated its full-time equivalent student enrollment, which could potentially result in the District inappropriately receiving excess State sales tax distribution
Names of contact person: Bettina Celis
Anticipated completion date: December 2020

The District agrees with the finding. The Maricopa County Community College District will enhance its procedures for validating full-time equivalent student reporting and will evaluate changes that can be implemented to monitor the use of administrative drops and implement manual adjustments, when necessary, to accurately capture students enrolled as of the 45th day of the semester. This monitoring will also be used to support the improvement of the procedures used to withdraw students from their courses.

The District will also engage in a review of the systems and procedures used to track enrollment, specifically in clock hour programs, in order to identify improvements for consistently and efficiently tracking FTSE. This review will include the consideration of new procedures and tracking systems, primarily targeting class rosters and attendance sheets, to ensure that inaccuracies requiring manual adjustments are reduced.

Finally, the District will evaluate the efficacy of dedicating an employee resource to the reconciliation of source records for FTSE counts while simultaneously implementing reporting and monitoring to automate the tracking of potential inconsistencies in reporting.