

Maricopa County Community College District

Report on Internal Control
and on Compliance

Year Ended June 30, 2022

A Report to the Arizona Legislature

Lindsey A. Perry
Auditor General





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Audit Staff

Stephanie Gerber, Director
Taryn Stangle, Manager

Contact Information

Arizona Auditor General
2910 N. 44th St., Ste. 410
Phoenix, AZ 85018-7271

(602) 553-0333

contact@azauditor.gov

www.azauditor.gov



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LINDSEY A. PERRY
AUDITOR GENERAL

ARIZONA
AUDITOR GENERAL

MELANIE M. CHESNEY
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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 Governing Board of
Maricopa County Community College District

We have audited, in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the U.S. Comptroller General, 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, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 30, 2023. 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. 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.

Report on 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) as a basis for designing 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.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified a certain deficiency in internal control, described in the accompanying schedule of findings and recommendations as item 2022-01, that we consider to be a significant deficiency.

Report on 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 financial statements. 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 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 2022-02.

District response to findings

Government Auditing Standards requires the auditor to perform limited procedures on the District's responses to the findings identified in our audit that 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 other 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 A. Perry

Lindsey A. Perry, CPA, CFE
Auditor General

January 30, 2023



SCHEDULE OF FINDINGS AND RECOMMENDATIONS

Financial statement findings

2022-01

District deficiencies related to supervisors not reviewing and approving 6,856 employee time sheets representing \$4.4 million in total wages increased the risk of fraud and potential misuse of public monies

Condition—The District reported to us that during fiscal year 2022 and contrary to its written procedures, supervisors had not reviewed or approved—either before processing payroll or within a reasonable amount of time thereafter—6,856 employee time sheets totaling approximately \$4.4 million in total wages. We also found that 5 of the 60 time sheets we tested were never reviewed or approved by the employee’s supervisor.

Effect—As a result of employees’ supervisors not reviewing and approving time sheets, the District was exposed to an increased risk of fraud and misuse of public monies because it could not prevent, or detect and correct, employees intentionally or unintentionally misreporting their time worked or leave taken. Additionally, because of similar prior-year deficiencies, the District overpaid an employee for hours they did not work or leave they did not earn during fiscal years 2017 through 2019. Specifically, the District discovered through an internal audit performed at the request of Glendale Community College that a former employee intentionally misreported time worked and was overpaid \$13,308 by the District during fiscal years 2017 through 2019. The employee’s supervisor did not properly review and approve those time sheets. The employee was later terminated and repaid the overpaid amount in December 2022.

Cause—Some supervisors did not follow District written procedures requiring employees’ time sheets to be reviewed and approved either before processing payroll or within 3 business days from receiving a payroll email notification that the employee’s time sheet needs approval. Additionally, District management did not sufficiently monitor whether each college’s Human Resources Department was enforcing these written procedures, or verifying that supervisors reviewed and approved employees’ time sheets as required.

Criteria—The District’s written procedures require each employee’s time sheet to be reviewed and approved by the employee’s supervisor either before processing payroll or within 3 business days from receiving a payroll email notification that the employee’s time sheet needs approval. Additionally, each college’s Human Resources Department is responsible for verifying that supervisors timely reviewed and approved time sheets (Maricopa County Community College District—Monitoring Time Approvals). Finally, designing, implementing, and maintaining effective policies and procedures over approving payroll time sheets is necessary to achieve the District’s objectives that include safeguarding public monies and other assets, and responding to risks of fraud is an essential part of internal control standards, such as the *Standards for Internal Control in Federal Government* issued by the Comptroller General of the United States, and integral to ensuring monies are not fraudulently or mistakenly misused.¹

Recommendations—The District’s management should:

1. Enforce District written procedures requiring supervisors to review and approve employees’ time sheets, either before payroll is processed or within 3 business days from receiving the payroll email notification that a time sheet needs approval, to verify employees accurately reported their time worked and leave taken.
2. Monitor and ensure each college’s Human Resources Department:
 - a. Verifies that supervisors perform the required post-payroll reviews and approvals within 3 business days if situations occur that result in supervisors being unable to conduct time sheet approvals prior to payroll-processing deadlines.
 - b. Corrects any errors noted during the post-payroll reviews.
3. Develop procedures to periodically compile and submit a listing of remaining unapproved time sheets to each college’s Human Resources Department to follow up with the employee’s supervisor to complete outstanding time sheet review and approvals.

The District’s corrective action plan at the end of this report includes the views and planned corrective action of its responsible officials. We are not required to audit and have not audited these responses and planned corrective actions and therefore provide no assurances as to their accuracy.

This finding is similar to prior-year finding 2020-01.

¹ U.S. Government Accountability Office (GAO). (2014). *Standards for internal control in the federal government*. Washington, DC. Retrieved 1/11/2023 from <https://www.gao.gov/assets/670/665712.pdf>.

2022-02

District’s Accounts Payable Department’s lack of following verification controls over vendor information allowed public monies totaling \$28,612 to be stolen by fraudsters

Condition—Contrary to District written procedures, the District’s Accounts Payable Department did not follow its vendor payment process. Specifically, the District’s Accounts Payable Department changed a vendor’s bank account routing information in its system—and then paid \$28,612 to that fraudulent bank account—based solely on a request it received by email.

Effect—The Department not following its written procedures allowed public monies totaling \$28,612 to be stolen by fraudsters simply through an email request. Once the District detected the fraud, it notified the bank but was unable to recover the stolen monies from the bank and had to reissue the vendor’s payment after correcting the vendor’s bank account routing information.

Cause—The Department did not follow the District’s written procedures related to vendor-verification procedures. Specifically, the Department did not perform a verification from existing vendor information in the District’s vendor profile and contact the vendor to ensure the vendor authorized changes to its bank account routing information before making them.

Criteria—Designing, implementing, and maintaining effective policies and procedures when changing a vendor’s bank information is necessary to achieve the District’s objectives that include safeguarding public monies and other assets, and responding to risks of fraud is an essential part of internal control standards, such as the *Standards for Internal Control in Federal Government* issued by the Comptroller General of the United States, and integral to ensuring monies are not fraudulently or mistakenly misused.¹ District procedures require that when a vendor requests a change to its information through email, the Accounts Payable Department should compare the email’s contact information to the vendor’s verified information within the District’s system. Additionally, for changes regarding vendor bank account information, the Department must directly contact the vendor, using the verified contact information in its system, not the email’s contact information, to verify the changes are appropriate (District’s ACH Verification Process).

Recommendations—The District’s Accounts Payable Department should:

1. Follow existing written procedures that require employees with the ability to make vendor information changes to directly contact the vendor using existing contact information from the District’s system to verify the appropriateness of vendor authorized changes before making the changes.
2. Provide additional training to employees on its written procedures, including proper verification procedures and how to handle vendor emails requesting changes to banking information.

The District’s corrective action plan at the end of this report includes the views and planned corrective action of its responsible officials. We are not required to audit and have not audited these responses and planned corrective actions and therefore provide no assurances as to their accuracy.

¹ U.S. Government Accountability Office (GAO). (2014). *Standards for internal control in the federal government*. Washington, DC. Retrieved 1/11/2023 from <https://www.gao.gov/assets/670/665712.pdf>.

DISTRICT RESPONSE



2411 W. 14th Street, Tempe, Arizona 85281 - 6942 • T 480.731.8000 • F 480.731.8506 • www.maricopa.edu

March 29, 2023

Lindsey A. 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,

Dawn D. Rector, CPA, MBA
Interim Associate Vice Chancellor & Controller, Business Services

Maricopa County Community College District
Corrective Action Plan
Year ended June 30, 2022

Financial statement findings

2022-01

District deficiencies related to supervisors not reviewing and approving 6,586 employee time sheets representing \$4.4 million in total wages increased the risk of fraud and potential misuse of public monies.

Names of contact persons: Dawn Rector and Frank Wilson

Anticipated completion date: December 2023

The District agrees with the finding. The District's Human Capital Management System (HCM) is configured to require supervisory approval of time sheets prior to paying employees for hours recorded. However, because Department of Labor regulations require that employees be paid for time worked regardless of approval status, a system-generated approval process triggers an automated email to supervisors, which provides an opportunity to ensure supervisors manually approve employee time worked and paid following each bi-weekly payroll run. All expenses, including wages, are monitored monthly by all business units within the District and any deviations from expectations are investigated and, as in the case noted in this report, the employee is required to pay the District back for fraudulent time reported and may be terminated. Monitoring, exception reporting, and additional efforts to increase compliance are under review and will be strengthened.

2022-02

District Accounts Payable Department's lack of following verification controls over vendor information allowed public monies totaling \$28,612 to be stolen by fraudsters.

Name of contact person: Dawn Rector and Karen Thompson

Anticipated completion date: June 2023

The District agrees with the finding. Upon discovery of the fraudulent request to update a vendor's bank account information, the District has since modified existing Accounts Payable (AP) written procedures to further clarify the need to contact the vendor directly using existing contact information available in the system when obtaining verbal confirmation of the requested change. AP staff have undergone training to ensure the updated written procedures for processing vendor requests to modify vendor account information are followed. Written procedures will be reviewed and discussed with AP staff at the start of each fiscal year and will be considered part of new employee training for all new AP staff.

