



A REPORT  
TO THE  
ARIZONA LEGISLATURE

Financial Audit Division

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Report on Internal Control and Compliance

# Maricopa County Community College District

Year Ended June 30, 2012

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**Debra K. Davenport**  
Auditor General

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Maricopa County Community College District  
Report on Internal Control and Compliance  
Year Ended June 30, 2012

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Report Issued Separately

Comprehensive Annual Financial Report



**DEBRA K. DAVENPORT, CPA**  
AUDITOR GENERAL

**STATE OF ARIZONA**  
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  
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, 2012, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 27, 2012. Our report was modified to include a reference to our reliance on other auditors. 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. Other auditors 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 financial statements of the Maricopa County Community College District Foundation were not audited by the other auditors in accordance with *Government Auditing Standards*. This report includes our consideration of the results of the other auditors' testing of internal control over financial reporting that are reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the report of the other auditors.

**Internal Control over Financial Reporting**

The District's management is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Recommendations, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 deficiencies described in the accompanying Schedule of Findings and Recommendations as items 12-01 and 12-02 to be material weaknesses.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's basic financial statements are free of 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Maricopa County Community College District's responses to the findings identified in our audit are presented on pages 5 through 6. We did not audit the District's responses, and accordingly, we express no opinion on them.

This report is intended solely for the information and use of the members of the Arizona State Legislature, the Governing Board, management, others within the District, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Jay Zsorey, CPA  
Financial Audit Director

November 27, 2012

Maricopa County Community College District  
Schedule of Findings and Recommendations  
Year Ended June 30, 2012

Financial Statement Findings

12-01

**The District should follow policies and procedures when preparing financial statements**

Criteria: The District should follow its policies and procedures and GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting* and classify only its investments with maturities of 3 months or less from the date of acquisition as cash equivalents on the financial statements. In addition, noncash transactions should be disclosed as such at the bottom of the Statement of Cash Flows.

Condition and context: The District did not follow its policies and procedures and GASB Statement No. 9 when classifying its investments for financial statement reporting purposes. Specifically, the District classified investments that matured within 3 months after fiscal-year end as a cash equivalent instead of comparing the acquisition date, maturity date, and purpose of the investment transactions. Auditors determined that 71 of the District's 356 investments were misclassified on the financial statements and related note disclosure. Additionally, the District reported several noncash transactions as cash transactions on the Statement of Cash Flows.

Effect: The cash and cash equivalents and investment balances were over and understated, respectively, by \$79 million. In addition, deposits and investments were classified incorrectly in the related note disclosure because of the error. Further, the District reported noncash transactions as cash transactions on its Statement of Cash Flows for its defeasement of general obligation bonds and other miscellaneous items. The District's financial statements and note disclosure were adjusted to correct the errors.

Cause: The District inadvertently did not follow its policies and procedures when classifying cash equivalents on the financial statements and accompanying note disclosure because of employee turnover. The Statement of Cash Flows errors were due to oversight.

Recommendation: The District should follow accounting standards and its current policies and procedures when compiling its financial statements and accompanying note disclosures. Investments should be classified based on the original acquisition and maturity dates, and only those purchased with a maturity date of less than 3 months should be classified as cash equivalents. Also, noncash transactions should be excluded from the Statement of Cash Flows itself and presented as such at the bottom of the statement.

Maricopa County Community College District  
Schedule of Findings and Recommendations  
Year Ended June 30, 2012

12-02

**The District should continue to strengthen computer access controls**

Criteria: Effective system access controls help prevent and detect unauthorized use, damage, loss, or modification of programs and data, and misuse of sensitive or confidential information.

Condition and context: The District did not adequately limit logical access to its information systems during the year. The District uses three main computerized systems to initiate, record, process, and report financial, human resources and payroll, and student information. Specifically, the District did not have procedures in place to monitor system access for those users with elevated system access. In addition, users' access rights were not always revoked in a timely manner in the student information system after users terminated employment. Auditors noted that several terminated employees remained users for approximately 8 months.

Effect: There is an increased risk that unauthorized access to the District's systems, including financial information and data that is confidential or sensitive in nature, may not be prevented or detected.

Cause: The District did not establish policies and procedures to monitor its users with elevated system access. In addition, the District did not have a process in place to ensure all terminated employees' access to its student information system was revoked.

Recommendation: To help prevent and detect unauthorized access to its information systems, the District should establish additional policies and procedures to monitor the access of users with elevated access to its systems. In addition, the District should develop a process to ensure that all terminated employees' access is properly revoked from its systems.

This finding is similar to a prior-year finding.

# DISTRICT RESPONSE





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January 10, 2013

Ms. Debbie Davenport  
Auditor General  
2910 N. 44<sup>th</sup> Street, Suite 410  
Phoenix, AZ 85018

Dear Ms. Davenport:

The accompanying corrective action plan has been prepared as required by Government Auditing Standards. Specifically, we are providing you with the names of the contact people responsible for the corrective action, the corrective action planned, and the anticipated completion date for the audit finding included in the Schedule of Findings and Recommendations for the fiscal year ended June 30, 2012.

Sincerely,

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

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MARICOPA COUNTY COMMUNITY COLLEGE DISTRICT  
Corrective Action Plan  
Year Ended June 30, 2012

Financial Statement Findings

12-01

The District should follow policies and procedures when preparing financial statements

Contact person: Kim Granio

Anticipated completion date: January 2013

Corrective Action Planned:

The District agrees with the finding and recommendation. The issued financial statements and accompanying note disclosures are properly presented. Many of the items originally presented as cash transactions on the Statement of Cash Flows that were found to be in error, were presented consistently as the same or similar transactions were in prior years. In the future when analyzing and classifying transactions and year end balances, the District will do so with additional attention to the intent of the accounting standards.

12-02

The District should continue to strengthen computer access controls

Contact person: Steve Creswell

Completion date: June 2013

Corrective Action Planned:

The District agrees with the finding and recommendation. Procedures will be reviewed to verify that access is removed from our systems upon an employee termination. The District will develop policies and procedures to conduct independent reviews of all administrative users' and super users' activities and will document these reviews. The District has developed procedures to monitor changes made to our systems by an employee independent of the process, and this monitoring will be performed on a regular basis.

