



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Report on Internal Control and Compliance

Maricopa County Community College District

Year Ended June 30, 2013



Debra K. Davenport
Auditor General

The **Auditor General** is appointed by the Joint Legislative Audit Committee, a bipartisan committee composed of five senators and five representatives. Her mission is to provide independent and impartial information and specific recommendations to improve the operations of state and local government entities. To this end, she provides financial audits and accounting services to the State and political subdivisions, investigates possible misuse of public monies, and conducts performance audits of school districts, state agencies, and the programs they administer.



The Auditor General's reports are available on our Web site at:

www.azauditor.gov

Printed copies of our reports may be requested by contacting us at:

Office of the Auditor General

2910 N. 44th Street, Suite 410 • Phoenix, AZ 85018 • (602) 553-0333

Maricopa County Community College District
Report on Internal Control and Compliance
Year Ended June 30, 2013

Table of Contents	Page
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 <i>Government Auditing Standards</i>	1
Schedule of Findings and Recommendations	3
District Response	6
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, 2013, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 19, 2013. 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 financial statements of the Maricopa County Community College District Foundation were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or compliance associated with the Maricopa County Community College District 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 were not identified. However, as described in the accompanying Schedule of Findings and Recommendations, we identified 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 deficiencies described in the accompanying Schedule of Findings and Recommendations as items 2013-01 and 2013-03 to be material weaknesses.

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 deficiency described in the accompanying Schedule of Findings and Recommendations as item 2013-02 to be a significant deficiency.

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Maricopa County Community College District's Response to Findings

Maricopa County Community College District's responses to the findings identified in our audit are presented on pages 6 through 7. The District's responses 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.

Jay Zsorey, CPA
Financial Audit Director

December 19, 2013

Maricopa County Community College District
Schedule of Findings and Recommendations
Year Ended June 30, 2013

Financial Statement Findings

2013-01

The District should strengthen its information system access and change controls

Criteria: The District should have effective system access and change controls to help prevent and detect unauthorized use, damage, loss, or modification of systems and data, and misuse of confidential or sensitive information.

Condition and context: The District has three primary information systems it uses to initiate, record, process, and report financial, human resources and payroll, and student information. However, the District did not adequately control access and changes to these systems during the year. Specifically, the District did not establish accountability and monitor system access and activities of users with elevated and unlimited system access. In addition, the District allowed database administrators and other users to have the ability to make data and system changes without being detected and without having accountability for the changes. Further, the District did not always follow its existing procedures for approving system access.

Effect: There is an increased risk that unauthorized access and changes to the District's systems, including financial information and data that is confidential or sensitive in nature, may not be prevented or detected. Such an occurrence can be very costly. In April 2013, the District's network security was breached by hackers resulting in estimated costs of \$16.8 million to remedy vulnerabilities within its information systems and provide credit monitoring to an estimated 2.6 million individuals whose personal information may have been compromised.

Cause: The District did not have adequate policies and procedures to limit and monitor users with elevated and unlimited system access, including the ability to make data and system changes. In addition, the District did not follow its procedures to ensure all user access requests are properly approved by the user's supervisor. Further, the District's progress for improving its systems' access and change controls had been impeded by turnover in its Information Technology leadership and the need for consistent priorities on taking corrective action.

Recommendation: To help prevent and detect unauthorized access and changes to its systems and data, including confidential and sensitive information, the District should:

- Establish policies and procedures to limit and monitor users having elevated and unlimited system access to its systems.
- Provide accountability for users with elevated or unlimited system access by assigning accounts to these specific individuals rather than using generic user accounts.
- Implement tools to monitor users with elevated and unlimited system access to help detect unauthorized activities to its information systems and databases and ensure that results are reviewed by an independent individual who is not responsible for activities being monitored.
- Enforce existing policies that regular password changes be required for individuals with elevated and unlimited system access.
- Follow existing policies and procedures requiring that all user access requests be properly approved prior to granting system access.

Maricopa County Community College District
Schedule of Findings and Recommendations
Year Ended June 30, 2013

- Monitor changes made to systems and data. This should be performed by an employee without the ability to make changes and should include a reconciliation of the approved changes to actual changes made to help ensure that no unauthorized changes to systems or data are made other than through the formal change process.

This finding is similar to a prior-year finding.

2013-02

The District should update and sufficiently test and evaluate its disaster recovery plan

Criteria: To help ensure that the District can continue to process transactions and that electronic data files are not lost in the event of a system or equipment failure or other system interruption, the District should maintain a comprehensive disaster recovery plan that is tested and up-to-date.

Condition and context: The District did not have an up-to-date and sufficiently documented and tested disaster recovery plan to follow in the event of a system or equipment failure or other system interruption. Such a plan would help to ensure that its systems and financial and other information is protected and restored. Specifically, auditors noted that the District's disaster recovery plan was not updated for key personnel changes, and did not contain the type and timing of notifications to be made to those key personnel. In addition, the plan was not updated for current hardware configurations and did not prioritize the order of systems, information, and functions to be restored. While the District tested parts of its plan annually, district personnel informed auditors that an actual system interruption that occurred during the year revealed that one of its information systems could not be restored at the designated off-site location as planned, resulting in the need for further evaluation of the plan itself and the need for more comprehensive testing. Finally, while the plan indicated an acceptable time frame for systems to be down, the plan did not include procedures for manual processing of transactions, including provisions for hard copy forms to use for specific functions, in case the systems were down for longer than the anticipated time frame.

Effect: Failure to maintain an up-to-date and sufficiently documented and tested disaster recovery plan could limit the District's ability to process and record transactions in the event of a system or equipment failure or interruption, respond to an emergency effectively, and recover electronic data files and critical systems. In addition, inadequate disaster recovery controls subject the District to risks that can result in inaccurate or incomplete financial or management information, expensive recovery efforts, and financial loss.

Cause: The District did not follow its policies and procedures to ensure its disaster recovery plan is current and sufficiently tested and evaluated annually.

Recommendation: To help ensure that it is prepared to respond to a system or equipment failure or other system interruption, the District should ensure that it has an updated and sufficiently documented and tested disaster recovery plan. Specifically, the District should:

- Update the disaster recovery plan to include a current listing of key personnel assigned to disaster teams, including emergency telephone numbers. Also, communicate and distribute copies of the disaster recovery plan to all affected employees, and keep a copy of the plan off-site.

Maricopa County Community College District
Schedule of Findings and Recommendations
Year Ended June 30, 2013

- Revise the plan and include sufficient information for changes in hardware; the types and timing of notifications to be made to key personnel; and the priority of the systems, information, and functions to be restored.
- Perform annual tests of the plan as is currently done. Also, consider whether comprehensive tests for the overall plan should be periodically performed and involve all necessary departments to validate or reassess the plan's feasibility.
- Establish procedures for processing critical transactions, including forms or other documents to be used for manually processing transactions.

2013-03

The District needs better controls over adjunct faculty employment assignments

Criteria: To help ensure that the District pays only for authorized and valid employment contracts for adjunct faculty, the District should maintain a record of supervisory approvals of all employment contracts prior to paying adjunct faculty members.

Condition and context: Payments to district employees were generally approved, recorded, and paid through the District's payroll system, with the exception of adjunct faculty, part-time contracted instructors who were set up in the District's student information system (SIS) before payment is processed on the payroll system. However, the District's policies and procedures did not require documentation of supervisory approvals for SIS-initiated employment assignments for adjunct faculty members to help ensure that the contracts were valid, and that payments were made from the correct district accounts and in the proper amounts. Specifically, auditors noted that 15 of 60 employees tested were adjunct faculty members whose employment assignments comprised a total of 30 contracts that were initiated through SIS without evidence of supervisory approval. The District paid over \$53.6 million in adjunct faculty assignments during fiscal year 2013. Auditors were able to perform additional tests that confirmed that the 30 contracts identified for the 15 adjunct faculty members tested were valid and correctly charged.

Effect: Without policies and procedures requiring evidence of supervisory approval of adjunct faculty employment contracts, the District risks paying for unauthorized or invalid employment contracts and may be charging these expenses to incorrect district and federally-sponsored programs.

Cause: The District did not follow its hiring and contracting practices for adjunct faculty employment contracts.

Recommendation: To help ensure that the District pays only for authorized and valid employment contracts for adjunct faculty, the District should ensure that its hiring and contracting practices are consistently followed. This can be achieved by establishing policies and procedures that are well-documented and communicated to employees. Specifically, these policies and procedures should:

- Require that document approvals be maintained for all employment contracts, either in hard copy form or electronically.
- Implement system checks, if practicable, to prevent payment on employment assignments until the appropriate supervisory approvals are obtained to ensure that employment assignments actually exist, that adjunct faculty members are correctly compensated, and that expenses are recorded in to the proper district and federally-sponsored programs.



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

February 3, 2014

Ms. Debbie Davenport
Auditor General
2910 N. 44th 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, 2013.

Sincerely,

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

Ten colleges and two skill centers dedicated to student success.

Chandler-Gilbert | Estrella Mountain | GateWay | Glendale | Mesa | Paradise Valley | Phoenix
Rio Salado | Scottsdale | South Mountain | Maricopa Skill Center | SouthWest Skill Center

MARICOPA COUNTY COMMUNITY COLLEGE DISTRICT

Corrective Action Plan
Year Ended June 30, 2013

Financial Statement Findings

2013-01

The District should strengthen its information system access and change controls

Contact persons: Sasan Poureetezadi and Edward Kelty

Anticipated completion date: June 2014

Corrective Action Planned:

The District agrees with the finding and recommendation. The following remediation efforts are underway: use of elevated and unlimited database accounts will be reduced, restricted, and monitored; application access for super-user and administrative accounts will be restricted and monitored; the application access request process will be revised and reviewed; and, changes to the systems and data will be monitored.

2013-02

The District should update and sufficiently test and evaluate its disaster recovery plan

Contact persons: Sasan Poureetezadi and Edward Kelty

Completion date: June 2014

Corrective Action Planned:

The District agrees with the finding and recommendation. The District has begun an effort to build-out the infrastructure of its disaster recovery facility to create a redundant computing environment for its critical IT services. As of December 2013, additional equipment has been purchased and it is currently being configured to be put into service. With that, internal staff is working to prioritize the testing of the new equipment. As we move towards testing the new equipment for Disaster Recovery, the documentation will be updated accordingly. Business requirements will be reviewed for updates, business process tasks will be reviewed for accuracy and appropriate updates, IT architectural documentation will be updated to reflect the new equipment additions, and contact information will be updated as well.

2013-03

The District needs better controls over adjunct faculty employment assignments

Contact persons: Kim Granio and Sam Dosumu

Completion date: June 2014

Corrective Action Planned:

The District agrees with the finding and recommendation. The District will develop and implement procedures to ensure all employment contracts are properly approved and documentation is maintained.

