



A REPORT  
TO THE  
ARIZONA LEGISLATURE

Financial Audit Division

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Management Letter

# Maricopa County Community College District

Year Ended June 30, 2006

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**Debra K. Davenport**  
Auditor General

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**STATE OF ARIZONA  
OFFICE OF THE  
AUDITOR GENERAL**

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

**WILLIAM THOMSON**  
DEPUTY AUDITOR GENERAL

May 25, 2007

Governing Board  
Maricopa County Community College District  
2411 West 14<sup>th</sup> Street  
Tempe, AZ 85281

Members of the Board:

In planning and conducting our single audit of Maricopa County Community College District for the year ended June 30, 2006, we performed the following as required by *Government Auditing Standards (GAS)* and Office of Management and Budget (OMB) Circular A-133:

- Considered the District's internal controls over financial reporting,
- Tested its internal controls over major federal programs, and
- Tested its compliance with laws and regulations that could have a direct and material effect on its financial statements and major federal programs.

All audit findings that are required to be reported by GAS and OMB Circular A-133 reports have been included in the District's Single Audit Reporting Package for the year ended June 30, 2006. In addition, our audit disclosed internal control weaknesses that do not meet the reporting criteria. Management should correct these deficiencies to ensure that it fulfills its responsibility to establish and maintain adequate internal controls. Our recommendations are described in the accompanying summary.

This letter is intended solely for the information of the Maricopa County Community College District Governing Board and is not intended to be and should not be used by anyone other than the specified party. However, this letter is a matter of public record, and its distribution is not limited.

Should you have any questions concerning its contents, please let us know.

Sincerely,

Dennis L. Mattheisen, CPA  
Financial Audit Director

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District Response

## The District should update and test its disaster recovery plan for each of its computerized information systems

The District uses three computerized information systems to process, record, and store information that is vital to its daily operations. Therefore, it is critical that the District have an up-to-date contingency plan in place to provide continued operations and to ensure electronic files are not lost due to a major computer hardware or software failure or other interruption. However, the District did not have a current and tested disaster recovery plan for any of its three major computerized systems. The financial and human resources/payroll information systems backup server has not been tested and since December 2005, has also been located at the District's main computer facility. In addition, the student information system did not have an alternate backup facility. Also, even though transactions were backed up daily for all three systems, backup tapes were not tested and transferred to an off-site storage facility. As a result, the District risks losing valuable data during a disruption or disaster.

To help ensure that the District's systems are protected against system or equipment failure and to help prevent data loss from a service interruption, the District should update and test its disaster recovery plan annually. In addition, the District should ensure the plan includes the following for each of its vital information systems:

- Roles and responsibilities of employees assigned to disaster teams, including emergency telephone numbers to reach them.
- A risk analysis identifying critical applications and exposures, and an assessment of the impact to the District.
- Details of off-site storage locations.
- Arrangements for a designated physical facility.
- A list of procedures for processing critical transactions, including forms or other documents to use.

Also, the District should carefully plan equipment replacements in order to minimize the risk of losing valuable data. Further, the District should test its backup tapes quarterly to ensure data is complete and store the back up tapes in an off-site facility daily.

## The District should monitor its administrator of its self-funded health insurance program

Beginning in fiscal year 2006, the District switched from commercial insurance to a self-funded health insurance program for its employees and their dependents. The District is responsible for administering the program; however, to pay for medical claims, the District contracted with a third party administrator to process and pay all medical claims. The administrator processed approximately \$22 million in medical claims during the fiscal year. Therefore, it is critical that the District require the administrator to have an effective system of internal controls in place to ensure that claim payments are accurate, appropriate, and supported. The District performed a reasonability analysis to ensure paid claims were consistent on a monthly basis. However, the District did not actively monitor processed medical claims to ensure they were only for allowable expenses incurred by eligible participants in accordance with the program's coverage limits or request the administrator to receive an independent audit of its claims processing system. As a result, the administrator may have made payments for services that the plan did not cover or for ineligible participants.

To strengthen controls over the medical claims payment process, the District should establish and follow these policies and procedures:

- Verify that the administrator has an effective internal control system to accurately and appropriately process claims. To determine whether controls have been placed in operation and are operating effectively, the District should obtain or perform an annual audit of the administrator's claims payment processing controls.
- Review the audit reports of its administrator's controls over claims payment processing, and require a corrective action plan if deficiencies are noted.
- Establish verification procedures to monitor the appropriateness, completeness, and accuracy of the summary of claims data. Such procedures should ensure that claims are paid only for eligible plan participants.



www.maricopa.edu

**DR. RUFUS GLASPER**  
CHANCELLOR

2411 W. 14th St.  
Tempe, Arizona  
85281-6942

•  
Telephone  
480.731.8000

•  
Fax  
480.731.8506

May 16, 2007

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

Dear Ms. Davenport:

Thank you for the opportunity to respond to the Maricopa County Community College District Management Letter audit findings for the fiscal year 2005-06 financial statement and federal audits of the District. It is understood that the District's responses will be included in the published Management Letter.

The District wishes to express its appreciation to you and your staff for the time and effort invested in these audits.

If you have any questions, please contact me at (480) 731-8584.

Sincerely,

Kimberly Brainard Granio, CPA  
Director, Financial Services and Controller

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Enclosure

**MARICOPA COUNTY COMMUNITY COLLEGE DISTRICT  
RESPONSE TO THE FISCAL YEAR 2005-06  
MANAGEMENT LETTER**

**The District should update and test its disaster recovery plan for each of its computerized information systems**

To help ensure that the District's systems are protected against system or equipment failure and to help prevent data loss from a service interruption, the District should update and test its disaster recovery plan annually. In addition, the District should ensure the plan includes the following for each of its vital information systems:

- Roles and responsibilities of employees assigned to disaster teams, including emergency telephone numbers to reach them.
- A risk analysis identifying critical applications and exposures, and an assessment of the impact to the District.
- Details of off-site storage locations.
- Arrangements for a designated physical facility.
- A list of procedures for processing critical transactions, including forms or other documents to use.

*The District has disaster recovery plans and equipment in place for two of its systems: CFS (financial system) and HRMS (human resources/payroll system). These plans will be reviewed annually and updated as necessary and include roles and responsibilities of employees assigned to disaster teams along with pertinent contact information. The plans also include a list of procedures for processing critical transactions along with forms and other documents necessary for the District to operate for a limited amount of time after a disaster occurs. Recoverability testing plans have been developed and will be executed by June 30, 2007 and annually thereafter.*

*A risk analysis identifying critical applications and exposures and an assessment of the impact to the District was completed and documented in early May, 2007.*

*Back-up tapes are removed to an offsite storage facility weekly. Additionally, plans are being made to move the backup tapes to a nearby, but separate, District site on a daily basis. These backup tapes will be tested on a yearly basis to ensure that the tapes and data on them are recoverable and usable in an emergency.*

*The District may consider a dedicated disaster recovery facility in the future, but currently, we will continue to use separate college facilities.*

*The District's third critical system, the Student Information System (Legacy SIS) is decentralized and is operated out of the individual college sites. The college systems are backed up nightly. The District's new SIS application is scheduled to go live in October 2007 and will be centralized. Accordingly, the District will develop a separate business continuity plan specifically for the new system by June 2008.*



**MARICOPA COUNTY COMMUNITY COLLEGE DISTRICT  
RESPONSE TO THE FISCAL YEAR 2005-06  
MANAGEMENT LETTER**

## The District should monitor its administrator of its self-funded health insurance program

To strengthen controls over the medical claims payment process, the District should establish and follow these policies and procedures:

- Verify that the administrator has an effective internal control system to accurately and appropriately process claims. To determine whether controls have been placed in operation and are operating effectively, the District should obtain or perform an annual audit of the administrator's claims payment processing controls.
- Review the audit reports of its administrator's controls over claims payment processing, and require a corrective action plan if deficiencies are noted.
- Establish verification procedures to monitor the appropriateness, completeness, and accuracy of the summary of claims data. Such procedures should ensure that claims are paid only for eligible plan participants.

*The District has contracted with an external firm to perform a medical claims audit and an eligibility disruption analysis for our administrator to be completed by June 30, 2007. Additionally, the District has reviewed an internal audit of the Phoenix office of our administrator conducted in January 2006 and noted that the recommendations had already been implemented. Also, the District has reviewed a Provider Network Management audit performed by Blue Cross Blue Shield in March 2006 and noted that for items pertinent to the District, the administrator agreed to address them.*

*The District will establish procedures to monitor that claims are paid only for eligible plan participants by June 30, 2007.*