



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Report on Internal Control and Compliance

Maricopa County Community College District

Year Ended June 30, 2007



Debra K. Davenport
Auditor General

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Maricopa County Community College District
Internal Control and Compliance over Financial Reporting
Year Ended June 30, 2007

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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

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

WILLIAM THOMSON
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, 2007, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 17, 2007. 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 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 and compliance and other matters that are reported separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors.

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 would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we and the other auditors identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's basic financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider items 07-01 through 07-03 described in the accompanying Schedule of Findings and Recommendations to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider finding number 07-02 to be a material weakness.

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*.

Managements' responses to the findings identified in our audit have been included herein. We did not audit managements' 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, 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.

Dennis L. Mattheisen, CPA
Financial Audit Director

December 17, 2007

Maricopa County Community College District
Schedule of Findings and Recommendations
Year Ended June 30, 2007

07-01

Maricopa County Community College District

The District should test its disaster recovery plans for its computer 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 disaster recovery plan for its student information system. In addition, the District's disaster recovery plans for its general ledger and payroll systems have not been updated or tested since 2003. Additionally, the District has alternate computer facilities that can be used to process daily transactions for its critical information systems; however, these facilities have not been tested. Further, the District did not monitor its college campuses to ensure that each campus was backing up the student information system and that the backup tapes were tested and stored at an off-site location. 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 have a current disaster recovery plan for each of its critical systems. The District should update and test these disaster recovery plans annually. In addition, the District should ensure the plans include the following for each of its critical information systems:

- A current listing of employees assigned to disaster teams, including emergency telephone numbers.
- Employee assignments and responsibilities.
- A risk analysis identifying critical applications.
- Details of off-site storage locations and availability of information stored at these locations.
- A list of procedures for processing critical transactions, including forms or other documents to use.
- Details of hardware and software requirements needed to run critical systems and the applicable vendors where the hardware and software can be obtained.
- Restoration procedures for backup tapes and servers.
- Overall testing strategies, testing frequencies, and documentation of test results.

In addition, the District should communicate and distribute copies of the disaster recovery plans to the necessary employees and ensure that they are aware of and are properly trained in their recovery responsibilities. The District should store a printed copy of the disaster recovery plans at the District's off-site data storage facility. Further, the District should monitor its college campuses to ensure that they are backing up the student information system and storing these backup tapes at the off-site facility daily.

Maricopa County Community College District
Schedule of Findings and Recommendations
Year Ended June 30, 2007

Component Unit Findings

The other auditors that audited the Maricopa County Community College District Foundation reported the following material weakness and significant deficiencies for that component unit:

07-02

Maricopa County Community College District Foundation

Financial Statement Preparation

It appears from the year-end adjustments that the Foundation's financial statements did not include all the necessary adjustments to provide financial statements comparable to the audited financial statements distributed to outside users. We recommend that the Foundation review the contents of the new audit adjustments made to the year-end financial statements and incorporate them into the closing process so that the financial statements are complete, accurate, and comparable. The following instances in particular lead to audit adjustments:

- The Foundation accountant did not adjust the allowance for doubtful pledges and bad debt expense for two pledges whose payment is in question;
- The Foundation accountant did not reverse the prior year accounts payable accrual when payment was made in the current year;
- The Foundation accountant did not accrue an invoice received subsequent to year end that was for services provided during the year ended June 30, 2007.

Management response: None reported.

07-03

Maricopa County Community College District Foundation

Segregation of Duties

The Foundation has a limited number of office personnel and, accordingly, does not have sufficient internal controls in certain areas because of an inadequate segregation of duties. Effective internal control contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion. While we recognize that the Foundation's office staff may not be large enough to permit an adequate segregation of duties in all respects for an effective internal control structure, it is important that management be aware of this condition, and realize that this concentration of duties is not ideal, but unavoidable. Under these conditions, the most effective control lies in the Board's and management's knowledge of matters relating to the Foundation's operations.

Management response: None reported.



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January 24, 2008

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, 2007.

We would like to emphasize that we have not responded to items 07-02 and 07-03. These items relate to the Maricopa County Community College District Foundation which is a discretely presented component unit. The component unit is a separate, legal entity that is not subject to management by the District. As such, it would not be appropriate for us to respond to issues pertaining to the entity.

Sincerely,

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Kimberly Brainard Granio, CPA
Director, Financial Services and Controller

MARICOPA COUNTY COMMUNITY COLLEGE DISTRICT

Corrective Action Plan Year Ended June 30, 2007

Financial Audit Findings

07-01

Contact persons: Kim Granio, Steve Creswell

Anticipated completion date: June 2008

Corrective Action Planned:

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 are executed annually. These plans will be distributed to the applicable staff and we will ensure that all staff is aware and properly trained to perform their role within the disaster recovery plan. A hardcopy of the plan will be maintained at the District's offsite data storage facility and in other locations as necessary.

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

Back-up tapes are removed to an offsite storage facility twice weekly. Remote backup tapes are a 3rd level of protection as follows: 1) the failover server being the primary mechanism, 2) the on-site backup tapes being the second, 3) and in a truly extraordinary failure the off-site backup tapes constitute the third level. The failover server and backup tapes are tested annually to ensure that the tapes and data on them are recoverable and usable in an emergency.

The District purchased a building in July 2007 for a dedicated disaster recovery facility that is expected to come on line in 2008. Until then we will continue to use separate college facilities for HRMS and CFS.

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 February 2008 and will be centralized. Accordingly, the District has developed a separate business continuity plan specifically for the new system that will be in place at go-live. In the interim, the District Office Information Technology Services Department will ensure that the colleges are following back up procedures for Legacy SIS and properly safeguarding such data. Due to network cost considerations the failover server for the new SIS will be co-located at the District Office site until a failover server can be setup at the new dedicated disaster recovery facility.