



**MARICOPA COUNTY COMMUNITY COLLEGE DISTRICT
GOVERNING BOARD WORK SESSION
MAY 17, 2012
MINUTES**

A Work Session of the Maricopa County Community College District Governing Board was scheduled to be held at 9:00 a.m. at the District Support Services Center in Tempe, Arizona, pursuant to A.R.S. §38-431.02, notice having been duly given.

PRESENT

GOVERNING BOARD

Doyle Burke, President
Dana Saar, Secretary
Randolph Lumm, Member

ADMINISTRATION

Rufus Glasper
Debra Thompson
George Kahkedjian
Lee Combs
Earl Monsour
Miguel Corzo
Steve Creswell
Michelle Paul
David Rekas
Christine Scott
Kate Bankston
Dina Jaramillo
Hirum Wong
Lenore Craite
Paul Christiansen
Rod Marten
Kim Granio
Jody Labenz

Guests

Jay Zsorey, Auditor General's Office
Taryn Stangle, Auditor General's Office

BOARD WORK SESSION - AUDITS

**WELCOME AND
INTRODUCTIONS**

The work session on the audits was called to order at 9:07 a.m. by Board President Doyle Burke who explained this meeting would serve as an opportunity for the Board to have more knowledge about the audit process.

**OVERVIEW OF
MEETING**

Vice Chancellor Debra Thompson expressed appreciation for the opportunity to share information about MCCC'D's financial activity and the budget. Today's session would be about what happens once the

budget is adopted and also what information is covered in financial audits, single audits, as well as the work of Internal Audit and the Auditor General's Office.

**CHANCELLOR'S
REMARKS**

Chancellor Glasper stated that the organization was pleased to have the opportunity to brief the Board Members about the audit function and affirms good financial processes, public stewardship, asset protection and how we utilize funding provided by the public. Collaboration between our organization divisions and external relationship with the Auditor General. Audit and Finance has been in place in excess of 29 years. They have adopted practices recommended by the Sarbanes-Oxley Act although we are not required to do so. We think that we have a pretty good handle and system on public stewardship and today will provide an opportunity to have candid conversation.

**2011 FINANCIAL
AND SINGLE AUDIT
RESULTS AND
FINDINGS**

Kim Granio, Associate Vice Chancellor of Business Services, reviewed all materials included in the packets with those in attendance. These included:

1. An Overview of Financial Results of the Fiscal Year 2011 CAFR
2. The Report on Internal Control and Compliance of the Maricopa County Community College District for the Year Ended June 30, 2011 by the Office of the Auditor General
3. The Single Audit of the Maricopa County Community College District for the Year Ended June 30, 2011 by the Office of the Auditor General
4. A copy of the MCCCCD Fiscal Management Policies pertaining to Internal Audit and Management Advisory Services Department Charter
5. A copy of the Internal Audits in Progress Report as of December 31, 2011
6. A copy of the Audit Follow-Up Status Through December 31, 2011
7. A copy of the MCCCCD Internal Audit & management Advisory Services Quality Assurance Review Report dates November 2011
8. A copy of the MCCCCD Audit & Finance Committee Charter
9. A copy of the MCCCCD External Audit Status Report as of December 31, 2011
10. The Audit & Finance Committee Activity Calendar
11. The Audit & Finance Committee Annual Report for FY 2010-11
12. A copy of the MCCCCD Comprehensive Annual Financial Report for FY ended June 30, 2011

She provided the following overview:

Annual Process in a Nutshell

- Financial Planning & Budget plans the financial activities for the year with the development of the annual budget
- The Controller's Office accounts for the activity throughout the

year

- The Controller's Office prepares financial statements for the year's activities at the end of the year
- The Auditor General's Office audits our financial statements

FY 2011 Results

- Improved financial condition
 - Unrestricted Net Assets grew by \$74.7 million
 - Revenues outpacing expenses
 - Conservative spending by colleges and the district office due to uncertainty in state funding
- Improved financial condition allowed for:
 - Funds set aside for capital projects
 - Funds set aside for Student Success Initiatives
 - Defease outstanding callable revenue bonds

Annual Audit

- The State of Arizona Office of the Auditor General each year performs two audits:
 - A Financial Audit referred to the CAFR – Comprehensive Annual Financial Report
 - A Single/Federal/A-133 Audit (known by several names)

2011 Financial Audit Results and Findings

- Unqualified opinion on financial statements
- Received Report on Internal Controls (ROIC) which included two findings. There are two types of findings – material weakness and significant deficiency.

ROIC Finding 11-01

- System (IT) access controls and change controls
- Material weakness
- Significant progress made in current and prior years and IT is committed to addressing consistent implementation and completion.

ROIC Finding 11-02

- Scholarship allowances (adjusts Tuition & Fee revenue and Student Services expenses for financial statement presentation purposes only – based on financial aid used to pay tuition and fees)
- Significant Deficiency that did not affect the bottom line of the financial statements
- Procedures have been revised, training has been provided and report directed to correct database.

Single Audit (SA)

- Federal programs susceptible for testing
- Safe Harbor required 9 additional programs tested in FY 2011 (usually 1 or 2 in addition to federal student aid)
- Cost went from \$56,000 to \$109,200

SA Finding 11-101

- Special Services Assignments were not always certified by a supervisor upon completion of the work due to a malfunction in the automated part of the process
- We have determined that all 2011 assignments have been certified through a manual process
- Manual procedures will continue until email notifications are back on line and until a fully automated process is implemented in HRMS

SA Finding 11-102

- Financial and cash management reports for federal programs should be reviewed and signed prior to submission
- All reports and draws reviewed by the auditors were accurate and no issues were noted
- Greater care will be taken to ensure compliance
- Spot checks will be performed periodically and for the current fiscal year, all reports are in compliance

SA Finding 11-103

- GWCC incubator facility – Davis-Bacon Act requires salaries paid by contractors and subcontractors to be at certain levels as defined by the US Department of Labor
- All payrolls reviewed by the auditors were in compliance
- Facilities Planning & Development has implemented appropriate procedures to ensure compliance
- Spot checks will be performed

Overall Notes for Single Audit Findings

11-101 and 11-102 were noted for multiple programs 11-102 and 11-103 resulted in no questioned costs

Auditor General's
Office

Jay Zsorey, Financial Audit Director for the Auditor General's Office discussed the process for conducting the district's audits. The Auditor General is required under Arizona statute to conduct our financial audit annually or contract for the same. They have chosen to conduct the audit. On behalf of the federal government, they also conduct the Single Audit of federal programs.

Mr. Zsorey discussed the cooperative working relationship between the Auditor General's office and District staff.

Mr. Zsorey explained the independence of the office. The Auditor General is appointed for a multi-year term by the legislature and reports

to the legislature's audit committee. He briefly discussed the findings as Ms. Granio had discussed these in detail during her presentation, and he had added perspective at that time, as appropriate.

Internal Audit &
Management
Advisory Services

Jody Labenz provided an overview of the Internal Audit & Management Advisory Services function. This included the following information:

- Department Overview
- Services Provided
- Quality Assurance Peer Review

Staff:



IAMAS Charter

- Mission
- Scope of Work
- Accountability
- Reporting Relationships & Independence
- Director Responsibilities
- Standards of Audit Practice

Reporting Relationships & Independence

- Reports administratively to VC for Business Services
- Operates under direction of the A&F Committee

Standards of Audit Practice

- Adheres to *International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors*

Authority & Access

- Authority
 - Assess all MCCCDC functions, programs, & control systems
 - Allocate resources to accomplish audit objectives
 - Obtain the necessary assistance of personnel in audited units
- Access
 - Unlimited access to all MCCCDC activities, records, property, and employees
 - Unrestricted access to the Chancellor, VCs, college presidents, the Governing Board, and the A&F Committee

Services Provided

- Internal Audit Projects
 - Internal Control Reviews

- Financial Audits
- Compliance Audits
- Operational Audits
- Investigative Audits
- Information System Audits
- Management Advisory Consulting Services
 - Policy interpretations
 - Financial analyses
 - Process appraisals and improvement teams
 - Anonymous Hotline support
 - District-wide sanitized report distributions
- Internal Control / Fraud Awareness Training

Audit Plan & Authorization Process

- Three-Year Audit Plan
 - Approved annually by A&F Committee
 - Risk assessment based
 - Input from District Office, college administrators, A&F Committee, Auditor General's Office, Risk Management
 - Flexible guide to provide coverage across MCCCCD
- Special Requests & Projects
 - Formal requests from CEC or Governing Board evaluated throughout fiscal year

External Contractor Support

- Pre-qualified list of external CPA & consulting firms
 - Pre-qualification through approved Purchasing processes (Request for Proposals)
 - Contract with firms to supplement IAMAS staff
 - Assist on special project requests

Audit Budgeting & Production

- Budgeted hours established for audit projects
 - Project plan placeholder - 335 hours
- Average 13 – 15 audit projects issued (non cash-count) annually

Audit Projects

- Internal Control Reviews – College Fiscal Offices
- Capital Development – Construction Projects
- Information Systems Security Reviews – SIS Data Security
- Admissions & Records
- Fleet Management
- Performing Art Centers
- Property Control – District-wide
- Athletics
- Public Safety Department – District-wide

Special Requests

- Misappropriated athletic team travel

- Tuition waiver handling
- Student attendance accuracy
- Athletic ticket sale misappropriation
- Study abroad budget issues
- Misuse of assets

Audit Recommendation Follow-up

- 3-month follow-up
- All recommendations maintained in database
- Audit Follow-up Progress Tracking Report
 - Submitted to A&F Committee
 - Inadequate progress
 - A&F Committee discretion to require auditee to attend A&F meeting to review status
 - Escalate to Chancellor & Governing Board

District-wide Sanitized Reports

- Annual sanitized summary of audit reports
- Share issues and best-practice recommendations with college or district-wide implications
- Widely distributed to CEC, vice presidents, deans

Quality Assurance Peer Review

- External quality assurance review – Nov 2011
- Presented to A&F Committee
- **Fully comply** with *IIA International Standards for the Professional Practice of Internal Auditing*
- Recommendations
 - Audit & Finance Committee membership modifications
 - Better monitoring of audit projects for timely completion
 - Conducting post audit surveys of audit customers

Audit & Finance Committee

- A&F Committee Charter
 - Purpose
 - Composition
 - Meetings
 - Responsibilities

Purpose

- Assist the Governing Board's oversight and monitoring:
 - Financial information and reporting
 - Internal control systems
 - Compliance with applicable laws and regulations and MCCCCD policies
 - Risk management
 - Internal and external auditors

Membership Composition

- Evolution of membership composition

- Management based to external community member based
- Financial / Risk Management backgrounds
- Current
 - 2 Governing Board members
 - 4 Community members
 - VC of Business Services (soon to be an additional community member)
 - Community member (Chairperson) / Governing Board member (Vice Chairperson)

Meetings

- Regular quarterly meetings
 - All committee members expected to attend
- Executive Sessions (at least annually)
 - External auditors
 - Internal auditors
 - General counsel
 - Office of Public Stewardship
 - Others as appropriate

Responsibilities

- Financial Statements
- Risk Management, Internal Control, Governance
- Internal Audit Function
- Audit Committee Management, Reporting, Other Responsibilities

Financial Statements

- Quarterly review financial reports
- Track external audit projects
- Annually, review external auditors audit scope
- Annually, review financial statements and external auditors report on internal control

Risk Management, Internal Control, Governance

- Outstanding internal audit recommendations
- As appropriate, review anonymous complaint summary report
- Annually, meet in executive session
 - external auditor
 - internal audit director
 - manager of public stewardship
 - general counsel
 - Exclude committee members who are directly employed by the MCCCCD.
- Review any significant related party transactions.
- Annually, review Maricopa Integrated Risk Assessment (MIRA) reports

Internal Audit Function

- Review and concur in the **appointment**, replacement,

reassignment, evaluation, or dismissal of the **internal audit director**.

- **Annually, review and approve** internal audit's risk-based annual **audit plan**.
- **Periodically, review internal audit charter**, its objectives, budget, and staffing
- **Periodically, review internal auditing's compliance** with the Institute of Internal Auditors' **Standards** for the Professional Practice of Internal Auditing.

Audit Committee Management, Reporting, Other Responsibilities

- As appropriate, review with the CEC and/or the Governing Board
 - any substantive issues that arise with respect to the quality or integrity of the financial statements
- Instruct management to conduct the investigation of any matter brought to its attention within the scope of its responsibilities
- Periodically, review and update this Charter
- Annually, provide a report to the Governing Board describing the Committee's composition, responsibilities and how they were discharged.

Audit & Finance Committee Resource Guide

- New member training
- Activity Calendar
- A&F Committee Charter
- Activity Matrix
- Financial Statement Questions
- Fraud & Responsibilities of A&F Committee
- Executive Session Questions
- IAMAS Charter

CLOSING COMMENTS

Board President Doyle Burke thanked everyone for the presentations and for their participation.

ADJOURNMENT

The retreat adjourned at 11:13 a.m.

Dana G. Saar
Governing Board Secretary