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 MxCCD’s financial activity and the budget. Today’s session would be about what happens once the
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 MCCCD Fiscal Management Policies pertaining to Internal Audit and Management Advisory Services Department Charter
8. A copy of the MCCCD Audit & Finance Committee Charter
10. The Audit & Finance Committee Activity Calendar
11. The Audit & Finance Committee Annual Report for FY 2010-11

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
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 online 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.

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 MCCCD functions, programs, & control systems
  - Allocate resources to accomplish audit objectives
  - Obtain the necessary assistance of personnel in audited units
- Access
  - Unlimited access to all MCCCD 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
    – Flexible guide to provide coverage across MCCCD

• 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 MCCCD 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 MCCC
- 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.

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Dana G. Saar  
Governing Board Secretary