



Arizona Commission for Postsecondary Education

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December 15, 2017

Ms. Debra K. Davenport, Auditor General
Office of the Auditor General
2910 North 44th Street, Suite 410
Phoenix, Arizona 85018

Dear Ms. Davenport,

The Arizona Commission for Postsecondary Education (ACPE) appreciates the opportunity to provide a response to the Audit Report provided by your office that was received on December 8, 2017. Enclosed is the Commission's response to the Audit Report.

The Commission and staff members are committed to continuous quality improvement, transparency, and accountability. We recognize this audit process plays an important role in achieving these goals and also offers a helpful outside view of the agency and our work.

We look forward to completing the final steps of the performance audit.

Sincerely,

Dr. April L. Osborn
Executive Director

CC: Marc Owen, Performance Audit Manager

Enclosures: ACPE Response to the Audit Report

Finding 1: Commission and Oversight Committee should further strengthen 529 program oversight

Recommendation 1.1: The Oversight Committee should review its rating categories and subcategories and determine where additional descriptions of expected performance or measurable standards would be appropriate, and then modify its rating instrument and/or rating guidance accordingly.

Agency Response The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: None required.

Recommendation 1.2: The Commission should develop and implement policies and procedures for regularly assessing, evaluating, and modifying the types of information that the Oversight Committee receives as part of the annual performance review. As part of this process, commission staff should continue to solicit feedback from the Oversight Committee to determine what information would be most useful for its review.

Agency Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Arizona Family College Savings Program Director will continue to solicit feedback from the Oversight Committee members regarding the information they need for performance review as well as throughout the year, and will document the process.

Recommendation 1.3: The Commission should ensure that all provider contracts include provisions that require the providers to participate in an annual performance review and to provide commission staff with performance review reports that contain specified information.

Agency Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: All three program managers have consistently and fully participated in the Annual Provider Review Process. Moreover, the year's calendar of both Oversight Committee Meetings and regularly scheduled liaison phone calls with each of the program managers will continue to focus on preparation for the Annual Provider Review Process. However, Commission staff understand that having participation stipulated in each of the program manager's contract will strengthen the Commission's position. The staff will implement this recommendation when contracts are renewed or when an amendment is proffered.

Recommendation 1.4: The Commission should continue implementing its procedures for verifying that providers have paid the Commission the fee amounts specified in their contracts.

Agency Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The shortage of the fees for a total of less than \$1,600 between 2011 through 2017, as reported in the Preliminary Report Draft, and was the result of a rounding error. In reaction to this situation, the staff has strengthened and thoroughly documented the procedures for monitoring and verifying both asset-based and new account fees due from each of the three providers. This documentation was sent to the Auditors on November 10, 2017.

Recommendation 1.5: The Commission should continue to implement its procedures for reviewing the account balances of 529 beneficiaries on a quarterly basis and further modify its written procedures to designate staff responsible for this task.

Agency Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: These reports are being prepared and reviewed quarterly. Documentation of these procedures, including designation of the staff positions responsible is on file at the Commission. A copy of these procedures was sent to the Auditors on November 20, 2017.

Finding 2: Commission should take steps to better protect confidential and sensitive electronic data

Recommendation 2.1: The Commission should limit staff access to only the confidential and sensitive electronic data needed for their job duties by:

Recommendation 2.1a: Completing its shared drive organization project, including assessing the structure and content of the shared drive, identifying any duplicate content, and removing any unnecessary documents;

Agency Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response Explanation: This project has begun and an outline of the project scope was submitted to the auditors on June 2, 2017.

Recommendation 2.1b: Developing and implementing procedures for protecting its electronic data based on the level of risk associated with the data, including classifying the data as confidential or public, and developing a data classification inventory that is updated regularly;

Agency Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Commission will start a data classification process that identifies and protects sensitive data based on the data's level of risk. Initially, the data will be classified as public or confidential, thereafter data access will be limited to those people who need access to perform their duties. This data classification inventory will be updated regularly.

Recommendation 2.1c: Reviewing staff duties to determine the access staff need to confidential and sensitive electronic data, including access to electronic data from prior years that is not needed for current work; and

Agency Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: Staff duties will be reviewed during the data classification process and the S-drive Organization Project

Recommendation 2.1d: Limiting staff access to confidential and sensitive electronic data based on the results of this review and working with ABOR to implement this access.

Agency Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Commission will limit access based upon the review that is a part of S-drive Organization Project and data classification processes. Additionally the commission will work with ABOR to ensure employees only have access to confidential and sensitive electronic data that is necessary for their work.

Recommendation 2.2: The Commission should develop a formal contract or SLA with ABOR, in accordance with IT best practices and standards for vendor management, that specifies the level of IT services ABOR will provide the Commission. This contract or SLA should include requirements for:

Agency Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Executive Director has requested a meeting with ABOR's Director of Business and Financial Services to review the terms of the Agreement which outlines the services provided and the financial obligations for both sides. The goal of this meeting is to provide contract clarity for both parties.

Recommendation 2.2a: Terminating the network server access of former employees in a timely manner;

Agency Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Commission has been following a set of agreed to procedures with ABOR; however, these were not written down. They have been recorded and were delivered to the Auditors on December 4th.

Recommendation 2.2b: Adequately protecting passwords that provide access to the 529 data stored on ABOR's network servers by more frequently resetting passwords and storing them only in unobservable locations;

Agency Response: The finding of the Auditor General is agreed to and a different method of dealing with the finding will be implemented.

Response explanation: Two of these recommendations present challenges for implementation as proposed. ASU maintains the ACPE's servers and thus, ASU not ABOR, controls the schedule of password resetting. Likewise, a similar challenge exists regarding password retrieval. Again, this is in the hands of ASU. To address this recommendation the Office and Communications Coordinator, along with the ABOR's IT manager will work with ASU to establish an agreeable schedule of password resetting and establish a password retrieval process that meets the intent of this recommendation. Until appropriate systems can be established with ASU, the ACPE business manager will maintain the password protected listing of ACPE staff passwords until such a time that ACPE staff can access the ASU password retrieval system successfully. In regards to storage of passwords in observable locations, the ACPE will put an item on a staff meeting agenda to review password protection policies and all staff will sign an acknowledgement page stating that they have read and understood the policies regarding password protection.

Recommendation 2.2c: Establishing a process for working with ABOR's IT staff for password retrieval if commission staff lose or forget passwords that allow access to the shared drive; and

Agency Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: See explanation for 2.2b

Recommendation 2.2d: Developing and implementing a contingency plan for the electronic data stored at ABOR that includes requirements for saving backup copies off site and testing backup copies more frequently.

Agency Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: During the Executive Director's discussion of terms for a new Service Level Agreement (SLA) with the ABOR Director of Business and Financial Services the requirements regarding frequency and testing of backups will be considered as an element within the new agreement.

Recommendation 2.3: The Commission should develop and implement time frames for when it will notify ABOR's IT administrator to terminate former employee access and a procedure for requesting that passwords be reset.

Agency Response: The finding of the Auditor General is agreed to and a different method of dealing with the finding will be implemented.

Response explanation: The Commission has been following a set of agreed to procedures with ABOR; however, these were not written down. They have since been recorded and were delivered to the Auditors on December 4, 2017. See agency Response Explanation to 2.2b.

Recommendation 2.4: The Commission should discontinue its practice of saving a list of commission staff passwords that is accessible to multiple staff.

Agency Response: The finding of the Auditor General is agreed to and a different method of dealing with the finding will be implemented.

Response explanation: A challenge exists regarding password retrieval. See 2.2.b Agency Response Explanation. Again, this is in the hands of ASU and until an agreement is arranged with ASU, the ACPE Business Manager will be the sole staff member to have these passwords. The Business Manager will maintain the password protected listing of ACPE staff passwords until such a time when ACPE staff can access the ASU password retrieval system successfully.

Recommendation 2.5: The Commission should continue with its plans to:

Recommendation 2.5a: Modify its AzGrants portal contract to require the contractor to submit a SOC or other IT security audit report annually to provide the Commission with assurance that its confidential and sensitive electronic data is safe;

Agency Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: Gold Bridge Partners, Inc. has agreed to provide their SOC annually as a part of their Hosting Agreement and also to provide evidence of back-up quarterly. A copy of the agreement with the changes will be sent to the Auditors on December 15, 2017.

Recommendation 2.5b: Implement a procedure for reviewing the IT security audit information including following up on any IT security concerns identified; and

Agency Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: A policy titled “Procedures for Review and Follow-up on IT Security Concerns” has been written and was sent to the Auditors on November 20, 2017.

Recommendation 2.5c: Amend its contract to require the AzGrants portal contractor to periodically submit evidence that it is complying with the IT security requirements specified in the contract, such as providing documentation of backing up the data weekly.

Agency Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: Gold Bridge Partners, Inc. has amended their “Hosting Work Order Agreement” with language agreeing to complete weekly back-ups of database and master database, complete nightly differential backups of data base, provision of their SOC or Service Organization Control report annually as a part of their Hosting Agreement, and to provide quarterly evidence of weekly back-up. A copy of the agreement changes was sent to the Auditors on December 15, 2017.

Sunset Factor 2: The extent to which the Commission has met its statutory objective and purpose and the efficiency with which it has operated.

Recommendation 1: The Commission should revise and then implement its newly revised cash-handling procedures to:

Recommendation 1a: Require appropriate segregation of duties, including guidance that mail should always be opened with two staff present, that mail should not be opened by the same person who will prepare and make the deposit, and that the electronic mail log should be restricted to only those staff who enter cash receipts into this log;

Agency Response: The finding of the Auditor General is agreed to and a different method of dealing with the finding will be implemented.

Response explanation: When the segregation of duties and the need for a second person for cash handling procedures were identified by the Audit staff members, the ACPE staff quickly and efficiently responded to remedy the issues and to document the procedures. All but one of these issues have been resolved and documentation has been submitted and revised appropriately upon advice from the Audit staff members. The final procedures were uploaded on May 5, 2017 and November 20, 2017. However, the ACPE Business Manager has contacted the GAO liaison who works with internal controls for suggestions regarding the issues of separation of duties to fulfill the electronic cash log separation requirement. Currently CSB approves the deposits. Upon advice of the GAO internal audit team, a copy of the electronic cash log will be attached to deposits submitted in AFIS as the deposit number should be tied to the electronic cash log.

Recommendation 1b: Require that cash deposits be made on the day of collection or, when deposit on the day of collection is impractical, at the end of the business day after monies total \$1,000 or more; and

Agency Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: Policies have been developed following these guidelines and were sent to the Auditors on May 5, 2017.

Recommendation 1c: Include guidance for limiting access to the safe to only those staff who need access for their job duties.

Agency Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: None required. These guidelines have been added to the ACPE Policies and Procedures and were sent to the Auditors on January 20, 2017.

Recommendation 2: The Commission should train staff on cash-handling procedures as needed.

Agency Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: None required. Training will be added to the on-boarding process for the named positions.

Recommendation 3: The Commission should continue to develop and implement written policies and procedures that fully address all aspects of processing loan repayments.

Agency Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: Policy statements are the first step in student loan repayments. Policies, procedures, and Promissory Notes which guide the actions taken by staff were approved by the Commissioners on April 17, 2012, after being reviewed by the Assistant Attorney General. Policies and Promissory Notes were submitted to the Auditors on October 27, 2016 and May 14, 2017, respectively. To further document the process monthly procedures were identified and the final document titled "Repayment Procedures" was sent to the Auditors on August 3, 2017. The Commission staff will add to these procedures an annual review of the documentation and implementation of these loan repayment programs for the purpose of evaluation and program improvement.

Recommendation 4: The Commission should implement its new AzLEAP procedures for auditing participating postsecondary institutions' student records to help ensure that eligible students received the reported disbursement of AzLEAP program awards.

Agency Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The procedures to implement the new audit procedures have been developed. The new procedures will be introduced to the postsecondary institutions in the spring, allowing for the first audit year to be 2016-17.

Recommendation 5: The Commission should work with its Assistant Attorney General to determine whether and when it can make rule changes necessary to update its rules for AzLEAP oversight, including seeking to eliminate any rules that are no longer necessary.

Agency Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: None required.

Sunset Factor 4: The extent to which rules adopted by the Commission are consistent with the legislative mandate.

Recommendation 6: The Commission should work with its Assistant Attorney General to determine whether and when it can make rule changes necessary to update its rules for the 529 program, including eliminating rules that are no longer necessary.

Agency Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: None required.

Sunset Factor 5: The extent to which the Commission has encouraged input from the public before adopting its rules and the extent to which it has informed the public as to its actions and their expected impact on the public.

Recommendation 7: The Commission should continue to implement its newly revised procedures to ensure that meeting minutes are provided to the public within 3 working days as required by open meeting law.

Agency Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: ACPE staff members have documented the process and procedures for all ACPE public meetings including making the public aware of agenda, location, and time of public meetings, preparing the recorded minutes for public access, and providing access to minutes. This document also names the staff position responsible for taking over these activities to ensure follow-through when a staff member is ill or unable to complete all steps. The original version of this document is titled "Public Meeting Procedures" and was sent to the auditors on November 20, 2017.

Sunset Factor 9: The extent to which changes are necessary in the laws of the Commission to adequately comply with the factors listed in this sunset law.

Recommendation 8: The Commission should consult with its Assistant Attorney General to determine the applicability of A.R.S. §15-1852(B)(6), and to make recommendations to the Legislature to eliminate the statute if it is not applicable to the Commission's functions.

Agency Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: None required.