Los Angeles Community College District

Basic Financial Statements and Supplemental Information

June 30, 2014 and 2013

(With Independent Auditors’ Report Thereon)
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

The Honorable Board of Trustees
Los Angeles Community College District
Los Angeles, California:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the Los Angeles Community College District (the District), which comprise the statements of net position as of June 30, 2014, and the related statements of revenue, expenses and changes in net position and the cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated December 3, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District’s internal control. Accordingly, we do not express an opinion on the effectiveness of the District’s internal control.

A deficiency in internal control 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 and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described below that we consider to be significant deficiencies.
FS-14-001: Information Technology

Condition and Context

During our review of the District’s information technology controls during the fiscal year 2007 audit, we identified control weaknesses in the areas of security and change management. These included the sharing of user accounts, extensive super user access, and informal change management processes. These issues were determined to be significant deficiencies in the District’s system of internal controls. During the fiscal year 2014 audit, we evaluated the progress of the controls implemented to remediate the weaknesses identified during the audit.

The District has continued to make progress in remediating the previously identified issues, however control weaknesses have not been fully remediated to a level where general internal controls can be relied upon for audit purposes and the significant deficiencies continued to exist during fiscal year 2014.

The District implemented the Security Weaver tool to control access to the SAP environment, and a formal process for change management and the Mercury Quality Center application to manage its change management process. The District’s IT further limited access to super user accounts identified in the last review however, certain legacy control weaknesses, continue to exist. The sharing of user accounts in the database environment and operating system underlying SAP, extensive administrative access in SAP and weaknesses in the change management process were found during the 2014 audit.

Cause and Effect

During 2006–07, LACCD completed post implementation activities for a new Enterprise Resource Planning System (SAP). In addition, in September 2013, the District implemented an SAP wide update. During both the implementation and the update, certain access controls were not fully implemented and certain duties needed to be shared. While not ideal from a control standpoint, this also is not unusual for organizations that must continue to support business operations as complex systems implementations are being completed. However, weaknesses in the IT controls can significantly compromise both the security and accuracy of the data within a system and it is important that adequate controls are implemented.

With regard to change management, once a system is operational, further changes to the system are usually required to meet the business’ developing needs. Such changes should be subjected to controls as formal as those used in the development or implementation of a new system. If there are weaknesses in managing system changes, the benefits originally gained by controlling the system’s implementation can be quickly lost as subsequent changes are made.

Criteria

A significant deficiency in internal controls is the result of a deficiency in internal controls, or a combination of deficiencies, that adversely affects the entity’s ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. Generally Accepted Accounting Principles such that there is more than a remote likelihood that a misstatement of the entity’s financial statements that is more than inconsequential will not be prevented or detected. We believe the control deficiencies described above continue to represent a significant deficiency in internal controls.
Recommendation

We recommend that management continue to evaluate and define the IT internal controls starting with a baseline of appropriate users that should have administrative and other elevated levels of access within SAP, the underlying database and operating systems. Segregation of duties should be expanded to ensure that each user should be assigned a unique user ID, whenever possible. If Security Weaver is to be used, tighter controls over authorizing the use of administrative accounts should be in place. In the rare cases where user IDs must be shared, controls should be established to monitor their usage. Additionally, controls should be established to periodically review users and their access rights to validate the access rights assigned to users continue to be commensurate with their current job responsibilities. We recommend that the evaluation of the controls and baseline of users and their access rights be completed as soon as possible.

View of Responsible Officials

Last year the District reviewed SAP IT security access to ensure that IT user access is appropriate to their role. The District also reviewed the accounts to validate that privileged users were assigned unique IDs and moved shared IDs to Security Weaver a technology tool that the District used to control and monitor the usage of shared IDs. The District removed Root access from SAP Database access for super users to address segregation of duties issues.

The District agrees with the recommendations and to help implement the recommendation the District has establish a baseline of appropriate IT users and their security levels. The District will continue to conduct periodic a reviews and evaluation of our SAP IT security and monitoring procedures. The District will also be reviewing the IT organizational structure to ensure segregation of duties and assignment of data security responsibilities and make appropriate recommendations as needed for improvement to implement the recommendations.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District’s financial statements are free from 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.

The District’s Response to Findings

The District’s response to the findings identified in our audit is described above. The District’s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.