

University of Arizona

CONCLUSION: The University of Arizona is responsible for preparing its annual financial report, maintaining effective internal controls, and being accountable for its use of public monies. Our Office is responsible for auditing the University's financial statements annually. Since the University is a component of the State of Arizona, the information in its financial statements will also be incorporated in the State of Arizona's Comprehensive Annual Financial Report. A summary of the University's financial statements is presented below.

Based on our audit, we issued our opinions on the University's financial statements and issued a report on internal control and on compliance over financial reporting. The information in the University's fiscal year 2017 financial statements is reliable. Our Office identified internal control weaknesses over financial reporting. The findings are summarized on the next page.

Condensed financial information

Statement of net position—This statement reports all of the University's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Net position is reported in three major categories:

- **Net investment in capital assets**—shows the equity in property, buildings, and equipment.
- **Restricted**—shows the resources that must be used for restricted purposes as specified by donors and other external entities, such as the federal government.
- **Unrestricted**—shows the remaining net position balance after allocating the net investment in capital assets and restricted balances.

Statement of revenues, expenses, and changes in net position—This statement reports all revenues, expenses, and other changes in net position. The increase or decrease in net position indicates whether financial health has improved or deteriorated because of current-year activities. Net position increased by \$156 million, or 16 percent, in fiscal year 2017.

Statement of net position As of June 30, 2017 (In millions)

Assets and deferred outflows	
Current and other assets	\$1,747
Capital assets, net of depreciation	2,072
Deferred outflows of resources	152
Total assets and deferred outflows	3,971
Liabilities and deferred inflows	
Current liabilities	299
Noncurrent liabilities:	
Long-term debt	1,475
Net pension liability	647
Other	110
Deferred inflows of resources	305
Total liabilities and deferred inflows	2,836
Net position	
Net investment in capital assets	730
Restricted	384
Unrestricted	21
Total net position	\$1,135

Statement of revenues, expenses, and changes in net position Year ended June 30, 2017 (In millions)

Revenues	
Tuition and fees, net of scholarship allowances	\$ 654
Grants and contracts	734
State appropriations	245
Auxiliary enterprises, net of scholarship allowances	210
Other revenues	267
Total revenues	2,110
Expenses	
Instruction and academic support	774
Research and public service	486
Institutional support and operation and maintenance of plant	234
Auxiliary enterprises	165
Scholarships and student services	111
Other expenses	184
Total expenses	1,954
Increase in net position	156
Net position—beginning	979
Net position—ending	\$1,135

Understanding the University's financial report

Understanding how to extract information from the University's financial report is important when reviewing financial performance and evaluating future financial decisions. As described below, our Office's financial report user guide and internal control and compliance reports user guide, available at azauditor.gov, help users identify and understand important and useful information in the University's financial report and in our report on internal control and compliance over financial reporting. Specifically:

- **Financial report user guide**—describes key financial information contained in university financial reports and indicates where to find this information. Key components in a financial report include the independent auditors' report, management's discussion and analysis, financial statements, notes to financial statements, and other required supplementary information.
- **Internal control and compliance reports user guide**—describes our internal control and compliance report over financial reporting, which provides information about whether the University has effective internal control procedures and whether it has complied with certain financial-related laws and regulations.

Summary of audit findings and recommendations

We found internal control weaknesses over the University's financial reporting related to its information technology (IT) resources. Our report on internal control and on compliance includes a schedule of findings and recommendations that contains further details to help the University correct the internal control weaknesses summarized below.

University should improve controls over IT resources—The University's IT resources, which include its systems, network, infrastructure, and data, are vital to its daily operations. However, the University did not monitor compliance with existing policies and procedures over its IT resources. Further, the University did not have adequate IT policies and procedures to effectively identify, analyze, and respond to risks that may impact its IT resources; to sufficiently manage access, including preventing, detecting, and responding to unauthorized access; and to provide for the continuity of operations in the event of a disaster, system or equipment failure, or other interruption.

Recommendations

To help identify, analyze, and respond to risks that may impact its IT resources and protect sensitive information; prevent and detect unauthorized access to its IT resources; and ensure university operations can continue in the event of a disaster, system or equipment failure, or other interruption, the University needs to update and implement policies and procedures over its IT resources to ensure they address the following:

- **Oversight**—The University should clearly designate oversight and perform monitoring over its IT internal controls to help ensure that they are in place and followed.
- **Risk-assessment process**—The risk-assessment process should include the identification of risk scenarios, including the scenarios' likelihood and magnitude; documentation and dissemination of results; review by appropriate personnel; and prioritization of risks identified for remediation.
- **Sensitive information**—Security measures should be developed to identify, classify, and inventory sensitive information and protect it.
- **Logging and monitoring**—Key user activity should be logged and monitored, particularly for users with elevated access privileges.
- **Contingency planning**—Policies and procedures should be established for testing IT system software and data backups to help ensure they could be recovered if needed.
- **IT standards and best practices**—IT policies and procedures should be reviewed against current IT standards and best practices, updated where needed, and implemented university-wide, as appropriate.