



A REPORT  
TO THE  
ARIZONA LEGISLATURE

Financial Audit Division

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Management Letter

# University of Arizona

Year Ended June 30, 2003

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**Debra K. Davenport**  
Auditor General

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**STATE OF ARIZONA  
OFFICE OF THE  
AUDITOR GENERAL**

**DEBRA K. DAVENPORT, CPA**  
AUDITOR GENERAL

**WILLIAM THOMSON**  
DEPUTY AUDITOR GENERAL

June 16, 2004

The Arizona Board of Regents

Dr. Peter Likins, President  
The University of Arizona

In planning and conducting our financial statement audit of the University of Arizona and our single audit of the State of Arizona for the year ended June 30, 2003, we performed the following as required by *Government Auditing Standards (GAS)* and Office of Management and Budget (OMB) Circular A-133:

- Considered the University's internal controls over financial reporting,
- Tested its internal controls over major federal programs, and
- Tested its compliance with laws and regulations that could have a direct and material effect on the University's financial statements or the State's financial statements and major federal programs.

There are no audit findings that are required to be reported by GAS and OMB Circular A-133. However, our audit disclosed an internal control weakness that did not meet the reporting criteria. Management should correct this deficiency to ensure that it fulfills its responsibility to establish and maintain adequate internal controls. Our recommendation is described below.

### The University should improve controls over purchasing card program spending

Each year, the University spends millions of dollars for educational supplies and services. For many of these purchases employees used university credit cards to purchase supplies and services, and the University paid the bank issuing the credit card. The purchasing card program was designed to save money by reducing the number of small dollar purchase orders, payments to vendors, and reimbursements to employees.

Because of the large amount of public money involved, it is essential that the University control this spending through enforceable written policies and procedures. However, the University did not adequately control this spending because the written policies and procedures for the purchasing card program had not been updated to reflect program changes. The University's written policies and procedures specifically:

- prohibited transactions over \$5,000,
- encouraged individual departments to establish lower limits if possible,

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- prohibited purchases of restricted items such as capital equipment, travel expenses including lodging, and any purchase requiring a signed agreement, and
- required prior approval for purchases of certain items such as furniture and office supplies.

However, some purchasing card program purchases exceeded the \$5,000 limit. In fact, certain university employees were allowed to make purchases up to \$100,000. Further, exceptions were granted that allowed some employees to purchase items specifically prohibited by the University's existing policies, and in some cases, approvals for exceptions from existing policies were not documented. As a result, 12 of the 20 purchasing card program expenditures tested did not conform to the program's written policies.

The University needs to ensure that the purchasing card program is not abused and that all related university policies are followed for each program purchase. Therefore, the University should:

- Review the current written purchasing card program policies and update them if necessary,
- Formalize procedures to better enforce the program's policies,
- When exceptions to the program's policies are necessary, formalize procedures to review and approve all exceptions.

This letter is intended solely for the information of the Arizona Board of Regents and the University of Arizona and is not intended to be and should not be used by anyone other than the specified parties. However, this letter is a matter of public record, and its distribution is not limited.

Should you have any questions concerning its contents, please let us know.

Sincerely,

Debbie Davenport  
Auditor General

June 3, 2004

Ms. Debbie Davenport  
Auditor General  
2910 North 44<sup>th</sup> Street, Suite 4 10  
Phoenix, AZ 85018

Dear Ms. Davenport

The following is the University of Arizona's response to the Management Letter comments for Fiscal Year 2002/2003.

**Title of Finding:** Control of purchasing card program spending

**Response:**

We concur. While the exception and violation procedures as well as the review processes have been in place and followed within Procurement & Contracting Services, the procedures were not incorporated in the Purchasing Card policy potentially for awareness and utilization by University departments. Procurement & Contracting Services will update and formally adopt the policy and procedures for granting exceptions to the Purchasing Card restrictions as well as documenting the review process and the accompanying violation procedures by June 30.

The Memo of Understanding dated January 2003 between the Financial Services Office (FSO) and Procurement & Contracting Services (PACS) departments that developed a procedure to manage the University P-Card program will be formally issued and published on the respective department's Web site. This memo establishes the source of authority for granting exceptions to the Purchasing Card program, the methods of communication between FSO and PACS and the methods of review of Purchasing Card transactions. This memo also provides the step-by-step Work Flow for using the Purchasing Card as a payment vehicle in lieu of a check disbursement.

Additionally, procedures followed by FSO and PACS to approve exceptions to certain University mandated policy restrictions that apply to the Purchasing Card would be formally adopted as will an overview of the compliance review program for all Purchasing Card transactions by June 30.

If you have any questions, please feel free to contact me, 626-1677.

Mark McGurk  
Comptroller

