



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Report on Internal Control and Compliance

University of Arizona

Year Ended June 30, 2010



Debra K. Davenport
Auditor General

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University of Arizona
Report on Internal Control and Compliance
Year Ended June 30, 2010

Table of Contents	Page
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1
Schedule of Findings and Recommendations	3
Report Issued Separately	
Annual Financial Report	



DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

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**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***

Members of the Arizona State Legislature

The Arizona Board of Regents

We have audited the financial statements of the business-type activities and aggregate discretely presented component units of the University of Arizona as of and for the year ended June 30, 2010, which collectively comprise the University's financial statements, and have issued our report thereon dated October 19, 2010. Our report was modified to include a reference to our reliance on other auditors. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the aggregate discretely presented component units consisting of the University of Arizona Foundation, the University of Arizona Alumni Association, the Law College Association of the University of Arizona, and the Campus Research Corporation as described in our report on the University's financial statements. The financial statements of the aggregate discretely presented component units were not audited by the other auditors in accordance with *Government Auditing Standards*. This report includes our consideration of the results of the other auditors' testing of internal control over financial reporting that are reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the University's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We and the other auditors did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, the other auditors identified a deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Recommendations as item 10-01 that we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free of 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*.

Management's response to the finding identified in our audit is presented on page 3. We did not audit the response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the members of the Arizona State Legislature, the Arizona Board of Regents, university management, and others within the University and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Debbie Davenport
Auditor General

October 19, 2010

University of Arizona
Schedule of Findings and Recommendations
Year Ended June 30, 2010

Component Unit Finding

The other auditors who audited the Campus Research Corporation reported the following significant deficiency.

10-01
Campus Research Corporation
Financial Statement Preparation

Campus Research Corporation, like many nonprofit organizations, has historically relied upon its auditors to draft its annual financial statements and required disclosures as part of the year-end audit process. Upon completion of audit fieldwork management has reviewed and approved any adjustments made to the general ledger, and then the audited financial statements have been subjected to review and approval by management and the organization's Audit Committee prior to issuance.

U.S. generally accepted auditing standards require management be responsible for the preparation of an organization's financial statements and all required disclosures in accordance with U.S. generally accepted accounting principles (GAAP). Accordingly, to comply with these standards an organization must not only have accounting personnel that have expertise in the area of financial reporting standards, but a system in place that ensures on-going training for its personnel in the area of financial reporting and the necessary reference materials or other resources to ensure compliance with financial reporting standards.

While the Organization's accounting personnel possess the level of skill necessary to produce the basic financial statements, they lack the technical expertise needed to ensure compliance with the current reporting standards promulgated in GAAP. Further, the organization does not have the necessary technical reference materials and resources needed to ensure the propriety and completeness of all of the required financial disclosures applicable to its financial statements. We believe these resource limitations would limit the organization's ability to comply with the requirements as outlined and as such would be deemed an internal control deficiency with respect to the financial reporting control.

We acknowledge that this is an element of internal control embodied in the new standards that may be difficult for some organizations to overcome. For many organizations like Campus Research Corporation, financial constraints make it more cost effective to rely on its auditors for this technical expertise. This item was communicated in the previous audits.

Management response: We have an extremely small and limited staff at Campus Research Corporation, but we do provide management monthly and year-end financial reports. Our annual audited financial statements and footnotes are outsourced to our auditors because of the cost/benefit standpoint and our auditors have direct knowledge that aids in preparing the annual audited financial statement package. Our trial balance and financial package is used for basis in the preparation of the annual audited financial statement package.

