



A REPORT  
TO THE  
ARIZONA LEGISLATURE

Financial Audit Division

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Report on Internal Control and Compliance

# University of Arizona

Year Ended June 30, 2013

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**Debra K. Davenport**  
Auditor General

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University of Arizona  
Report on Internal Control and Compliance  
Year Ended June 30, 2013

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

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

**MELANIE M. CHESNEY**  
DEPUTY AUDITOR GENERAL

**Independent Auditors' Report on Internal Control over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Basic 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, 2013, which collectively comprise the University's basic financial statements and have issued our report thereon dated October 11, 2013. Our report includes a reference to other auditors who audited the financial statements of the aggregate discretely presented component units, as described in our report on the University's financial statements. 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. However, the financial statements of the aggregate discretely presented component units were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or compliance associated with the aggregate discretely presented component units.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the University'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 opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University'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 University's basic 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 in the accompanying Schedule of Findings and Recommendations as items 2013-01 and 2013-02 that we consider to be significant deficiencies.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the University's basic 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*.

## **University's Response to Findings**

The University of Arizona's responses to the findings identified in our audit are presented on pages 5 through 6. The University's responses were not subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on them.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Debbie Davenport  
Auditor General

October 11, 2013

University of Arizona  
Schedule of Findings and Recommendations  
Year Ended June 30, 2013

Financial Statement Findings

**2013-01**

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**The University should strengthen access controls for its payroll system**

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Criteria: To help prevent and detect unauthorized use, damage, loss, or modification of programs and data, University policy IS-S702 requires effective payroll system access controls. Effective access controls include maintaining documentation showing that access granted to system users was appropriate for their job responsibilities and properly approved. Further, University policy IS-P702M requires a comprehensive review of user roles every 3 years.

Condition and context: Auditors found two deficiencies in the University's access controls over its payroll system: (1) For 3 of 15 payroll system users selected during our audit, the University could not provide documentation showing the system users' access was appropriate for their job responsibilities and properly approved prior to the users being granted access to the payroll system. (2) The University had not conducted a comprehensive review of payroll system user roles within the last 3 years.

Effect: There is an increased risk of inappropriate use of confidential information by unauthorized users and of financial statement errors when system access is not properly documented and user roles are not regularly reviewed. Although they were not properly documented, auditors determined that the three users were granted appropriate system access based on their job responsibilities.

Cause: The University has designed effective system access controls but these procedures were not followed during the audit period. As a result, the required comprehensive review was not performed. Further, the three payroll system users were given access through alternate procedures and the related supporting documents were not maintained.

Recommendation: To help ensure the University's payroll system is not vulnerable to misuse or abuse by unauthorized users, the University should maintain documentation showing that the access granted to system users was appropriate for their job responsibilities and properly approved. The University should also perform a comprehensive review of all payroll system user roles to ensure user roles remain current and appropriate.

University of Arizona  
Schedule of Findings and Recommendations  
Year Ended June 30, 2013

**2013-02**

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**The University should include all required information in its deposits and investments note disclosure**

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Criteria: Government financial reporting standards require the University to disclose certain investment risks in its notes to the financial statements. As part of their disclosure of investment risks, the University must report for most of its investments the maturity dates and the credit quality ratings provided by rating agencies such as Moody's or Standard & Poor's. In addition, the University must also report a risk when it invests more than 5 percent of its monies in one individual entity.

Condition and context: When classifying its \$753 million of deposits and investments by risk category, the University put \$153 million into the wrong risk categories. As a result, the University did not report maturity dates or credit quality ratings for nearly \$83 million of its investments and the University did not report that \$70 million was invested in one individual entity. Additionally, for 2 of 25 investments tested, the University did not report the correct credit quality rating.

Effect: The University did not originally disclose all of its investment risks. Because of this, the University's investments may have appeared more safe than they actually were. However, after auditors found the errors and omissions, the University made all necessary adjustments to accurately report its investment risks in its notes to the financial statements.

Cause: The University's established procedures were not adequate to ensure that all investments were properly classified by risk category so that all required risk information would be reported.

Recommendation: The University should improve its procedures over the preparation of the required investment risk information included in its notes to the financial statements. Specifically, these procedures should include a more detailed review of the classification of investments by risk category to help ensure that all required risk information is disclosed.

# UNIVERSITY RESPONSE

November 21, 2013

Debra K. Davenport, CPA  
Auditor General  
2910 North 44<sup>th</sup> Street, Suite 410  
Phoenix, Arizona 85018

Dear Ms. Davenport:

The University of Arizona concurs with your findings pertaining to the annual audit of the University's Comprehensive Annual Financial Report for the year ended June 30, 2013. We will implement the recommended procedures to strengthen access controls for the payroll system and to ensure proper disclosure of investment risk information in the notes to the financial statements. Attached are the University's action plans and anticipated implementation dates.

The University would like to express its appreciation of your audit team for their professionalism and guidance throughout the audit process. The audit staff maintained open communications with university staff to ensure the process was efficient and all deadlines were met. If you have any questions or need additional information, please do not hesitate to contact me directly at 520-626-1188.

Respectfully,

Duc Ma  
Assistant Vice President, Financial Services

Enclosure (1)  
Response to Findings

c: Jim Hyatt, Interim Senior Vice President & Chief Financial Officer, Business Affairs  
Mark McGurk, Associate Vice President & Comptroller, Financial Services  
Frank Feagans, Senior Director, Enterprise Applications  
Keith Dommer, Financial Audit Manager, Auditor General Office



Enclosure: Response to Findings  
Debra K. Davenport  
November 21, 2013

**Finding 2013-01:** The University should strengthen access controls for its payroll system.

Management's Response:

Although the University is presently utilizing an Access Provisioning Tool (APT) system for common roles and the JIRA Ticketing system for specialty roles the exceptions found were from the initial conversion when these systems were not in place. The University will perform a comprehensive review of all UAccess Employee user roles and their designees to ensure user roles remain current and appropriate. The approvals notated in this review as well as the documentation contained in JIRA and APT will provide the required supporting documentation. This review will be completed by reviewing the entire population by the end of the next 3-year period.

**Finding 2013-02:** The University should include all required information in its deposits and investments note disclosure.

Management's Response:

The University will enhance its cash and investment reconciliation procedure and review process to ensure that its investment's credit and interest rate risk and concentration of credit risk are appropriately classified in the notes to the financial statements. The University anticipates implementing the enhanced procedure and review process by January 31, 2014.



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**University of Arizona**

Report on Internal Control and Compliance  
Year Ended June 30, 2013

Copies of the University's Report on Internal  
Control and Compliance are available at:  
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