

# University of Arizona

Report on Internal Control  
and on Compliance

Year Ended June 30, 2023



A Report to the Arizona Legislature

Lindsey A. Perry  
Auditor General





The Arizona Auditor General’s mission is to provide independent and impartial information and specific recommendations to improve the operations of State and local government entities. To this end, the Office provides financial audits and accounting services to the State and political subdivisions, investigates possible misuse of public monies, and conducts performance audits and special reviews of school districts, State agencies, and the programs they administer.

## The Joint Legislative Audit Committee

Representative **Matt Gress**, Chair

Representative **Tim Dunn**

Representative **Alma Hernandez**

Representative **Beverly Pingerelli**

Representative **Marcelino Quiñonez**

Representative **Ben Toma** (ex officio)

Senator **Sonny Borrelli**, Vice Chair

Senator **David C. Farnsworth**

Senator **Anthony Kern**

Senator **Juan Mendez**

Senator **Catherine Miranda**

Senator **Warren Petersen** (ex officio)

## Audit Staff

**Melanie M. Chesney**, Deputy Auditor General and Acting Director, Financial Audit Division

**Victoria Fisher**, Manager

## Contact Information

Arizona Auditor General  
2910 N. 44th St., Ste. 410  
Phoenix, AZ 85018-7271

(602) 553-0333

[contact@azauditor.gov](mailto:contact@azauditor.gov)

[www.azauditor.gov](http://www.azauditor.gov)



# TABLE OF CONTENTS

<b>Independent auditors' report</b> on internal control over financial reporting and on compliance and other matters based on an audit of basic financial statements performed in accordance with <i>Government Auditing Standards</i>	1
<b>Schedule of findings and recommendations</b>	3
Financial statement finding	3
<b>Auditor General's comments on University response</b>	a-1
<b>University response</b>	
Corrective action plan	
<b>Report issued separately</b>	
Annual Comprehensive Financial Report	



LINDSEY A. PERRY  
AUDITOR GENERAL

ARIZONA  
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, in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the U.S. Comptroller General, 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, 2023, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated October 10, 2023. Our report includes a reference to other auditors who audited the financial statements of the University of Arizona Global Campus and the financial statements of the aggregate discretely presented component units, as described in our report on the University's financial statements. 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 instances of reportable noncompliance associated with the aggregate discretely presented component units.

### **Report on 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) as a basis for designing 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 or significant deficiencies may exist that were not identified.

## **Report on 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 financial statements. 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and that is described in the accompanying schedule of findings and recommendations as item 2023-01.

## **University response to findings**

*Government Auditing Standards* requires the auditor to perform limited procedures on the University's responses to the finding identified in our audit that is presented in its corrective action plan at the end of this report. The University is responsible for preparing a corrective action plan to address the finding. The University's response and corrective action plan was not subjected to the other auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on it.

## **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.

*Lindsey A. Perry*

Lindsey A. Perry, CPA, CFE  
Auditor General

October 10, 2023



# SCHEDULE OF FINDINGS AND RECOMMENDATIONS

## Financial statement finding

### 2023-01

The University paid \$19,042 for food and beverages, entertainment, and lodging using purchasing cards without complying with purchasing card policies and procedures and documenting how \$12,385 of these purchases were necessary to serve a public purpose and to benefit the University and its constituents, resulting in an elevated risk of misuse of public monies and possible violation of the Arizona Constitution

**Condition**—The University paid for purchasing card purchases without complying with its policies and procedures for 6 of 31 purchasing card purchases we tested totaling \$19,042 of public monies spent on food and beverages, entertainment, and lodging, and also failed to document and explain the public purpose and benefit for 3 of these purchases totaling \$12,385. Specifically, the University paid:

- \$8,198 for food and beverages to host the 2022 American Society of Health-System Pharmacists' Midyear Clinical Meeting Alumni & Friends Reception at a Las Vegas hotel and casino without documenting the public purpose or benefit to the University. The University hosted the reception with the University of Arizona Foundation for a total event cost of \$10,669 with 78 attendees for an average attendee cost of nearly \$137.
- \$4,157 for student lodging during an out-of-state summer research program that was not an allowable purchasing card cost.
- \$2,661 for food and beverages for a banquet at the Arizona Sands Club—of which the University reported to us that \$444 was to purchase alcoholic beverages—without documenting the public purpose or benefit to the University or retaining a required itemized receipt.
- \$2,500 for entertainment costs to hire musicians for 2 events for which it inappropriately used a purchasing card for payment. Further, for 1 event exceeding \$1,000 it failed to complete the required pre-approval document. Specifically, the University spent \$2,000 for unallowed purchasing card costs for a band to perform at the College of Medicine-Phoenix's 10th Anniversary Ball without completing the required performance contract and spent \$500 for unallowed purchasing card costs for a musician to perform at the Andrew Weil Center for Integrative Medicine Fellowship graduation.
- \$1,526 for a team-building event at Top Golf including \$949 for entertainment costs for 3 hours of golf and \$577 for food and beverages without documenting the public purpose or benefit to the University, and the event's agenda did not indicate that required business was conducted or information disseminated. The University hosted the event with 18 attendees for an average attendee cost of nearly \$85.

**Effect**—The University put public monies at risk of abuse, misuse, and fraud and may have misspent \$19,042 of public monies in violation of the Arizona Constitution. Further, when public monies are misspent or misused, fewer monies are available for uses that benefit the University and its constituents.

**Cause**—The purchasing card holders did not always follow the University’s policies and procedures and department supervisors did not always identify the violations. In addition, although the University’s Financial Services Department reported it provided training to a total of 867 new employee cardholders during fiscal year 2023 and it used a risk-based model to monitor purchasing card transactions, such as sampling transactions and reviewing self-reporting policy violations to monitor the large volume of purchasing card transactions to detect improper use of the program, none of the violations we found were included in the University’s Financial Services Department’s monitoring sample.

**Criteria**—State law bans gifts of public monies by universities to individuals and organizations (Arizona Constitution, Art. IX, Sec. 7). Consequently, if the University determines that it is appropriate to purchase food and beverages, entertainment, and lodging for events using public monies, it must evaluate and document how each purchase serves a public purpose and benefits the University. Accordingly, the University’s purchasing card policies and procedures provide its employee cardholders and department supervisors, who are responsible for reviewing and approving purchasing card expenses, guidance on allowable purchasing card uses and purchases.<sup>1</sup> Specifically, the policies require:

- Documentation to support the public purpose and benefit of expenses for food and beverages, entertainment, and lodging, including the related events for which they were purchased.
- Costs to be reasonably low for business entertainment meals and related services payments for events in support of the University’s mission, primarily focused on business relations rather than disseminating information.
- Documentation of the primary purpose of meetings and events focused on business relations or held to conduct University business or disseminate information including the date, location, and number of attendees and their relationship(s) to the University.
- Refraining from purchasing strictly prohibited items, such as alcoholic beverages.
- An original itemized receipt or invoice with each transaction.
- Obtaining and documenting Financial Services Department approval on a performance contract prior to paying independent contractors and entertainers over \$1,000. Further, these entertainment purchases are required to be made through the University’s standard disbursement process rather than a purchasing card.
- Purchasing card payments for lodging costs are limited to University employees on travel status. Any lodging costs for non-employees, such as students, are required to be made through the University’s standard disbursement process rather than a purchasing card.

Further, the University’s purchasing policies and procedures require the University’s Financial Services Department to monitor purchasing card expenses. This includes a self-reporting policy violation form for cardholders to report instances where they used purchasing cards for personal purchases or for purposes against policies that may be completed voluntarily by the employee cardholder, or the University’s Financial Services Department may request its completion upon identifying a violation.<sup>2</sup> Finally, the University’s misuse of assets policy requires misused monies to be reimbursed to the University and allows for administrative or disciplinary sanctions.<sup>3</sup>

**Recommendations**—The University should:

1. Ensure purchasing cardholders and department supervisors follow University policies and procedures that require use of purchasing cards only for authorized purposes necessary for official University business and that benefit the University and its constituents. If the University determines that it is appropriate to purchase food and beverages, entertainment, and lodging for events using public monies, it must evaluate and document how each purchase serves a public purpose and benefits the University.

2. Ensure purchasing cardholders follow University policies and procedures that require them to document how their purchases are necessary to serve a public purpose.
3. Ensure department supervisors follow University policies and procedures that require them to verify policies and procedures are followed when purchasing cardholders obtain goods or services, such as student lodging or entertainment performances/events, and/or that payments are requested through the University's required standard payment process.
4. Adopt and implement a policy to require purchasing card holders and department supervisors to attend a periodic refresher training about the University's purchasing card policies and procedures.
5. Continue to apply procedures to monitor the large volume of purchasing card transactions, such as sampling purchasing card transactions and reviewing self-reporting policy violations. In addition, the University should use data analysis to help detect unallowable purchases and identify suspicious purchasing patterns, vendors, merchant category codes, and amounts.
6. Enforce University policies and procedures requiring the University's Financial Services Department to take appropriate corrective action on purchasing card expenses that do not comply with University policies and procedures, such as employees' repayment of unallowable purchases and suspension or revocation of cardholder privileges.

The University's corrective action plan at the end of this report includes the views and planned corrective action of its responsible officials. We are not required to audit and have not audited these responses and planned corrective actions and therefore provide no assurances as to their accuracy.

This finding is similar to prior-year finding 2022-01 and was initially reported in fiscal year 2021.

---

<sup>1</sup> University of Arizona. PCard Manual. Retrieved 11/3/23 from <https://financialservices.arizona.edu/payments/pcard/manual>.

<sup>2</sup> University of Arizona. Self-Reporting Violations. Retrieved 11/3/23 from <https://financialservices.arizona.edu/payments/pcard/violation-self-report>.

<sup>3</sup> University of Arizona. Misuse of University Assets Policy. Retrieved 11/3/23 from <https://policy.arizona.edu/business-and-finance/misuse-university-assets-policy>





## AUDITOR GENERAL'S COMMENTS ON UNIVERSITY RESPONSE

We appreciate the University's response, including its agreement with this finding's recommendations as provided in its planned corrective action to address them. However, the University's response stating that 5 of the 6 purchasing card purchases identified in this finding were allowable is potentially misleading. As of the date of this report, the University has still not provided us documentation to support how the 3 purchases totaling \$12,385, previously identified in the finding lacking public purpose documentation, served a public purpose and benefit to the University; therefore, the University has not shown how it considered them allowable and in compliance with University policy and the Arizona Constitution's ban on gifting public monies to individuals and organizations—irrespective of the payment method the University used. Further, University purchasing card payments totaled over \$145.5 million, and our recommendations are based on testing a sample of University purchasing card transactions, which identified the need for the University's taking corrective action to improve internal controls over its purchasing card program overall rather than addressing only the potentially unallowable purchases we identified.

# UNIVERSITY RESPONSE



THE UNIVERSITY OF ARIZONA  
**Financial Services**

**FINANCIAL SERVICES**

University Services Building,  
Room 502  
888 North Euclid Avenue  
Tucson, Arizona 85719

520-621-9097

[financialservices.arizona.edu](http://financialservices.arizona.edu)

January 2, 2024

Lindsey A. Perry  
Arizona Auditor General  
2910 N. 44th St., Ste. 410  
Phoenix, AZ 85018

Dear Ms. Perry:

We have prepared the accompanying corrective action plan as required by the standards applicable to financial audits contained in *Government Auditing Standards*. Specifically, for each finding, we are providing you with our responsible officials' views, the names of the contact people responsible for corrective action, the corrective action planned, and the anticipated completion date.

Sincerely,

Stacey Lemos,  
Assistant Vice President and Comptroller, Financial Services

cc: John Arnold, Interim Chief Financial Officer  
Nicole Salazar, Vice President, Financial Services



University of Arizona  
Corrective action plan  
Year ended June 30, 2023

## Financial statement findings

### 2023-01

The University paid \$19,042 for food and beverages, entertainment, and lodging using purchasing cards without complying with purchasing card policies and procedures and documenting how \$12,385 of these purchases were necessary to serve a public purpose and to benefit the University and its constituents, resulting in an elevated risk of misuse of public monies and possible violation of the Arizona Constitution

Contact: Tammy Strom, Director, Accounts Payable, University of Arizona (520) 626-5276

Anticipated completion date: June 30, 2024

#### **Summary Response:**

The University of Arizona has reviewed the findings and the expenditures identified in the findings. After review, though the expenditures were not properly documented, the university determined there was no intentional misuse of university assets.

Five of the six purchases identified within this finding were allowable university expenditures, but the incorrect payment mechanism was utilized. The remaining purchase was due to a vendor error in which they split the billing of the event as requested by the department but incorrectly charged the university PCard rather than the personal credit card that was intended to incur this expense. These funds have been refunded to the university and appropriately addressed to include a PCard Violation and suspension of the PCard.

The university acknowledges the continued requirement for campus compliance and improvement in procurement card policies and procedures. Business tools have been provided, including the [Business Purpose Guide](#) and the [Reasonable Expense Guide](#) to assist in providing the public purpose to support the expenditure. The university will continue with the mission to enhance overall financial policies and usability by transitioning PCard policies into the Financial Services Manual. As requested in prior years, the university PCard Program has undergone a complete overhaul with the transition to the Accounts Payable office, including staffing, training, and the transition to a new PCard banking platform. The university is in the early stages of implementing several new comprehensive PCard Policy training courses and PCard Exam, including a PCard refresher course, along with scheduling in-person and virtual training sessions across campus. As part of the transition to the new banking platform, Cardholders, Reconcilers and Approvers will be required to take the revised PCard Exam inclusive of the New PCard Program training plan.

The university conducts post-transaction sampling of high-risk Merchant Category and Object Codes, representing 10% of transactions involving elevated risk expenditures. The transactions identified in this finding were not included in the sampling. To improve compliance, new measures will be implemented in which PCard(s) will be suspended until an appropriate business purpose or documentation is provided. The university is implementing payroll PCard collections to deduct/collect unallowable PCard expenditures from the cardholder's wages and eliminate delays in repayment from the employee. Additionally, the university will re-evaluate the sampling to ensure it meets the risk-based process requirements for data analysis to enhance the detection of suspicious activity including review of high-

University of Arizona  
Year ended June 30, 2023

risk vendors, merchant category codes, and after-hours purchases. Accounts Payable will review the PCard Violations policies to enforce suspension of cards for lack of documentation and public purpose. Accounts payable will continue to suspend or revoke cardholder privileges in a timely manner and make recommendations to department leadership to take appropriate corrective or disciplinary actions when necessary.

The university will enhance monitoring of competitive purchases and splitting of transactions and continue to conduct monthly compliance sampling for unallowable expenditures and non-compliance with institutional policies.

