Arizona State University

Subject

Arizona State University issues financial statements annually. The University is responsible for preparing financial statements, maintaining strong internal controls, and demonstrating accountability for its use of public monies. As the auditors, our job is to determine whether the University has met its responsibilities.

Our Conclusion

The information in the University's financial statements is fairly stated in all material respects, and the financial statements can be relied on. However, auditors identified internal control weaknesses over payroll expenses and its computer systems, as summarized on pages 1 and 2. This information will also be incorporated in the State of Arizona's *Comprehensive Annual Financial Report*.

2009

Year Ended June 30, 2009

Financial Statement Audit Summary

Lack of Controls over Payroll Expenses—The University's payroll and related expenses comprise over $873 million, or approximately 60 percent, of its total expenses. However, the University lacked strong internal controls to accurately process and record payroll expenses. Our recommendations are presented in the summary below.

Auditor recommendations to improve controls over payroll expenses—

To help ensure payroll transactions are accurately processed and recorded, the University should:

- Establish a comprehensive set of policies and procedures for processing, monitoring, and verifying payroll expenses.
- Ensure that all departments prepare monthly reconciliations of payroll expenses for each employee to the terms of their employment agreements.
- Improve controls over employee payroll to ensure that pay data reflected in the payroll system is supported by the contract, offer letter, or other official documentation maintained in the personnel files. The University could accomplish this by requiring that a second employee verify all payroll data entered in the payroll system.
- Require that the renewal of annual contracts is documented per university and Arizona Board or Regents' policies, and that all pay data documentation is retained.
- Ensure that departments are aware of and follow guidelines for verifying and approving time recorded by employees in accordance with established schedules for processing payroll, and monitor the assignment of payroll processing user roles to ensure that approval authority is limited to the appropriate users.
- Require that departments implement policies and procedures to ensure that leave requests for exempt employees are reviewed and monitored.
- Continue to monitor salary increases and additional pay to ensure their propriety.
- Monitor overpayment listings to ensure accuracy, completeness, and timely collection of overpayments as well as to identify potential internal control weaknesses.
- Adhere to university-established policy by centrally maintaining employee personnel records.

Lack of Controls over Computer Systems—The University processes and stores sensitive student, financial, and personnel data on its computer systems. However, the University lacked sufficient controls over access, program change management, and disaster recovery for these systems. Our recommendations are presented in the summary below.

Auditor recommendations to improve computer system controls—

The University should enforce or establish policies and procedures to help strengthen computer system controls. These policies and procedures should include the following:

For the general ledger system:
- Review system access rights on a continual basis to ensure that access rights are removed or changed when employees terminate, retire, or transfer to a different department within the University.
- Train additional employees to help with program changes for the general ledger system. These employees can help develop and test program changes and review migration requests for propriety before they are submitted to the Technical Operations Support group for implementation.
- Update its disaster recovery contingency plan to develop procedures for backup tape recovery, application disaster recovery, and provide regular updates and notices regarding disk storage requirements.

For the human resources and payroll, and student information systems:
- Develop and implement procedures to monitor user access rights and ensure that employees do not have access with conflicting responsibilities assigned to them.
- Review system access rights on a continual basis to ensure that access rights are removed or changed when employees terminate, retire, or transfer to a different department within the University.
- Monitor all program changes to ensure that all changes are documented, authorized, tested, reviewed, and approved before implementation.
- Regularly review its hosting service contracts and update its disaster recovery contingency plan to ensure that controls identified as necessary to complement the controls at the service organization are implemented.

Condensed Financial Information

Statement of Net Assets—This
statement reports all assets, liabilities, and net assets. Net assets, the difference between assets and liabilities, are reported in three major categories:

- Invested in capital assets, net of related debt, shows the equity in property, plant, and equipment.
- Restricted net assets shows the net resources that must be used for restricted purposes as specified by donors and external entities.
- Unrestricted net assets shows the net resources available to fund general operations.

A condensed Statement of Net Assets is presented to the right.

Statement of Revenues, Expenses, and Changes in Net Assets—This statement reports all
revenues, expenses, and other changes to net assets. Revenues and expenses are reported as either operating or nonoperating. The change in net assets indicates whether financial health has improved or deteriorated as a result of current-year activities. Net assets increased by $58 million in the current year. A condensed Statement of Revenues, Expenses, and Changes in Net Assets is presented to the right.

Condensed Statement of Net Assets June 30, 2009 (In Millions)	
Assets:	
Cash and investments	$ 349
Capital assets, net of depreciation	1,561
Receivables	160
Other assets	12
Total assets	2,082
Liabilities:	
Long-term debt	949
Other liabilities	181
Total liabilities	1,130
Net Assets:	
Invested in capital assets, net of related debt	666
Restricted	120
Unrestricted	166
Total net assets	$ 952

Condensed Statement of Revenues, Expenses, and Changes in Net Assets Year Ended June 30, 2009 (In Millions)	
Operating revenues:	
Tuition and fees	$ 499
Grants and contracts	169
Auxiliary enterprises	131
Other operating revenues	49
Total operating revenues	848
Operating expenses:	
Educational and general	1,205
Auxiliary enterprises	121
Depreciation	94
Total operating expenses	1,420
Operating loss	(572)
Nonoperating revenues and expenses:	
State appropriations	417
Grants, including federal fiscal stabilization funds of $70	172
Other nonoperating, net	41
Net nonoperating revenues	630
Increase in net assets	58
Net assets—beginning of year	894
Net assets—end of year	$ 952

Federal fiscal stabilization funds—For fiscal year 2009, the State of Arizona's
Office of the Governor received Federal American Recovery and Reinvestment Act (ARRA) monies totaling $183 million under the State Fiscal Stabilization Fund Program. Program monies were distributed to the State's universities and community colleges to restore the shortfall of fiscal year 2009 state funding for higher education. The Office of the Governor provided Arizona State University with $70 million of this program's monies. The University used the monies primarily for salaries and benefits to support those faculty members, advisors, and others providing direct services to students. In addition, the monies helped mitigate tuition increases for academic year 2009-10.

INTEGRITY ★ ACCOUNTABILITY ★ MAKING A DIFFERENCE

Arizona State University

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FINANCIAL STATEMENT AUDIT
Year Ended June 30, 2009