

# University of Arizona

Report on Internal Control  
and on Compliance

Year Ended June 30, 2022



A Report to the Arizona Legislature

Lindsey A. Perry  
Auditor General





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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, 2022, 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 28, 2022. 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. 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. 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and that are described in the accompanying schedule of findings and recommendations as item 2022-01.

## **University response to findings**

*Government Auditing Standards* requires the auditor to perform limited procedures on the University's responses to the findings identified in our audit that are presented in its corrective action plan at the end of this report. The University is responsible for preparing a corrective action plan to address each finding. The University's responses and corrective action plan were not subjected to the other 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.

*Lindsey A. Perry*

Lindsey A. Perry, CPA, CFE  
Auditor General

October 28, 2022



# SCHEDULE OF FINDINGS AND RECOMMENDATIONS

## Financial statement finding

### 2022-01

The University paid \$63,455 for lodging, event food and beverages, and other items using procurement cards without complying with procurement card policies and procedures and/or documenting how 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**—Contrary to its procurement card policies and procedures, the University did not comply with procurement card policies and procedures and/or failed to document and explain the public purpose and benefit prior to making 8 of 32 procurement card purchases we tested totaling \$63,455 of public monies spent on lodging, event food and beverages, and other items it purchased using procurement cards during fiscal year 2022. In addition, these purchases did not comply with other University procurement requirements. Specifically, the University spent:

- \$46,191 for lodging and food and beverages for 3 athletic program events, which were split into smaller purchases that circumvented both the maximum procurement card purchase limit of \$10,000 and the University's purchase threshold of \$10,000 requiring competitive purchasing procedures.
- \$13,924 for food and beverages to cater the Wildcat Club's Fall 2021 season kickoff event, without having the required policy waiver for catered events exceeding \$750.<sup>1</sup>
- \$2,347 for food and beverages to cater a retirement event, without having the required policy waiver for catered events exceeding \$750. Further, the University paid a meal price of \$43 per person for this event, exceeding the University's allowable \$25 per person meal limit by \$18 per person.
- \$850 in unauthorized gift card purchases and student incentives.<sup>2</sup>
- \$118 for an employee recognition award that did not meet the eligible criteria and a \$25 donation that was specifically not allowed by University policies and procedures for procurement card purchases.<sup>3</sup>

**Effect**—The University put public monies at risk of abuse, misuse, and fraud and may have misspent \$63,455 of public monies in violation of the Arizona Constitution.

**Cause**—During fiscal year 2022, the University had not provided procurement card trainings for procurement card users and the supervisors who were responsible for reviewing procurement card purchases and ensuring compliance with policies and procedures. During this time frame, the University had a combined 37 percent turnover among employee procurement card holders and Department supervisors who were responsible for the reviews.

**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 using public monies, it must document how each purchase serves a public purpose

and benefits the University. Additionally, the University's procurement card policies and procedures provide its employee procurement card holders and department supervisors guidance on allowable procurement card uses and purchases. They specifically prohibit any purchase over \$10,000 being made using procurement cards, and \$10,000 is the University's purchase threshold requiring competitive purchasing procedures to help ensure the University receives the most advantageous price for the goods and services it purchases. The policies and procedures also prohibit the splitting of purchases to intentionally circumvent these requirements and, accordingly, subject employee procurement card holders who violate them to disciplinary action and penalties, including repayment to the University for unallowable purchases. Further, the policies and procedures generally restrict food and beverage purchases to certain activities, such as research, training, and medical treatment of patients, unless a policy waiver is obtained for planned campus events with food costs exceeding \$750. These policies also require advance approval and/or justification for expenses greater than those allowed by policy. Further, the policies and procedures specifically disallow purchases of employee service and achievement awards that do not meet eligible criteria, such as years of service, or gifts and donations of any kind.

**Recommendations**—The University should improve its procurement card policies and procedures to require:

1. Periodic training for employee procurement card holders and department supervisors on its policies and procedures that provide guidance on determining and documenting allowable procurement card uses and purchases and ensure that all new staff receive training.
2. Monitoring for riskier procurement card purchases to detect unallowable purchases including identifying split purchases, catering exceeding allowable limits, gift cards, and suspicious purchasing patterns, vendors, and amounts.
3. Timely and appropriate corrective or disciplinary actions, as appropriate, to restrict an employee's procurement card purchasing ability when an employee fails to follow procurement card policies and procedures, such as reducing credit limits, revoking procurement card privileges, and requiring repayment of unallowable purchases.

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.

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<sup>1</sup> The University's procurement card policies and procedures allow for pre-authorized card enhancements through options selected on the card application or through an approved change form. The procurement card used to pay for the \$13,924 catered event had an enhancement to exceed the standard card purchasing limit of \$10,000 and the University's purchase threshold of \$10,000 requiring competitive purchasing procedures.

<sup>2</sup> A University procurement card holder purchased \$800 in Amazon gift cards for alleged personal use. The University detected the noncompliance with its procurement card policies and took disciplinary and corrective actions, including terminating the employee, filing a police report, and recovering the money from Amazon.

<sup>3</sup> The University's procurement card policies and procedures allow employee recognition awards with restrictions. For example, expenditures for retiree farewells are allowable only if the retiree has been continuously employed at the University for a period of no less than 10 years. A procurement card holder purchased a \$118 retiree farewell gift for an employee with only 7 years of service. In addition, although donations are expressly prohibited by university procurement card policies, a procurement card holder thought the payment was for an entrance fee and unknowingly made a \$25 donation to the Humane Society of Southern Arizona while entering a canine officer in an event. The University took corrective action and recovered the monies.

# UNIVERSITY RESPONSE





THE UNIVERSITY OF ARIZONA  
Financial Services

**FINANCIAL SERVICES**

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December 22, 2022

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 accountable for corrective action, the corrective action planned, and the anticipated completion date.

Sincerely,

Stacey Lemos  
Assistant Vice President and Comptroller, Financial Services

cc: Lisa Rulney, Senior Vice President and Chief Financial Officer, Business Affairs  
Nicole Salazar, Vice President, Financial Services



University of Arizona  
Year ended June 30, 2022

## Financial statement findings

### 2022-01

The University paid \$63,455 for lodging, event food and beverages, and other items using procurement cards without complying with procurement card policies and procedures and/or documenting how 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.

**Summary Response:** The University determined that all funds indicated in the finding were appropriately spent or already collected, and we issued violations for all instances noted above.

The University acknowledges the need to improve campus compliance with procurement card policies and procedures. To address this need, the University will enhance its procurement card policies by consolidating them within the Financial Services Manual policies and providing a comprehensive policy and procedure training program, targeting procurement card holders, liaisons, approvers, and reconcilers.

The University will review and update its procurement card policies and procedures to reflect such areas as increased spending policy thresholds due to the post-pandemic inflationary environment and retiree recognition length of service allowability aligned with early retirement eligibility outlined in Arizona Revised Statutes (A.R.S) section 38-758.

The University will continue its risk-based procurement card compliance monitoring approach, which has been in practice since 2013 to detect unallowable purchases and non-compliance with policies and procedures. The University conducts a post-transaction sampling of 10% of transactions involving elevated risk expenditure categories which is how we found the unallowable purchase of Amazon gift cards and took appropriate action, as noted in footnote 2 of the finding. The University will evaluate further refinement to the compliance sampling and monitoring, such as considering purchase descriptions and the frequency of a given transaction based on account and Merchant Category Codes. The University is also planning to implement a new, modern financial system to improve the ability of business offices to collect, report, and analyze data necessary for decision-making. When implemented, the new system will simplify and streamline critical business processes and deliver efficiencies in meeting regulatory and compliance needs.

The University will continue to monitor competitive purchasing procedures, prohibit the splitting of purchases, and conduct monthly compliance sampling of unallowable expenditures and non-compliance with institutional policies. Additionally, the University will continue to act swiftly to apply timely and appropriate corrective or disciplinary actions when we discover non-compliance with policies and procedures. As noted in the footnotes of the finding, disciplinary and corrective actions were taken in these situations.

University of Arizona  
Year ended June 30, 2022

University contact personnel:

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

Anticipated completion date: July 2024

The University included the corrective action plan for financial statement findings in the separately issued 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*.

