



A REPORT  
TO THE  
ARIZONA LEGISLATURE

Financial Audit Division

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Management Letter

## University of Arizona

Year Ended June 30, 2002

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**Debra K. Davenport**  
Auditor General

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

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

**WILLIAM THOMSON**  
DEPUTY AUDITOR GENERAL

March 17, 2003

The Arizona Board of Regents

Dr. Peter Likins, President  
The University of Arizona

**Subject: Management Letter**

In planning and conducting our financial audit of the University of Arizona and our single audit of the State of Arizona for the year ended June 30, 2002, we performed the following as required by *Government Auditing Standards* (GAS) and Office of Management and Budget (OMB) Circular A-133:

- Considered the University's internal controls over financial reporting,
- Tested its internal controls over major federal programs, and
- Tested its compliance with laws and regulations that could have a direct and material effect on the University's financial statements or the State's financial statements and major federal programs.

There are no audit findings that are required to be reported by GAS and OMB Circular A-133. However, our audit disclosed an instance of noncompliance with laws and regulations that does not meet the reporting criteria. Management should correct this deficiency to ensure that it fulfills its responsibility to comply with laws and regulations. Our recommendation concerning this matter is described below.

**The University should follow Arizona  
Board of Regents' investment policies**

During the year ended June 30, 2002, the University used general operating funds to enter into securities lending transactions, which is not authorized by current Arizona Board of Regents policy. As of June 30, 2002, the University lent \$69.9 million of general operating funds securities in exchange for \$70.5 million cash collateral. The trustee invested the University's cash collateral in an investment pool that contained domestic and foreign bank obligations, commercial paper, and foreign asset-backed securities and debentures, which are more subject to risk than other investments allowed by the Board.

The University should prudently invest public monies designated for operations only in the most secure instruments, as directed by the Arizona Board of Regents.

Dr. Peter Likins, President  
March 17, 2002  
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This letter is intended solely for the information of the Arizona Board of Regents and the University of Arizona and is not intended to be and should not be used by anyone other than the specified parties. However, this letter is a matter of public record, and its distribution is not limited.

Should you have any questions concerning its contents, please let us know.

Sincerely,

Debbie Davenport  
Auditor General

The University of Arizona  
Financial Services Office  
(520) 621-3220  
FAX: (520) 626-6583

THE UNIVERSITY OF  
**ARIZONA**  
TUCSON ARIZONA

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888 N. Euclid Ave., Rm. 502  
P.O. Box 3310  
Tucson, AZ 85722-3310

February 27, 2003

Ms. Debbie Davenport  
Auditor General  
2910 North 44<sup>th</sup> Street, Suite 410  
Phoenix, AZ 85018

Dear Ms. Davenport:

The following is the University of Arizona's response to the Management Letter comments for Fiscal Year 2001/2002.

**Title of Finding:** Securities Lending

**Response:**

We concur. The University of Arizona stopped engaging in securities lending for the general operating funds as soon as this issue was brought forward by the auditors. We will not initiate securities lending for the general operating funds again until authorized by Arizona Board of Regents. Securities lending is currently authorized by the State for State general operating funds. If the Arizona Board of Regents does authorize securities lending, the University will use a more restricted cash collateral investment pool that would contain only the types of investments that are authorized by ABOR.

If you have any questions, please feel free to contact me, 626-4176.

Sincerely,

Charles E. Ingram  
Assistant Vice President for Financial Services

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