

Arizona Board of Regents

48-Month Followup of Sunset Review Report 21-105

The June 2021 Arizona Board of Regents (ABOR) sunset review was the third of 3 reports of ABOR we issued as part of its sunset review.¹ This sunset review found that ABOR has established processes related to several of its statutory responsibilities we reviewed but can improve its effectiveness in other areas, including discussing the universities' significant risk areas and plans for addressing these risks. We made **5** recommendations to ABOR.

ABOR's status in implementing 5 recommendations

Implementation status	Number of recommendations
<input checked="" type="checkbox"/> Implemented	5 recommendations

Unless otherwise directed by the Joint Legislative Audit Committee (JLAC), this report concludes our followup work on ABOR's efforts to implement the recommendations from the June 2021 sunset review report.

¹ The first performance audit found that statute authorizes ABOR to own and lease its property, but ABOR's lack of written guidance for implementing its real estate policies and approving commercial subleases increases the risk of inappropriate use of public resources leased to private parties, and the operation of some ABOR property lacked oversight and accountability. The second audit found that the universities have not consistently followed ABOR's guidelines governing university relationships with affiliated organizations. For more information on these performance audits, including any applicable followup reports, see Reports 19-115 and 21-103.

Recommendations to ABOR

Sunset Factor 2: The extent to which ABOR has met its statutory objective and purpose and the efficiency with which it has operated

1. ABOR should develop a process for regularly reviewing the significant risks identified by the universities, including receiving and reviewing information on the universities' plans for mitigating or minimizing significant risks and the effectiveness of those plans, and evaluating the universities' preparedness to respond to significant risks.

► Status: **Implemented at 48 months.**

As reported in our 18-month followup, in February 2022, ABOR developed policies that require the chief risk officers of each of the 3 universities to annually present a description of the processes used by the university to organize and manage enterprise risk, assign responsibility for risk areas, and monitor and mitigate or remedy risk areas to ABOR's Audit and Risk Management Committee (ARM Committee). According to the policy, the annual presentation must include areas of risk that have been identified for the past and current year and university leadership involvement and actions related to risk areas such as internal controls over financial reporting, reports on significant findings, recommendations, and management responses.

During ARM Committee meetings in June 2024 and May 2025, the 3 universities provided information on their enterprise risk-management approaches, including plans for mitigating or minimizing identified significant risks, and the ARM Committee discussed the effectiveness of those plans. Risk areas the 3 universities identified included information technology security, campus safety, and university-affiliated organizations.²

In addition to implementing the recommendation to establish a process for regularly reviewing the significant risks identified by the universities, ABOR also revised some of its financial oversight processes in response to significant financial risks at the University of Arizona (UA) that UA did not identify and that ABOR's oversight processes did not initially detect.

Specifically, UA did not timely report to ABOR, nor did ABOR's financial oversight processes initially identify significant financial risks at UA, including a reduction in UA's cash reserves below ABOR's minimum required amount, as follows:

² As reported in our 48-month followup of our June 2021 performance audit of ABOR—University Affiliated Organizations, our review of the ARM Committee's May 2025 meeting agenda and minutes found that it scheduled and adjourned to executive session for a review and discussion regarding risk management related to component unit affiliates for each university.

- During ABOR's June 2023 Finance, Capital, and Resources committee meeting, UA presented its fiscal year 2024 annual operating budget. During this presentation, UA did not identify any potential financial concerns but rather estimated that it would have 152 days of cash on hand at the end of fiscal year 2024—9 days more than ABOR's minimum required days of cash on hand.³
- UA did not include any information regarding potential financial risks in its June 2023 enterprise risk-management report to ABOR's Audit Committee.
- Approximately 5 months later, during ABOR's November 2023 University Governance and Operations Committee meeting, UA outlined several challenges to its financial health, most notably mistaken estimates, accounting adjustments, and overspending, which resulted in a significant downward adjustment of its cash reserves.⁴
- ABOR later disclosed further details about UA's financial issues, including information indicating that UA was already experiencing significant financial risks at the time of its June 2023 presentations to ABOR's Finance, Capital, and Resources and Audit committees.⁵ For example, ABOR reported that from fiscal year 2022 to fiscal year 2023, UA experienced a decline of \$140 million in cash and investments as a result of accelerated spending. As a result, as of June 30, 2023, UA's fiscal year ending balance of unrestricted cash and short-term investments amounted to 110 days of cash on hand, more than 30 days or approximately \$200 million below ABOR's minimum requirement.⁶

According to ABOR, weak monitoring controls and inaccurate forecasting within UA initially masked these issues. However, when it became aware of UA's financial issues in November 2023, it required UA to submit a written corrective action plan to ABOR by December 15, 2023, outlining the steps it would take to rebuild its cash reserves and ensure proper controls were in place.⁷ UA submitted its corrective action plan in December 2023, and as of June 2025, UA reported it had improved its days of cash on hand by approximately 10 days.

Finally, according to ABOR's February 2024 Oversight Report and April 2024 Board meeting, ABOR also revised its university financial oversight policies and procedures to increase its awareness and earlier detection of financial fluctuations across the entire Arizona university system. These changes include various requirements for reporting to

³ Days Cash on Hand is a financial metric that calculates the number of days an entity can continue its operations using only its available cash reserves, without relying on additional revenue or financing. As of June 2023, ABOR's days of cash on hand target range was 143 to 239 days.

⁴ Arizona Board of Regents University Governance and Operations Committee (2023). *Minutes of the University Governance and Operations Committee—November 2, 2023*. University Governance and Operations. Retrieved 3/14/2024 from <https://azregents.sharepoint.com/sites/ABORPublic/Committee/University%20Governance%20and%20Operations/Shared%20Documents/Forms/AllItems.aspx?id=%2Fsites%2FABORPublic%2FCommittee%2FUniversity%20Governance%20and%20Operations%2FShared%20Documents%2FAPPROVED%2D11%2D02%2D2023%2DUGO%2DCommittee%2DMeeting%20Minutes%2Epdf&parent=%2Fsites%2FABORPublic%2FCommittee%2FUniversity%20Governance%20and%20Operations%2FShared%20Documents&p=true&ga=1>

⁵ Arizona Board of Regents (2024). *Enhanced Financial Oversight Report—February 9, 2024*. Retrieved 9/03/2024 from https://www.azregents.edu/sites/default/files/2024-02/Arizona_Board_of_Regents-Enhanced_Financial_Oversight_Report-February_9_2024.pdf

⁶ The February 2024 Oversight Report cited several factors contributing to these financial challenges, including decentralized budgeting, decreased revenues, costly investments, increasing athletics costs, inflation, and the COVID-19 pandemic.

⁷ ABOR November 2023 Governance and Operations Committee meeting minutes.

ABOR; a new financial liquidity measure policy that includes baselines for the measure, and guidance for when and how to calculate the measure; and instituting an annual review of each university's financial planning, financial analysis, budgeting, and other appropriate financial processes. According to ABOR policy, the annual review will include a university self-assessment and an outside review performed by ABOR and staff from 1 of the other 2 Arizona universities.

JLAC has directed our Office to conduct ABOR's next sunset review, which we initiated in August 2025 and is due by October 1, 2026. As part of ABOR's sunset review, we will evaluate ABOR's implementation of its revised financial oversight policies and procedures.

2. ABOR should complete development of and implement its policy review process to assess its policies for continued relevance and effectiveness.

▶ Status: **Implemented at 18 months.**

Sunset Factor 3: The extent to which ABOR serves the entire State rather than specific interests

3. ABOR should follow its revised conflict-of-interest process that requires its staff to annually file a disclosure statement.

▶ Status: **Implemented at 6 months.**

4. ABOR should revise its conflict-of-interest disclosure statement form to require staff to disclose outside employment that conflicts with their official duties.

▶ Status: **Implemented at 6 months.**

5. ABOR should provide its conflict-of-interest training annually to all staff and Board members.

▶ Status: **Implemented at 6 months.**