

**REPORT
HIGHLIGHTS**
FINANCIAL STATEMENT AUDIT

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 upon. However, auditors identified internal control weaknesses over its computer systems and payroll processing as summarized on this page. This information will also be incorporated in the State of Arizona's *Single Audit Reporting Package*.



2008

Year Ended June 30, 2008

The University Should Strengthen Controls Over its Computer Systems and Processing of Payroll Expenses

On July 1, 2007, the University implemented a new human resources and payroll system. However, when developing and implementing this system, the University did not take the steps and time necessary to ensure that the system functioned properly, that a comprehensive set of policies and procedures was in place, that employees were fully trained, and that data was accurately transferred from the old system to the new system. Specific problems encountered included the following:

- Reports needed by university departments to reconcile payroll expenses did not exist for a period of time after implementation.
- Timesheets for some employees were approved centrally with no verification of the actual hours worked.
- Safeguards for processing certain additional pay above employees' regular pay or contract terms were inadequate.
- Contract employees' pay was sometimes calculated inaccurately.
- Complications occurred when converting employees' pay from a semi-monthly pay cycle to a bi-weekly pay cycle.
- Salary increases were not reviewed by the Office of Human Resources to ensure compliance with university policy.
- Automated checks to prevent unusual payroll transactions from being processed without review and approval were not initially implemented.

- Payments were made to some terminated employees.

Consequently, the University did not always pay its employees the correct salaries and wages, and identified at least \$2.4 million in overpayments to employees for the year. While the University recovered most of these overpayments, it referred overpayments to some former employees to collection agencies. Also, documentation provided by the University indicated that some overpayments to employees may have been forgiven, which could result in a gift of public monies in violation of Arizona Constitution, Article 9, Section 7.

In addition, the University did not have adequate controls over security, access, and program changes for its new human resources and payroll system and its student information system. Finally, the University did not have adequate controls over its financial accounting system to protect it against data loss and unauthorized access and changes, and to ensure operations could continue and information could be recovered in the event of a disaster.

The University has implemented procedures to correct the majority of these deficiencies during fiscal year 2009.

The University's Condensed Financial Information

Condensed Statement of Net Assets As of June 30, 2008 (In Millions)

Assets	
Current	\$ 176
Noncurrent, other than capital	211
Capital assets, net	<u>1,529</u>
Total assets	<u>1,916</u>
Liabilities	
Current	187
Noncurrent	<u>835</u>
Total liabilities	<u>1,022</u>
Net Assets	
Invested in capital assets, net of related debt	726
Restricted	141
Unrestricted	<u>27</u>
Total net assets	<u>\$ 894</u>

Revenues and Expenses For the Year Ended June 30, 2008 (In Millions)

Operating Revenues	
Tuition and fees	\$ 437
Grants and contracts	162
Sales and services	184
Other	<u>11</u>
Total operating revenues	<u>794</u>
Nonoperating Revenues	
State appropriations	483
Grants and contracts	79
Other	<u>115</u>
Total nonoperating revenues	<u>677</u>
Total revenues	<u>\$1,471</u>
Operating Expenses	
Educational and general	\$1,183
Auxiliary enterprises	127
Depreciation	<u>83</u>
Total operating expenses	<u>1,393</u>
Nonoperating Expenses	
Interest on indebtedness	37
Other	<u>37</u>
Total nonoperating expenses	<u>74</u>
Total expenses	<u>\$1,467</u>

The University's financial information is presented in three financial statements: Statement of Net Assets; Statement of Revenues, Expenses, and Changes in Net Assets; and Statement of Cash Flows. The University's discretely presented component units are not included in the condensed financial information that follows.

Statement of Net Assets

The Statement of Net Assets reports all of the University's assets and liabilities using the accrual basis of accounting, which is similar to the accounting that most private-sector institutions use. Net assets, which is the difference between assets and liabilities, includes three major categories. The first category, invested in capital assets, net of related debt, shows the University's equity in property, plant, and equipment. The next category, restricted net assets, shows the amount of net resources available for certain university expenditures. These net assets must be used for purposes determined by donors and external entities that have placed purpose restrictions on their use. The third category, unrestricted net assets, shows the net resources available to the University to fund other general operations. The summary to the left presents a condensed Statement of Net Assets as of June 30, 2008.

Statement of Revenues, Expenses, and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets presents the University's operating and nonoperating revenues and expenses, and the resulting change in net assets. Operating revenues and expenses are those that generally result from exchange transactions generated from providing instructional, research, and public and auxiliary services. All other revenues and expenses, such as state appropriations, nonexchange grants, and interest on indebtedness, are considered nonoperating. The change in net assets indicates whether the University's financial health has improved or deteriorated as a result of current-year operations. For the current year, the University's net assets showed an increase of \$4 million. The summary to the left presents the University's revenues and expenses for the year ended June 30, 2008.

Revenues

Between fiscal years 2006 and 2008, the University's total revenues have increased by \$299 million, or 26 percent. As shown in the chart to the right, the change primarily resulted from increases in state appropriations, tuition and fees, grants and contracts, and other revenues. State appropriation revenues increased by \$114 million, tuition and fees revenues increased by \$88 million, grants and contracts revenues increased by \$30 million, sales and services increased by \$40 million, and other revenues increased by \$27 million during the 2-year period. These changes primarily resulted from operating appropriation increases of \$100 million to support various initiatives, including student enrollment growth and student retention, and appropriation increases for capital related debt of \$14 million, increased rates for tuition and fees, and increases in grant award revenue amounts.

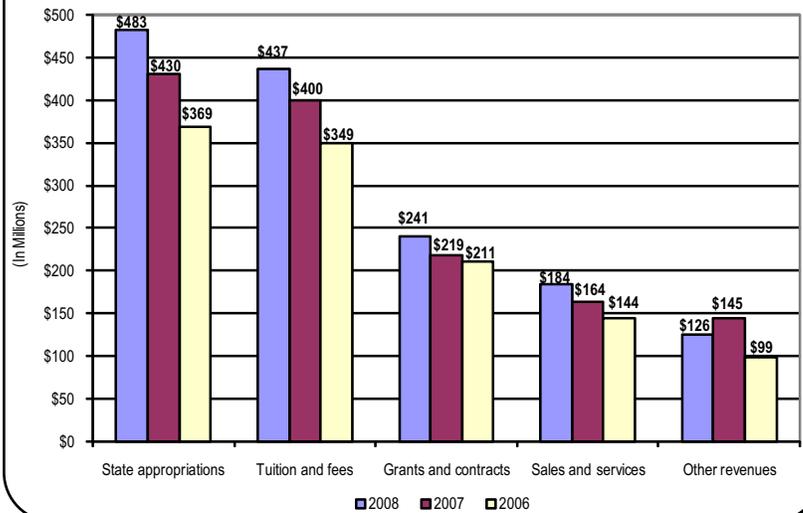
Expenses

Between fiscal years 2006 and 2008, the University's total expenses have increased by \$301 million, or 26 percent. As shown in the chart to the right, the change primarily resulted from increases in salaries and benefits, and supplies and services expenses. Salaries and benefits increased \$144 million, and supplies and services increased \$101 million during the period. These changes primarily resulted from increased staffing and rising salaries and related employee-benefit costs, along with operating expense increases primarily related to the research and instruction missions, and increases in services provided to students.

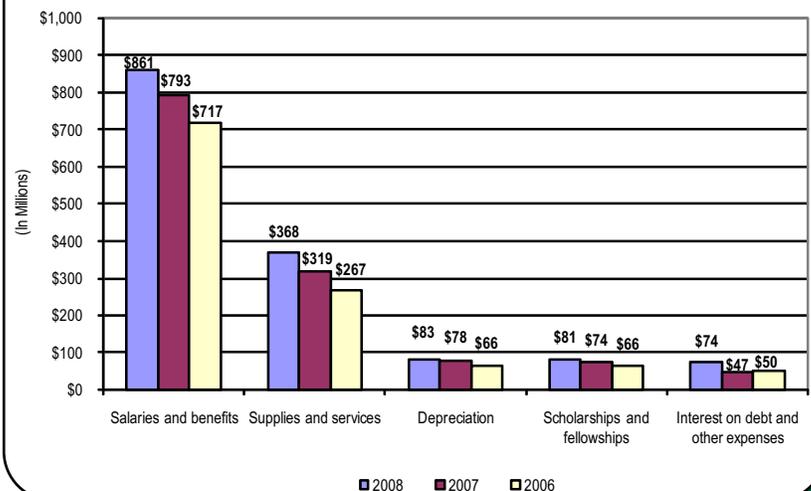
Statement of Cash Flows

The Statement of Cash Flows provides information about cash receipts and cash payments during the year. This statement helps users assess the University's ability to generate net cash flows to meet its obligations as they come due and the need for external financing. The table to the right shows the net cash flows from each of the University's major activities for the year ended June 30, 2008.

Revenues
For the Years Ended June 30, 2008, 2007, and 2006



Expenses
For the Years Ended June 30, 2008, 2007, and 2006



Cash Flows
For the Year Ended June 30, 2008
(In Millions)

Cash flows from:	
Operating activities	\$(483)
Noncapital financing activities	622
Capital and related financing activities	(259)
Investing activities	<u>61</u>
Net decrease in cash and cash equivalent investments	<u>\$ (59)</u>

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