

Arizona State University

Report on Internal Control
and on Compliance

Year Ended June 30, 2022



A Report to the Arizona Legislature

Lindsey A. Perry
Auditor General





The Arizona Auditor General's mission is to provide independent and impartial information and specific recommendations to improve the operations of State and local government entities. To this end, the Office provides financial audits and accounting services to the State and political subdivisions, investigates possible misuse of public monies, and conducts performance audits and special reviews of school districts, State agencies, and the programs they administer.

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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 Arizona State University 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 31, 2022. Our report includes a reference to other auditors who audited the financial statements of the Thunderbird School of Global Management, the Bermuda Institute of Ocean Sciences, and the aggregate discretely presented component units, as described in our report on the University's financial statements. However, the financial statements of the aggregate discretely presented component units, except for those of ASU Preparatory Academy, Inc., 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 that are reported on separately by those auditors.

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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and that is 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 response to the finding identified in our audit that is presented in its corrective action plan at the end of this report. The University is responsible for preparing a corrective action plan to address the finding. The University's response 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 31, 2022



SCHEDULE OF FINDINGS AND RECOMMENDATIONS

Financial statement finding

2022-01

Former employee made unallowable purchases totaling over \$95,000, which was possible because of the University's inconsistent enforcement of procurement card policies and procedures, resulting in potential misuse of public monies

Condition—The University's Audit and Advisory Services Department (Internal Audit) discovered and reported to us that a former employee made unallowable purchases while employed with the University totaling over \$95,000 using a University procurement card between January 2018 and December 2021 that the University paid for. Internal Audit discovered these unallowable purchases in December 2021 after performing data analytics that flagged the purchases when comparing the bank transaction line-item details to the University's financial system.

Effect—The former employee may have misused \$95,000 of public monies with these unallowable purchases. As of this report's release, we are conducting a financial investigation to determine the amount of public monies misused, if any, and the extent to which those monies may have been misused.

Cause—The University's inconsistent enforcement of procurement card policies and procedures created an opportunity for the former employee to make unallowable purchases. Specifically, the University reported that personnel within the department responsible for reviewing and approving the former employee's procurement card purchases failed to perform adequate and timely reviews by allowing the employee to submit supporting documentation 2-3 months late or longer after the required 30 days and, in some cases, accepting vague business purpose descriptions for items purchased. Further, the personnel assigned to review and approve the former employee's procurement card purchases permitted the employee's circumvention of policy by not taking corrective or disciplinary action to restrict the former employee's purchasing ability after the former employee failed to provide detailed documentation supporting the purchase's business need and purpose within the required 30 days of the purchase.

The University also reported that it allowed employees the ability to receive goods purchased with their purchasing cards without having an independent person ensuring the goods received were what was purchased and for the business purpose indicated. Additionally, the University's procurement card policies and procedures lacked requirements to separate responsibilities for purchasing goods and receiving goods to help prevent unallowable purchases and ensure receipt of goods purchased were for the business purchase indicated. Finally, the University did not monitor procurement card transactions by comparing bank transaction line-item details to the University's financial system until 2021, thereby delaying the University's ability to detect the former employee's unallowable purchases.¹

Criteria—The University’s procurement card policies and procedures require employees to provide detailed documentation supporting the purchase’s business need and purpose, and the transaction and supporting documentation must be submitted, reviewed, and approved within 30 days of the purchase. These policies and procedures also provide for periodic monitoring of procurement card purchases, such as Internal Audit performing data analytics of purchases.² Additionally, separating responsibilities over purchasing goods and receiving goods so that no one person controls all key aspects of a procurement card purchase; promptly recording procurement card purchases and the related supporting documentation, including the business purpose; and requiring timely supervisory reviews and approvals of procurement card purchases are an essential part of internal control standards, such as the *Standards for Internal Control in the Federal Government* issued by the Comptroller General of the United States, and integral to ensuring only authorized purchases are made with University procurement cards.³

Recommendations—To ensure the University uses its public monies for official University business, the University should:

1. Continue using data analytics periodically to detect unallowable purchases, including identifying suspicious purchasing patterns, vendors, and amounts.
2. Follow its procurement card policies and procedures by requiring employees to provide detailed documentation supporting the purchase’s business need and purpose, and requiring the transaction and supporting documentation to be submitted, reviewed, and approved or denied within 30 days of the purchase.
3. Take 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.
4. Improve its procurement card policies and procedures by separating the responsibilities for purchasing goods and receiving goods so that no one person has authority to make the purchase and take initial custody of the purchased goods and requiring that the person receiving the goods ensures they are for the business purpose indicated.

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.

¹ Bank transaction line-item detail is only available for a subset of merchants and is provided at the merchant’s discretion.

² Arizona State University. (2022.) *The P-Card: A Guide for Users* and Arizona State University. Retrieved 10/20/2022 from <https://www.asu.edu/purchasing/forms/guide.pdf>. Arizona State University. (2020). *ASU Purchasing and Business Services Manual* (PUR 217: Reporting Receipt of Merchandise). Retrieved 11/1/2022 from <https://www.asu.edu/aad/manuals/pur/pur217.html>.

³ U.S. Government Accountability Office (GAO). (2014). *Standards for internal control in the federal government*. Washington, DC. Retrieved 10/20/2022 from <https://www.gao.gov/assets/670/665712.pdf>.

UNIVERSITY RESPONSE

January 18, 2023

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 the finding, we are providing you with our responsible officials' views, the name(s) of the contact people responsible for corrective action, the corrective action planned, and the anticipated completion date.

If there are any questions to our response, please contact us.

Sincerely,



Marilyn G. Mulhollan
Assistant Vice President, Financial Services

c: Morgan R. Olsen, Executive Vice President, Treasurer and CFO
Lisa Loo, Senior Vice President and General Counsel
Anjali Halabe, Vice President for Finance and Deputy Treasurer
Lisa Grace, Executive Director, University Audit

Arizona State University

Summary schedule of prior audit findings

Year ended June 30, 2022

Financial statement findings

2022-01

Former employee made unallowable purchases totaling over \$95,000, which was possible because of the University's inconsistent enforcement of procurement card policies and procedures, resulting in potential misuse of public monies

Marilyn Mulhollan, Assistant Vice President, Financial Services
Lisa Grace, Executive Director, University Audit

Anticipated completion date: March 2023

In response to the summary information provided by the Office of the Auditor General, the University would like to provide additional clarification regarding the language included in the Condition section that states "Internal Audit discovered these unallowable purchases in December 2021 after performing data analytics that flagged the purchases when comparing the bank transaction line-item details to the University's financial system." The use of data analytics was a new and additional review process employed by Internal Audit to supplement the standard review processes. It enabled the University to more readily confirm the unallowable purchases, which the employee had concealed by substituting descriptions of allowable items of similar value. The data analytics identified unallowable purchases by comparing the credit card level 3 line level data contained in the Card Issuer's system to the supporting documentation uploaded into the University's financial accounting system utilized for transaction verification. This level of detail is provided for a small number of merchants and is at the discretion of the merchant if it is provided or not.

With the implementation of the Workday financial system in Fiscal Year 2019, p-card internal controls were enhanced to provide a systematic method for uploading supporting documentation for each purchase card transaction and automated workflow to facilitate review and approval of all transactions. These controls include an aggressive time frame for review and approval of relevant supporting documentation. Ongoing oversight and monitoring controls for p-card spend is primarily performed at the unit level who have the necessary knowledge to determine the appropriateness of the p-card transaction and will continue to reside at the unit level. Policies and best practice guides already exist and address key control areas regarding card issuance, card usage and card oversight.

In addition, University Audit performs p-card review procedures as part of their continuous audit coverage. This coverage has been enhanced over the past two fiscal years to implement advanced analytics and fraud focus to complement the compliance procedures. These processes are continuing to be refined and will include enhanced monthly reporting for the units to utilize as part of their ongoing review of transactions.

To further strengthen the control environment regarding p-card administration, the University will implement the following controls in response to the auditor recommendations:

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Arizona State University

Summary schedule of prior audit findings

Year ended June 30, 2022

- Update the current p-card guide and best practices guide to include additional guidance related to segregation of duties considerations specific to p-card usage.
- Implement stronger and more timely enforcement actions such as reduction in credit limits or revocation of p-card privileges in response to p-card users that are not compliant with University policy.

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