



A REPORT  
TO THE  
ARIZONA LEGISLATURE

Financial Audit Division

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Report on Internal Control and Compliance

# University of Arizona

Year Ended June 30, 2012

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**Debra K. Davenport**  
Auditor General

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University of Arizona  
Report on Internal Control and Compliance  
Year Ended June 30, 2012

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Report Issued Separately

Annual Financial Report



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

**STATE OF ARIZONA**  
OFFICE OF THE  
**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 Financial  
Statements Performed in Accordance with *Government Auditing Standards***

Members of the Arizona State Legislature

The Arizona Board of Regents

We have audited 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, 2012, which collectively comprise the University's financial statements, and have issued our report thereon dated October 12, 2012. Our report was modified to include a reference to our reliance on other auditors. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the aggregate discretely presented component units consisting of the University of Arizona Foundation, the University of Arizona Alumni Association, the Law College Association of the University of Arizona, and the Campus Research Corporation as described in our report on the University's financial statements. The financial statements of the aggregate discretely presented component units were not audited by the other auditors in accordance with *Government Auditing Standards*. This report includes our consideration of the results of the other auditors' testing of internal control over financial reporting that are reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors.

**Internal Control over Financial Reporting**

The University's management is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

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 financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We and the other auditors did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Recommendations as item 12-01 that we consider to be a significant deficiency in internal control over financial reporting. 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.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the University's financial statements are free of 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 determination of financial statement amounts. 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Management's response to the finding identified in our audit is presented on page 4. We did not audit the response, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the members of the Arizona State Legislature, the Arizona Board of Regents, university management, and others within the University and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Debbie Davenport  
Auditor General

October 12, 2012

University of Arizona  
Schedule of Findings and Recommendations  
Year Ended June 30, 2012

## Financial Statement Finding

12-01

### **The University should strengthen access controls for its general ledger system**

Criteria: The University should have effective system access controls to help prevent and detect unauthorized use, damage, loss, or modification of programs and data, including sensitive and confidential information.

Condition and context: The University did not have a comprehensive process in place to centrally monitor and review user roles, groups, and permissions. This is important because the University used business rules that relied primarily on these user roles, groups, and permissions to enforce access controls and adequately segregate responsibilities. In addition, certain access controls were decentralized, and the University's policies and procedures did not provide sufficient guidance requiring individual departments to monitor and review user access. Consequently, the University could not generate for auditors a complete listing of system users that included all roles, groups, and permissions associated with each user. When testing the user information that was provided, auditors identified numerous users with the ability to initiate and approve their own fiscal year-end closing entries and other financial statement adjustments. In some cases, these users could approve their own system access based on the roles, groups, or permissions they were assigned at the department or college level. Furthermore, auditors found that the University did not always terminate employees nor their related system access in a timely manner and did not adequately monitor access logs or other changes to the underlying database.

Effect: There is an increased risk of misstatement or misuse of financial or confidential information by unauthorized users or by users who were not properly monitored.

Cause: The University implemented a new general ledger system during the fiscal year. The policies and procedures implemented were not sufficiently comprehensive to establish a process for monitoring and reviewing system access.

Recommendation: The University should strengthen access controls by strengthening policies and procedures that include the following:

- Develop a comprehensive process for reviewing user roles, groups, and permissions to help ensure that the appropriate level of system access is granted and communicate this review process to the departments responsible for decentralized access controls.
- Perform a comprehensive review of all existing system users annually to help ensure that access granted is compatible with their job responsibilities.
- Improve communication among university departments to ensure that system access is removed for terminated employees immediately.
- Proactively monitor system access logs for unusual or suspicious activity.
- Establish logging techniques, proactive monitoring, or other triggers for direct changes to the database and investigate and resolve them.

# UNIVERSITY RESPONSE

November 27, 2012

Debra K. Davenport, CPA  
Auditor General  
2910 North 44th Street, Suite 410  
Phoenix, Arizona 85018

Dear Ms. Davenport,

The University has reviewed the audit finding and recommendation associated with the annual audit of the University's Annual Financial Report for the year ended June 30, 2012. We concur with the audit finding and will implement procedures to strengthen access controls for the general ledger system. Attached is the University's action plan and anticipated implementation date.

I would like to thank you and your team for the professionalism that was exhibited during the audit of the University's financial statements. The audit team's sensitivity of not being too disruptive to the staff with their daily responsibilities was appreciated by all. If there are any questions or additional information you need relating to the University's audit response, please do not hesitate to contact me at 520-626-1188.

Regards,

Duc Ma  
Assistant Vice President, Financial Services

Attachment:  
Management's Response

Cc:  
Mark McGurk, Associate Vice President and Comptroller, Financial Services  
Keith Dommer, Financial Audit Manager, Auditor General Office



Management's Response:

The University will take the following steps to remediate the finding:

- A policy and procedure will be added to the Financial Services Manual regarding the creation, addition and review of groups/roles/permissions. Additionally, a tool will be developed for departments to review their groups/roles/permissions.
- An annual review of all UAccess Financial groups/roles/permissions will be performed.
- Communications will be made through a minimum of two outlets to Campus regarding timeliness of terminations; additionally revision of the termination procedures to efficiently reduce risk will be considered.
- Automated and manual options for proactive detection of unusual or suspicious activity and detection of direct changes to the database will be assessed. In the interim, logs are maintained detailing activity and will be reviewed if an issue is detected.

Completion of the above corrective action steps will be May 1, 2013.

