

**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 on. However, auditors identified internal control weaknesses over payroll expenses, as summarized on this page. This information will also be incorporated in the State of Arizona's *Comprehensive Annual Financial Report*.



2010

Year Ended June 30, 2010

Financial Statement Audit Summary

The University should Strengthen Controls over Payroll Expenses—The University's payroll and related expenses comprise over \$881 million, or approximately 58 percent, of its total expenses. Therefore, it is critical for the University to have adequate internal controls over payroll expenses. During fiscal year 2010, the

University improved existing policies and procedures for processing, monitoring, and verifying payroll expenses. However, auditors noted that University departments did not consistently follow established policies and procedures. Our recommendations are presented in the summary below.

Auditor recommendations to improve controls over payroll expenses—

To help ensure employees are accurately paid and payroll expenses are accurately recorded and reported, the University should:

- Ensure that all departments prepare detailed monthly reconciliations of each employee's payroll expenses in accordance with the University's policies.
- Improve controls over payroll to ensure that payroll data reflected in the payroll system is supported by the contract, offer letter, or other official documentation maintained in the personnel files.
- Require departments to follow established policies and procedures to ensure that leave requests for employees are reviewed, monitored, and retained to support hours worked.
- Ensure that departments are aware of and follow guidelines for verifying and approving time recorded by employees.
- Monitor the overpayment listing centrally to help ensure accuracy, completeness, and timely collection of overpayments as well as to identify potential internal control weaknesses.
- Ensure all departmental personnel responsible for payroll functions are instructed as to the University's current policies and procedures.

University Issued \$178 Million in New Debt

In April 2010, the University issued \$178.4 million of system revenue bonds, Taxable Series 2010A and Tax-Exempt 2010B, to finance construction of the Interdisciplinary Science and Technology Building IV. The Taxable Series 2010A bonds issued for \$166 million were designated as Build America Bonds under the provisions of the American

Recovery and Reinvestment Act (ARRA) of 2009. These bonds are taxable but provide for federal subsidies to help offset higher borrowing costs. Accordingly, the University is eligible to receive a federal subsidy equal to 35 percent of the interest payable on the bonds.

American Recovery and Reinvestment Act (ARRA) Monies

Federal fiscal stabilization funds—For fiscal year 2010, the State of Arizona's Office of the Governor received federal ARRA monies under the State Fiscal Stabilization Fund Cluster. A portion of these monies were distributed to the State's universities to restore the shortfall of fiscal year 2010 state funding for higher education. The Office of the Governor provided Arizona State University with \$32.5 million of this Cluster's monies in fiscal year 2010. The University used the monies primarily for salaries and benefits to support those faculty members, advisors, and others providing direct services to students. In addition, the monies helped mitigate tuition increases for the 2011 academic year.

Other federal ARRA monies—The University was awarded over \$60 million of ARRA monies under various federally sponsored programs for research projects.

Condensed Financial Information

Statement of Net Assets—This statement reports all assets, liabilities, and net assets. Net assets, the difference between assets and liabilities, are reported in three major categories:

- Invested in capital assets, net of related debt, shows the equity in property, plant, and equipment.
- Restricted net assets shows the net resources that must be used for restricted purposes as specified by donors and external entities.
- Unrestricted net assets shows the net resources available to pay for general operations.

Statement of Revenues, Expenses, and Changes in Net Assets—This statement reports all revenues, expenses, and other changes to net assets. Revenues and expenses are reported as either operating or nonoperating. The change in net assets indicates whether financial health has improved or deteriorated as a result of current-year activities. Net assets increased by \$85 million, or 9 percent, in the current year as compared to increases of \$58 million and \$4 million, or 6.5 percent and 0.5 percent, in fiscal years 2009 and 2008, respectively.

Condensed Statement of Net Assets June 30, 2010 (In Millions)	
Assets:	
Cash and investments	\$ 565
Capital assets, net of depreciation	1,577
Receivables	146
Other assets	19
Total assets	<u>2,307</u>
Liabilities:	
Long-term debt	1,106
Other liabilities	164
Total liabilities	<u>1,270</u>
Net Assets:	
Invested in capital assets, net of related debt	662
Restricted	140
Unrestricted	235
Total net assets	<u>\$1,037</u>

Condensed Statement of Revenues, Expenses, and Changes in Net Assets Year Ended June 30, 2010 (In Millions)	
Operating revenues:	
Tuition and fees	\$ 566
Grants and contracts	200
Auxiliary enterprises	135
Other operating revenues	48
Total operating revenues	<u>949</u>
Operating expenses:	
Educational and general	1,239
Auxiliary enterprises	135
Depreciation	96
Total operating expenses	<u>1,470</u>
Operating loss	(521)
Nonoperating revenues and expenses:	
State appropriations	396
Grants, including federal fiscal stabilization funds of \$33	168
Other nonoperating, net	42
Net nonoperating revenues	<u>606</u>
Increase in net assets	85
Net assets—beginning of year	952
Net assets—end of year	<u>\$1,037</u>

TO OBTAIN
MORE INFORMATION

A copy of the full report
is available at:
www.azauditor.gov

Contact person:
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Arizona State University

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