



REPORT HIGHLIGHTS

FINANCIAL STATEMENT AUDIT

Our Conclusion

Northern Arizona University is responsible for preparing annual financial statements, maintaining effective internal controls, and being accountable for its use of public monies. Our Office is responsible for auditing the University's financial statements. Since the University is a component unit of the State of Arizona, the information in its financial statements will also be incorporated in the State of Arizona's Comprehensive Annual Financial Report. A summary of the University's financial statements is presented to the right.

Based on our audit, we issued a report that included our opinion on the University's financial statements and a report on its internal control and compliance over financial reporting. The information in the University's fiscal year 2013 financial statements is reliable. Our report on internal control and compliance identified two deficiencies in internal control that the University should correct to ensure that it fulfills its responsibility to maintain effective internal controls. These deficiencies are summarized on the next page.



2013

Year Ended June 30, 2013

Condensed financial information

Statement of net position—This statement reports all assets, deferred outflows and inflows of resources, liabilities, and net position. Net position, is reported in the following three major categories:

- **Net investment in capital assets**—shows the equity in property, buildings, and equipment.
- **Restricted**—shows the resources that must be used for restricted purposes, as specified by donors and external entities.
- **Unrestricted**—shows the resources available for general operations.

Statement of revenues, expenses, and changes in net position—This statement reports all revenues, expenses, and other changes to net position. Revenues and expenses are reported as either operating or nonoperating. The change in net position indicates whether financial health has improved or deteriorated as a result of current-year activities. Net position increased by \$3 million, or 1 percent, in the current fiscal year as compared to an increase of \$15 million, or 4 percent, in fiscal year 2012.

Condensed statement of net position As of June 30, 2013 (In millions)

Assets	
Cash and investments	\$ 273
Capital assets, net of depreciation	695
Receivables	70
Other assets	<u>6</u>
Total assets	<u>1,044</u>
Liabilities	
Long-term debt	561
Other liabilities	<u>46</u>
Total liabilities	<u>607</u>
Net position	
Net investments in capital assets	216
Restricted	47
Unrestricted	<u>174</u>
Total net position	<u>\$ 437</u>

Condensed statement of revenues, expenses, and changes in net position For the year ended June 30, 2013 (In millions)

Operating revenues	
Tuition and fees, net of scholarship allowance	\$ 173
Grants and contracts	23
Auxiliary enterprises	51
Other operating revenues	<u>17</u>
Total operating revenues	<u>264</u>
Operating expenses	
Educational and general	358
Auxiliary enterprises	45
Depreciation	<u>31</u>
Total operating expenses	<u>434</u>
Operating loss	(170)
Nonoperating revenues and expenses	
State appropriations	101
Grants	68
Other nonoperating, net	20
Nonoperating expenses	<u>(23)</u>
Net nonoperating revenues	<u>166</u>
Capital and endowment additions	
Increase in net position	7
Net position—beginning, restated	3
Net position—beginning, restated	<u>434</u>
Net position—ending	<u>\$ 437</u>

Summary of audit findings and recommendations

During the University's financial statement audit, we found that internal controls over system access and change management for its financial accounting system were inadequate and internal controls over financial statement preparation were not always followed. Our Report on Internal Control and Compliance over financial reporting includes a Schedule of Findings and Recommendations that contains further details to help the University correct these deficiencies, which are summarized below.

Inadequate information system access and change controls

The University implemented a new financial accounting system during fiscal year 2013, but did not implement adequate policies and procedures over its system to ensure that users' access rights were appropriate for their job responsibilities. In addition, we found that a group of users could make changes to the system using the same password, and changes to the system were not adequately monitored.

Recommendation

The University should develop and implement policies and procedures that ensure access granted to system users is appropriate for their job responsibilities and properly approved. In addition, the University should monitor all system program changes to ensure they are authorized, reviewed, tested, and approved prior to being implemented.

Controls over financial statement preparation not always followed

The University's financial statements were not initially prepared in accordance with all applicable U.S. generally accepted accounting principles. Specifically, the University incorrectly reported noncash transactions and accounts receivable balances. For example, the University did not disclose \$46 million in noncash transactions on its Statement of Cash Flows and overstated accounts receivable by approximately \$5 million. The University made the necessary adjustments to correct the financial statements.

Recommendation

To help ensure the accuracy of its financial statements, the University should follow its policies and procedures to ensure a thorough review of the financial statements is conducted by someone who is independent of the person preparing them and is knowledgeable of the University's operations and financial reporting requirements.