



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Management Letter

Northern Arizona University

Year Ended June 30, 2004



Debra K. Davenport
Auditor General

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**STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL**

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

February 24, 2005

The Arizona Board of Regents

Dr. John D. Haeger, President
Northern Arizona University

In planning and conducting our financial statement audit of Northern Arizona University and our single audit of the State of Arizona for the year ended June 30, 2004, we performed the following as required by *Government Auditing Standards* (GAS) and Office of Management and Budget (OMB) Circular A-133:

- Considered the University's internal controls over financial reporting and
- Tested its compliance with laws and regulations that could have a direct and material effect on the University's financial statements or the State's financial statements.

There are no audit findings that are required to be reported by GAS and OMB Circular A-133. However, our audit disclosed internal control weaknesses and instances of noncompliance with laws and regulations that did not meet the reporting criteria. Management should correct these deficiencies to ensure that it fulfills its responsibility to establish and maintain adequate internal controls and comply with laws and regulations. Our recommendations are described in the accompanying summary.

This letter is intended solely for the information of the Arizona Board of Regents and the University, and is not intended to be and should not be used by anyone other than the specified parties. However, this letter is a matter of public record, and its distribution is not limited.

Should you have any questions concerning its contents, please let us know.

Sincerely,

Debbie Davenport
Auditor General

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The University should maintain effective controls and oversight over travel expenses

Northern Arizona University spent approximately \$2.65 million for employee travel during fiscal year 2004. The University has established travel policies that comply with applicable Arizona Revised Statutes and State of Arizona travel policies. However, the University did not ensure that individual departments complied with its established travel policies. For example, some reimbursement claims included lodging and meal charges that exceeded allowable rates or that were not supported by documentation. Also, authorized employees did not always approve reimbursement claims. In addition, there was often no justification for exceptions to the University's travel policies. Furthermore, employees did not always use the most cost effective means of transportation or obtain the most economical rate for travel-related expenses.

To help ensure that all monies expended for travel are spent appropriately and in accordance with established policies, the University should:

- Evaluate current training practices regarding travel expenses to help ensure that all employees are familiar with the established travel policies.
- Establish the necessary controls to ensure that the University's travel policies are followed consistently in all departments.
- Periodically review individual departments' reimbursement claims to ensure departmental personnel are following the established travel policies.

Departmental controls over cash receipts should be strengthened

Because cash is highly susceptible to potential theft or misuse, university management should establish and enforce effective controls to safeguard cash receipts at the various departments. The University established detailed written policies and procedures to provide guidance to the departments for collecting, recording, reconciling, and depositing cash receipts. However, it did not ensure that individual departments followed them. For example, some departments did not adequately account for cash receipts, restrictively endorse checks upon receipt, or reconcile receipts collected to amounts deposited. In addition, some departments did not separate the responsibilities for collecting and recording cash receipts, depositing receipts, and reconciling deposits to supporting documents among employees. Furthermore, some departments did not properly safeguard receipts prior to deposit and did not deposit all cash received. Departments that need to implement the specific recommendations are identified below.

To help strengthen controls over departmental cash receipts, the University should monitor departments to ensure its established written procedures for collecting, recording, reconciling, depositing, and safeguarding receipts are followed. Departments should follow the procedures listed below.

- Assign a sequentially controlled unique transaction number to each receipt at the time collected, and immediately record all cash receipts in either a mail log, a cash register system with locked-in totals, or in the department's computer system. (Arizona K-12 program, Athletics Department, Bursar's Office, Elderhostel program, Financial Aid Office, Institute for Human Development, Parking Services, Student Services)
- Restrictively endorse all checks immediately upon receipt. (Arizona K-12 program, Athletics Department, Elderhostel program, Financial Aid Office, Parking Services)
- Reconcile the receipt sequence total and the mail log total to the monies recorded and deposited. This reconciliation should be prepared daily and all differences should be investigated and resolved. (Arizona K-12 program, Bookstore, Bursar's Office, Financial Aid Office, Health Center, Institute for Human Development, Parking Services, Student Services)
- Store undeposited receipts in a locked desk or file cabinet. Deposit cash receipts exceeding \$200 intact daily or at least weekly if under \$200 to ensure that all receipts are recorded and deposited. All cash receipts collected must be deposited and not used for other purposes. (Arizona K-12 program, Athletics Department)

- Separate responsibilities between employees so that employees who collect cash receipts are not responsible for recording and depositing the receipts. In addition, the daily reconciliations should be reviewed by a supervisor. If responsibilities cannot be adequately separated, a supervisor should review and approve all cash receipts transactions and the related reconciliations. (Arizona K-12 program, Arizona Public Schools Computer Consortium, Athletics Department, Elderhostel program, Institute for Human Development, Student Services)

March 28, 2005

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

Re: Management Letter for the Year Ended June 30, 2004

Dear Ms. Davenport,

Please find attached our responses to your findings and related recommendations as described in the February 24th, 2005 letter regarding travel expenses and departmental cash controls. We appreciate the work of your office in pointing out areas that can strengthen the University's controls over these important internal control areas.

Sincerely,

John D. Haeger
President

FINDING

The University should maintain effective controls and oversight over travel expenses.

RESPONSE

The University concurs with the need to maintain and oversee travel expenditures. The University has reviewed its travel training classes and made necessary changes to communicate the additional procedures needed.

Actions Taken

1. The University is providing travel policy training classes on a monthly basis. Employees are encouraged to attend a travel class every six months to stay current on established University travel policies including vehicle rental justification, mileage log, academic excuse and group meal money forms. The University travel policy manual has been made available via the web for quick access by the University community.
2. The University has established policy regarding travel based on the State of Arizona accounting manual. We are taking steps as outlined in this document to better train the University community in following the prescribed policies. The University is considering adding an additional post audit position to check travel compliance on a more regular, widespread basis.
3. As stated above, the University Comptroller's Office employs one full time equivalent to post-audit travel and purchasing card transactions across the entire University. The transactions are sampled and reviewed department (Agency Org) by department on an ongoing basis. Findings are communicated to the department travel liaison and the department head and recommendations are made to correct any policy violations identified during the review. Additional efforts will be made to improve the effectiveness and efficiency of post-audit reviews. This includes moving to a more risk-based sampling approach and use of exception reporting. As stated in #2 above, the University is also considering an additional post-audit position to improve audit coverage.

FINDING

Departmental controls over cash receipts should be strengthened.

RESPONSE

As discussed in the finding, the University has detailed, written, policies and procedures in place for departmental depositing. The University has contacted all campus departments via memo to reemphasize the need to follow the established policies.

Actions Taken

1. In lieu of a mail log, the Bursar's Office will implement a procedure to have one person open and endorse the mail in the presence of the cashier that will input the payment into the cash register system which assigns the receipt a sequential number and uses locked-in totals. Departments not using a cash register system will keep a listing (log) of revenues received in ink that will be reconciled to the deposit transmittal and to the accounting system (Advantage) records. The fund custodian and the fund custodian supervisor will review deposit transmittals prior to deposit at the Office of the Bursar.
2. The University Comptroller has contacted all of the departments in question in regards to restrictive endorsement of all checks immediately upon receipt. All areas have agreed and added that procedure to their procedures.
3. University policy already requires that an individual other than the teller should open mail containing revenue, restrictively endorse any checks or other negotiable instruments, make a list in ink of such revenue received, and then present the funds to the teller for deposit. A copy of the listing of revenue should be maintained. We have added the following step to the procedure for departmental depositing. Prior to submission to the Office of the Bursar, deposit transmittal forms must now be reviewed and signed by the department's fund custodian as well reviewed/reconciled by the fund custodian's supervisor. The review should include a reconciliation of the list of revenue received to the amount deposited on the deposit transmittal.
4. The University Comptroller has contacted all departments not properly depositing cash. Department managers were reminded that University policy requires all undeposited receipts to be secured in a locked desk or file cabinet. All cash receipts exceeding \$200 must be deposited intact daily, deposits under \$200 must be deposited at least weekly, and all cash receipts collected must be deposited and not used for other purposes. All departments have responded that these procedures will be followed.
5. The University has detailed policy for separation of duties for those departments who handle cash. We have strengthened the controls in the areas noted in the audit recommendations and have communicated the change campus wide. Prior to submission to the Office of the Bursar, deposit transmittals will require both

the signature of the fund custodian and the signature of the fund custodian's Supervisor certifying that the amounts are complete and correct. The review should include a reconciliation of the list of cash receipts received to the deposit transmittal.