



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Management Letter

Northern Arizona University

Year Ended June 30, 2005



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
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April 12, 2006

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, 2005, 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,
- Tested its internal controls over a major federal program, 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 and major federal programs.

There are no audit findings that are required to be reported by GAS and OMB Circular A-133. However, our audit disclosed an internal control weakness that did not meet the reporting criteria. Management should correct this deficiency to ensure that it fulfills its responsibility to establish and maintain adequate internal controls. Our recommendation is described in the accompanying summary below.

The University should improve departmental controls over cash receipts

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, the University did not monitor the receipt procedures being followed at the individual departments. Auditors noted that 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, cash receipts were not always deposited at least weekly. A similar recommendation was provided to the University in the prior year's management letter, dated February 24, 2005. However, several departments still need to implement the specific procedures identified below.

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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. Department procedures should include the following:

- 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, Athletics Department, Financial Aid Office, Institute for Human Development, Parking Services, Dining and Card Administration)
- Restrictively endorse all checks immediately upon receipt. (Athletics Department, 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, Athletics Department, Financial Aid Office, Health Center, Institute for Human Development, Parking Services, Dining and Card Administration)
- 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. (Athletics Department)
- Separate responsibilities between employees so that employees who collect cash receipts are not responsible for recording and depositing the receipts. In addition, a supervisor should review the daily reconciliations. If responsibilities cannot be adequately separated, a supervisor should review and approve all cash receipts transactions and the related reconciliations. (Athletics Department, Institute for Human Development, Dining and Card Administration)

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

March 29, 2006

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

Re: Management Letter for the Year Ended June 30, 2005

Dear Ms. Davenport:

Please find attached our response to your finding and related recommendation regarding departmental cash controls. We appreciate the work of your office in pointing out areas that can strengthen the University's controls over this important financial area.

We have assigned responsibility to follow up on these findings to our Assistant Comptroller for Financial Controls, Wendy Swartz. Wendy is meeting with each affected department in person to address the issues and ensure the needed improvements are implemented.

Sincerely,

John D. Haeger
President

The University should improve departmental controls over cash receipts.

RESPONSE

As discussed in the finding, the University has detailed written policies and procedures in place for departmental cash receipts. Our Assistant Comptroller for Financial Controls has scheduled meetings with each affected department to review the issues and ensure the needed changes in procedures are implemented.

Actions Taken

In March 2005, all departments were notified by the University's Comptroller of the need to adhere to University policy and procedures regarding cash receipts and deposits. While several of the departments listed in the 2004 Management Letter made the necessary changes to comply, some did not.

At the direction of the Arizona Board of Regents, the University hired an Assistant Comptroller for Financial Controls in October 2005 to follow up on audit findings and to investigate other potential areas of concern to ensure proper financial controls are in place. The Assistant Comptroller for Financial Controls has contacted each of the affected areas and is personally meeting with each department representative to ensure that the required policy and procedures are followed.