



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Management Letter

**Northern Arizona
University**

Year Ended June 30, 2003



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

June 24, 2004

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, 2003, 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 control over financial reporting,
- Tested its internal controls over major federal programs, 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.

Specifically, we performed tests of cash receipts, cash disbursements, journal entries, payroll, cash and investments, receivables, payables, deferred revenues, capital assets, bonds payable, revenues, expenses, financial reporting, and the federal student financial assistance cluster. There are no audit findings that are required to be reported by GAS and OMB Circular A-133.

In addition, we also reviewed the University's internal controls and tested expenses and performance measures pertaining to fiscal year 2003 for each of the projects funded from Proposition 301 monies. Our audit disclosed internal control weaknesses and instances of noncompliance with Arizona Revised Statutes (A.R.S.), project objectives, and university policies that are described below.

The University should maintain effective controls and oversight over Proposition 301 monies

Northern Arizona University was awarded and received \$8.5 million in Proposition 301 monies during fiscal year 2003 from the Arizona Board of Regents (ABOR) for five projects. It is essential that the University follows procedures that help ensure these monies are spent in accordance with A.R.S., specific project goals and objectives, and university policies. However, the University did not establish effective controls, as it did not provide oversight, and did not develop written policies and procedures to define allowable expenses and ensure that 301 monies were not used to supplant other funding sources. Specifically, auditors noted the following deficiencies:

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Dr. John D. Haeger, President
Northern Arizona University
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- The University awarded scholarships to students from three projects, Access Workforce Development, Growing Biotechnology, and ERDENE. A.R.S. §15-1648 and these projects' objectives do not provide for scholarships to be made from these monies.
- The University violated its travel policies in numerous instances for one project, ERDENE, including reimbursements for lodging in excess of specified rates and for plane fares in excess of the lowest available fares. Also, there was an overall disregard of the travel policies in determining the most cost-effective means of transportation.
- The University used these monies to supplant general appropriated monies previously designated to pay the salaries of certain personnel for two projects, E-learning and Capital Projects. ABOR policy no. 3-412 states that payroll expenses charged to Proposition 301 monies should not include employees who would otherwise be paid from general appropriations.
- The University had not established written criteria for evaluating and selecting recipients for grant awards for two projects, E-learning and Access Workforce Development.

In addition, data used in the calculation of performance measures reported to the ABOR was not supported by detailed records for all five projects. Furthermore, the University had not developed written procedures describing how to calculate performance measures.

To help ensure that Proposition 301 monies are spent appropriately and performance measures are reported accurately, the University should:

- Develop and follow written policies and procedures that address allowable/unallowable project costs, the subaward evaluation and selection process, supplanting, retention of documentation to support performance measures, and methods used to calculate performance measures.
- Establish a central oversight coordinator to monitor each project to ensure that policies and procedures are followed, including existing university travel and procurement policies.

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

June 10, 2004

Debra K. Davenport, C.P.A.
Auditor General
State of Arizona
Office of the Auditor General
2910 N. 44th Street, Suite 410
Phoenix, AZ 85018

Dear Ms. Davenport:

Northern Arizona University (NAU) greatly appreciated your office's efforts in conducting a review of NAU's controls over Proposition 301 (301) monies including expenditures and performance measures. We agree with the findings of your review and have taken the following actions:

- 301 funds used to support scholarships have been restored. Scholarships previously funded by 301 monies have and will be funded with other university sources.
- Reimbursement for travel expenses by the ERDENE project in excess of normal allowances was due to an employee health related issue. However, NAU has removed this travel expense from the 301 account. Other travel expenses are being reviewed and any unallowable reimbursements will be returned to the 301 project account.
- Procedures have been implemented to ensure that employee salaries paid from Proposition 301 monies are not supplanting general appropriations.
- Project leaders for the E-Learning and Access Workforce Development are developing and clarifying criteria to select subaward recipients to insure the most beneficial use of project monies. These criteria will be in place when future awards are made from these projects.

NAU also agrees to implement the following measures in order to maintain effective controls over the 301 supported projects:

- Hire a central oversight coordinator to work with all projects to ensure consistent application of established policies and procedures including the subaward process and documentation of performance measures.
- Require each project have written policies and procedures regarding allowable costs, subaward selection, and performance measure calculations.

- Through internal control verify that each project follows ABOR established objectives, justifies all expenditures, and complies with NAU's accounting, travel, and procurement practices and procedures.

Thank you for your assistance with our Proposition 301 projects. We believe that these changes will greatly improve the success of our projects for the State of Arizona.

Sincerely,

John D. Haeger, President