



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Report on Internal Control and Compliance

Northern Arizona University

Year Ended June 30, 2012



Debra K. Davenport
Auditor General

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Northern Arizona University
Report on Internal Control and Compliance
Year Ended June 30, 2012

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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

**Independent Auditors' Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

Members of the Arizona State Legislature

The Arizona Board of Regents

We have audited the financial statements of the business-type activities and aggregate discretely presented component units of Northern Arizona University as of and for the year ended June 30, 2012, which collectively comprise the University's financial statements, and have issued our report thereon dated October 12, 2012. Our report was modified to include a reference to our reliance on other auditors. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the aggregate discretely presented component units consisting of the Northern Arizona University Foundation, Inc. and the Northern Arizona Capital Facilities Finance Corporation as described in our report on the University's financial statements. The financial statements of the aggregate discretely presented component units were not audited by the other auditors in accordance with *Government Auditing Standards*. This report includes our consideration of the results of the other auditors' testing of internal control over financial reporting that are reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the report of the other auditors.

Internal Control over Financial Reporting

The University's management is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Recommendations, the other auditors identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the University's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Recommendations as item 12-01 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests and those of the other auditors disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Management's response to the finding identified in our audit is presented on page 3. We did not audit the response, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the members of the Arizona State Legislature, the Arizona Board of Regents, university management, and others within the University and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Debbie Davenport
Auditor General

October 12, 2012

Northern Arizona University
Schedule of Findings and Recommendations
Year Ended June 30, 2012

Northern Arizona University Findings

None reported.

Component Unit Finding

The other auditors who audited the Northern Arizona University Foundation, Inc. reported the following finding:

12-01
Northern Arizona University Foundation, Inc.
Construction contract

During fiscal year 2012, the Foundation began construction on an office building on certain property owned by the Arizona Board of Regents. Construction is expected to be completed in fiscal year 2013 at which time the completed office building will be leased to Northern Arizona University. During our fiscal year 2012 audit, and in connection with our review of the construction contract, certain contract obligations under the construction contract were not properly accrued as work was performed. This error resulted in an understatement of construction in progress and liabilities of approximately \$2,180,000. An audit adjustment was recorded to correct this error. The Foundation does not typically enter into such construction contracts. As a result, Foundation staff are not familiar with the unique aspects of construction accounting. We recommend that should the Foundation enter into such unique contracts in the future, Foundation staff should review the contracts in detail and consult with an industry expert, if necessary, to ensure that the underlying transactions are properly accounted for. We also recommend that the Foundation further enhance their existing review policies to ensure that services provided but not paid prior to fiscal year end are properly accrued.

Management response: The Foundation staff believes that this is a technical error due to the recent expansion of Foundation activities and does not indicate a systemic problem in the accounting function of the department. The Foundation has thoroughly reviewed the circumstances of this error and has implemented several procedures to prevent it from happening in the future. The staff continues to focus on process improvement and education to ensure that the Foundation maintains the highest level of quality and integrity in its operations.

