



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Report on Internal Control and Compliance

Northern Arizona University

Year Ended June 30, 2014



Debra K. Davenport
Auditor General

The **Auditor General** is appointed by the Joint Legislative Audit Committee, a bipartisan committee composed of five senators and five representatives. Her mission is to provide independent and impartial information and specific recommendations to improve the operations of state and local government entities. To this end, she provides financial audits and accounting services to the State and political subdivisions, investigates possible misuse of public monies, and conducts performance audits of school districts, state agencies, and the programs they administer.



The Auditor General's reports are available at:

www.azauditor.gov

Printed copies of our reports may be requested by contacting us at:

Office of the Auditor General

2910 N. 44th Street, Suite 410 • Phoenix, AZ 85018 • (602) 553-0333

Northern Arizona University
Report on Internal Control and Compliance
Year Ended June 30, 2014

Table of Contents	Page
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Basic Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1
Schedule of Findings and Recommendations	3
University Response	4
Report Issued Separately	
Comprehensive Annual Financial Report	



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 Basic 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 discretely presented component unit of Northern Arizona University as of and for the year ended June 30, 2014, which collectively comprise the University's basic financial statements, and have issued our report thereon dated October 24, 2014. Our report includes a reference to other auditors who audited the financial statements of the Northern Arizona University Foundation, the discretely presented component unit, as described in our report on the University's financial statements. 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. However, the financial statements of the Northern Arizona University Foundation were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Northern Arizona University Foundation.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the University's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

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 basic financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control described in the accompanying Schedule of Findings and Recommendations as item 2014-01 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's basic financial statements are free from 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 disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*, and that is described in the accompanying Schedule of Findings and Recommendations as item 2014-01.

Northern Arizona University's Response to Finding

Northern Arizona University's response to the finding identified in our audit is presented on page 4. The University's response was not subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Debbie Davenport
Auditor General

October 24, 2014

Northern Arizona University
Schedule of Findings and Recommendations
Year Ended June 30, 2014

Financial Statement Findings

2014-01

The University must ensure all deposits are fully collateralized as required by state statute

Criteria: To protect public monies from potential loss, Arizona Revised Statute (A.R.S.) §15-1668 requires that eligible banks, before receiving a deposit in excess of the federally insured amount, pledge collateral equal at all times to the amount of the deposits. Further, U.S. generally accepted accounting principles (GAAP) requires the University to disclose the amount of its bank balance that is uninsured and uncollateralized at the end of the period.

Condition and context: During the fiscal year, the University switched servicing banks for its depository accounts and failed to have a collateral agreement on file with the new servicing bank. As a result, \$41.5 million of the University's bank balance was uninsured and uncollateralized at June 30, 2014. In addition, the University improperly reported the deposits as uninsured and collateralized by the servicing bank in its notes to the financial statements.

Effect: Cash deposits exceeding the Federal Deposit Insurance Corporation coverage of \$250,000 are at risk of being lost if the bank becomes insolvent. No loss of public monies resulted from these uninsured and uncollateralized deposits. In addition, the University did not properly report the amount of deposits as uninsured and uncollateralized at the end of the period. The University revised its notes to the financial statements to correct this error.

Cause: The collateral was not pledged by the servicing bank, and the University improperly reported the deposits as collateralized because of a miscommunication between university management and its servicing bank.

Recommendation: To help protect public monies from potential loss and to comply with state statutes, the University must ensure that all deposits not covered by federal depository insurance are collateralized in accordance with A.R.S. §15-1668. In addition, the University should properly disclose the amount of its bank balance that is uninsured and uncollateralized at the end of the period to comply with GAAP.



NORTHERN ARIZONA UNIVERSITY

COMPTROLLER'S OFFICE

October 23, 2014

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

Dear Ms. Davenport,

The University has reviewed the schedule of findings and recommendations associated with the annual audit of the University's Annual Financial reports for the year ended June 30, 2014. We concur with the audit findings and will implement procedures to ensure required collateralization of all University deposits and proper reporting in the University financial statements.

I have attached the University's response and action plan to the recommended changes as well as the anticipated implementation date.

If you have any questions please do not hesitate to contact me at 928 523-6054.

Cordially,


Robert G. Norton
Associate Vice President and Comptroller

PO Box 4069, Flagstaff, AZ 86011-4069
(928) 523-6054
(928) 523-2052 Fax



NORTHERN ARIZONA UNIVERSITY

COMPTROLLER'S OFFICE

14-01

The University has reviewed the audit finding and recommendation associated with the annual audit of the University's Annual Financial Report for the year ended June 30, 2014. We concur with the audit finding and recommendation. The University switched servicing banks during the fiscal year and for a period of 69 days from April to June 30, 2014 the deposits were uncollateralized although this requirement is stipulated in the University Request for Proposal (RFP) for banking services. Beginning July 1, 2014 the State Treasurer began administering collateral for all University deposits and since July 1, 2014 all deposits are properly collateralized and the University receives monthly confirmation of the collateralized amounts. As noted in the finding, no loss of public monies resulted from the uninsured, uncollateralized deposits. There was no malfeasance or theft related to the finding. In addition the University will reemphasize in its fiscal year end procedures to verify proper collateralization of deposits before preparing the University footnote for Cash and Investments.

PO Box 4069, Flagstaff, AZ 86011-4069
(928) 523-6054
(928) 523-2052 Fax

