Internal Audit Department

Cash & Cash Equivalents

October 8, 2019
Report Number FY 19-06

Distribution:
Audit Committee, Arizona Board of Regents
Internal Audit Review Board
Rita Cheng, President
Bjorn Flugstad, Vice President, Finance, Institutional Planning and Analysis
Joanne Keene, Executive Vice President and Chief of Staff
Tammy Laird, Associate Comptroller
Michelle Parker, General Counsel
Wendy Swartz, Associate Vice President and Comptroller

This report is intended for the information and use of the Arizona Board of Regents, NAU administration, the Arizona Office of the Auditor General, and federal awarding agencies and sub-recipients.
This page intentionally left blank
Audit of Cash & Cash Equivalents was approved in the Fiscal Year 2019 Internal Audit Plan by the Audit Committee of the Arizona Board of Regents. This audit supports NAU’s strategic goal of stewardship. The last comprehensive Cash Handling audit was completed in Fiscal Year 2014.

Background: Cash handling on the Northern Arizona University (NAU) campus occurs for a variety of purposes, including ticket sales, medical and dental fees, property surplus sales, student services, postal services, rental activities, parking and shuttle fees, retail sales, and tuition and other educational expenses. Per Comptroller policy, all funds received on behalf of, or for the benefit of, NAU must be deposited with Student and Departmental Account Services (SDAS). There are currently 2,198 departments (reflected as DEPTIDs) and 205 revenue account codes identified in the University’s PeopleSoft Financials Code Descriptions. Branches may have several DEPTIDs established for managing multiple budgets and corresponding financial transactions, although not all will have University funds to deposit.

All cash and cash equivalents are routed to SDAS for processing. University departments may submit deposit transmittals and supporting documentation via e-mail or deposit locked deposit bags at the SDAS drop box in Gammage Building 1, or at either of two campus lockbox locations. GardaWorld Armored Truck Transport collects the locked deposit bags from the two campus locations and transports to SDAS. SDAS is responsible for logging each department bag received and processing the deposit transmittals. Once processed by SDAS, transactions are reviewed and reconciled by the Comptroller’s Office. As reported by SDAS, NAU collected more than $135 million in cash and cash equivalents during Fiscal Year 2019, with related receipts processed by type summarized in Figure 1. See Exhibit A for additional cash receipts details.

Enrollment Management and Student Affairs (EMSA) Financial Services provides centralized business support and oversight of accounting and financial functions, including cash handling, for its internal units, six of which were reviewed as part of this audit. Capital Planning and Campus Operations (CaPCOT) plans to provide centralized business support and oversight of accounting and financial functions, including cash handling, for its internal units, three of which were reviewed as part of this audit. Departments have decentralized environments with financial oversight responsibilities assigned at the management level.
Audit Objective: The primary objective was to determine the propriety of internal controls over the collection of cash and cash equivalents.

Scope: The scope of this audit was based on cash handling procedures established within campus departments maintaining petty cash and / or change funds. Cash and cash equivalents are current assets defined as currency and coins, checks received from customers but not yet deposited, checking accounts, petty cash / change funds, money market accounts, U.S. Treasury Bills, and Commercial paper. Credit card, purchasing card, and other electronic transactions were not specifically accounted during this review. However, credit card terminals provided by the University’s financial institution, Wells Fargo Bank, were verified during site visits. Information Technology Services (ITS) and the Comptroller’s Office are currently working with a PCI consultant to identify and address any PCI-related concerns.

Methodology: We interviewed staff, and reviewed systems and reports supporting compliance and financial reporting requirements for Fiscal Year 2019 (through 5/31/19), as well as current practices and procedures. We tested various internal controls for all departments, including completing surprise cash counts, and conducted additional testing in Postal Services. For more details on specific procedures applied see Exhibit B.

The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing promulgated by the Institute of Internal Auditors and accordingly, included such tests considered necessary under the circumstances.

Conclusion: Most departments have strong internal controls over cash and cash equivalents and are generally in compliance with Comptroller policies. EMSA’s centralized receipting provides additional oversight and monitoring that helps minimize the risk and increase the detection of errors. Processes could be strengthened to improve cash handling internal controls University-wide. Monthly review and reconciliation of financial transactions posted to the general ledger is required of all departments; however, was not evident for the departments we reviewed. For each area reviewed, we summarized our results including any specific recommendations. This report excludes those details and focused on observations that span cash collection areas; however, we provided summaries to each department visited and to the Comptroller’s Office.

NAU Management is supportive of our recommendations and has actively begun working to implement identified solutions.

The control standards considered, related control environment assessment and any related improvement opportunities (IO) identified are summarized in the following table.

<table>
<thead>
<tr>
<th>General Control Standard</th>
<th>Control Environment/Assessment</th>
<th>IO #</th>
<th>Pg #</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reliability and Integrity of Financial and Operational Information:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Periodic reconciliation of revenues to the general ledger is performed.</td>
<td></td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>• Financial transactions are correctly posted to the general ledger accounts.</td>
<td></td>
<td>2</td>
<td>4</td>
</tr>
</tbody>
</table>
### General Control Standard
(The bulleted items are internal control objectives that apply to the general control standards, and will differ for each audit.)

<table>
<thead>
<tr>
<th>Control Environment/Assessment</th>
<th>IO #</th>
<th>Pg #</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electronic receipting of cash is adequately recorded in the point-of-sale system.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Safeguarding of Assets:

- Management periodically performs and documents surprise cash counts. 3 5
- Cash is adequately secured. 1 4
- Cash is transported by at least two staff. 1 4
- Checks received in the mail are opened under dual-custody. 4 6

### Effectiveness and Efficiency of Operations:

- Staff are trained and knowledgeable about proper cash handling procedures. 4 6
- Departments have appropriate segregation of duties. 4 6
- University policies adequately address the risks associated with cash handling. 4 6
- Cash receipts are pre-numbered and accounted. 4 6
- Cash is deposited in a timely manner and in accordance with University policy. 2 4
- Management adequately addresses over and short in their department’s petty cash or change fund. 4 6
- Petty cash reimbursement requests contain complete documentation to substantiate replenishments. 4 6

### Compliance with Laws and Regulations:

- University policies relating to cash handling and internal control environments are appropriate and are followed. 1, 2, 4, 4, 6
- Sales tax is collected in accordance with State sales tax regulations. 4 6

### Legend:

- **Reasonably Strong Controls In Place**
- **Opportunity for Improvement**
- **Significant Opportunity for Improvement**

We appreciate the assistance provided by the staff and management of the Comptroller’s Office, EMSA Financial Services, Athletics, Campus Health Services, Campus Recreation, Center for International Education, Central Ticket Office, Dental Hygiene, NAU Online, Postal Services, Printing Services, Property Surplus, Road Scholar, Student and Departmental Account Services, Student Service Center, and University Police.

---

Robin Mosness  
Senior Internal Auditor  
Northern Arizona University  
(928) 523-6459  
robin.mosness@nau.edu

Mark P. Ruppert, CPA, CIA, CISA  
Chief Audit Executive  
Northern Arizona University  
(928) 523-6438  
mark.ruppert@nau.edu
Audit Results: Improvement Opportunities & Solutions

1. Attempts to identify unauthorized bank accounts in NAU’s name or Federal Employer Identification Number (FEIN) could be made periodically by the Comptroller’s Office to protect NAU finances. And, identified unauthorized accounts should be pursued for resolution including closure and return of NAU monies to authorized NAU accounts.

SOLUTION: The Comptroller’s Office will conduct annual searches for unauthorized bank accounts using the name and / or FEIN of the University. Identified unauthorized bank accounts will be pursued to identify owners and purpose and be closed as NAU accounts, reviewed and approved as to their authorized NAU status, or NAU monies moved to appropriate NAU accounts.

Responsible Parties: Wendy Swartz, Associate VP and Comptroller
Tammy Laird, Associate Comptroller

Implementation Date: November 15, 2019

DETAILS:
Condition: Financial institutions reported three bank accounts using the University’s name and two accounts using the University’s FEIN. An internal search of the listed account signers revealed students, professors, and program coordinators affiliated with the University.

Criteria: Comptroller Policy CMP 307, Departmental Cash and Check Receipting, states, “Funds received on or behalf of, or for the benefit of, NAU must be deposited with Student and Departmental Account Services. These deposits initiate recording the revenue in university accounts per the Deposit Transmittal Log Details. Arizona Board of Regents policy, Chapter 3, Section 3-101, requires that all university funds be deposited only to bank accounts authorized by the Arizona Board of Regents. Student and Departmental Account Services will deposit funds with the bank(s). NAU Departments deal only with Student and Departmental Account Services, not with the bank(s) unless otherwise authorized in writing by the Comptroller”.

Cause: No processes exist for ensuring the safeguarding of cash by searching for unauthorized bank accounts in the name and / or FEIN of the University.

Effect / Impact: University funds in unauthorized bank accounts are unsecured and use of the University’s FEIN could result in liabilities.

2. Monthly general ledger reconciliations could improve the accuracy of University financial reporting and provide additional assurance to management and external auditors.

SOLUTION: Pending implementation of the shared services model prototype in January 2020, financial reporting and compliance monitoring will occur at many levels with more defined expectations, including the division / dean levels through Fiscal Operations Managers.

Responsible Parties: Wendy Swartz, Associate VP and Comptroller
Tammy Laird, Associate Comptroller
Department VPs / Financial Managers

Implementation Date: March 31, 2020
DETAILS:
Condition:
- Of the 12 departments / units tested during fieldwork, 11 departments did not have documented monthly revenue reconciliations to the general ledger.
- A review of deposit transmittals reflected three departments posted revenues to expense accounts in the general ledger.
- A review of cash receipts logs reflected patterns of accumulating cash / checks longer than allowed by Comptroller policy. Three departments routinely deposited cash / cash equivalents outside the policy parameters.

Note: For each of the 12 departments reviewed, we provided a summary of our findings to ensure each area understood their cash handling responsibilities. We also provided copies of these individual summaries to the Comptroller’s Office for their reference and possible follow-up.

Criteria: Comptroller Policy CMP 307, Departmental Cash and Check Receipting, requires “A person outside of the mail/receipting function must prepare monthly reconciliations of the general ledger to the mail log or cash register log” and “A deposit is required whenever $500 IN CASH and/or $2,000 IN CHECKS or CREDIT CARDS is accumulated, or five business days pass, whichever occurs first”. Comptroller Policy CMP 125, Monthly Financial Review and Verification, states, “Departments are responsible for reconciling accounts, or proving and documenting that an account balance is correct, at least once a month for the previous month’s activity”.

Cause: Management is not required to review reconciliations of the revenue systems they oversee to the general ledger. Because decision-making and financial operations are decentralized, the Comptroller’s Office relies on individual colleges / units to ensure all financial transactions are reviewed for accuracy. Ultimate fiscal responsibility occurs at the department level with the department director, chair, dean, or provost.

Effect / Impact: Errors in the general ledger could go undetected and negatively affect the integrity of the University’s financial reporting. Lapses in deposits could result in undetected fraud: cash and cash equivalents could be stolen or misappropriated without detection or without sufficient time to identify a perpetrator.

3. Control over cash and cash equivalents could be improved by updating Comptroller policies to include periodic spot audits of petty cash and / or change funds on hand.

SOLUTION: Logs documenting quarterly cash counts verified by two employees should be maintained for all departments and provided to the Comptroller’s Office. The Comptroller’s Office will update policies and procedures to include random physical counts of departmental cash each fiscal year.

Responsible Parties: Wendy Swartz, Associate VP and Comptroller
Tammy Laird, Associate Comptroller

Implementation Date: December 31, 2019
Northern Arizona University
Cash & Cash Equivalents
Audit Report
October 8, 2019

Audit Results: Improvement Opportunities & Solutions

DETAILS:

Condition: Cash is not routinely counted, verified and documented by all departments. Cash counts revealed two departments had excess cash on hand and two departments had less cash on hand with no explanations of variances.

Criteria: No criteria exist for ensuring cash on hand is accounted for at the department level. Physical cash counts by the Comptroller's Office are not performed, increasing the risk of loss.

Cause: As part of the fiscal year-end financial processing, departments are required to physically count cash and report variances to the Comptroller’s Office. However, management is not required to verify and document cash fund balances.

Effect / Impact: Cash could be misappropriated without detection. Although immaterial due to the size of existing petty cash and change funds, cash errors could affect the accuracy of the University’s financial reporting.

SOLUTION: Most departments have implemented or plan to implement recommendations to help strengthen internal controls. Internal Control training will be mandatory for all employees overseeing and / or performing financial transaction processing.

Responsible Parties:
Wendy Swartz, Associate VP and Comptroller
Tammy Laird, Associate Comptroller
Department VPs / Financial Managers

Implementation Date: March 31, 2020

DETAILS:

Condition: Based on testing of 12 procedures identified as required components in Comptroller policies, six departments reflected weak internal control environments. Most results related to minor procedure documentation and verification; however, other results could negatively impact the University’s financial reporting if not strengthened and reinforced (timely deposits, accurate cash collections, accurate petty cash / change fund counts, unauthorized bank accounts, and monthly reconciliations to the general ledger).

Criteria: No criteria exist for ensuring employees are knowledgeable about the policies and procedures related to their functional responsibilities by requiring appropriate training to meet job expectations.

Cause: Employees are not held accountable by management to ensure the department’s internal control environment supports Comptroller policies.

Effect / Impact: Employees with fiscal reporting responsibilities may be unaware of Comptroller requirements and / or have inherited duties without adequate procedures or training. Internal control processes are not formally documented or reinforced by management, leaving employees to determine best practices independently.
Twelve NAU departments had change funds established for use in making change for transactions involving the receipt of cash; three departments had petty cash funds established for making immediate payments for low-cost purchases of authorized items; and two departments held agency funds for use in conducting transactions on behalf of external vendors. The chart at right represents cash deposits by department, excluding Student Service Center revenues, which post directly to general ledger accounts. Six departments reduced or eliminated funds, returning $1,125.00 of University cash to the Comptroller and $350.00 agency cash to vendors as a result of our surprise cash counts and internal control reviews.

Comptroller policies provide minimum standards for effective internal control activities for all University transactions. However, ultimate fiscal responsibility for adherence to Comptroller policies occurs at the department level with the department director, chair, dean or provost. SDAS reported monthly cash, cash equivalent and credit card receipts for Fiscal Year 2019 as follows:
The following procedures were performed as related to cash and cash equivalents:

- Performed walkthroughs and reviewed processes to determine if appropriate segregation of duties exist;
- Performed onsite inspections of cash security to determine if access is appropriately limited;
- Conducted surprise cash counts of petty cash and/or change funds;
- Validated petty cash transactions and reconciled against replenishment requests;
- Reviewed petty cash and change fund transactions to determine if management adequately addresses over and short activities;
- Inventoried terminal and serial numbers of University credit card terminals in use;
- Reviewed management procedures to determine if cash activity is adequately monitored;
- Reduced reliance on cash by encouraging return of unused funds;
- Reviewed cash-out and reconciliation of cashier's shift activities, documentation, and segregation of duties over cash;
- Reviewed detailed transaction records for charge and collection of sales tax;
- Reviewed record logs and performed interviews to determine if cash is verified and transported by two staff;
- Reviewed cash receipts to ensure pre-numbered, multi-copy and bound in a book;
- Reviewed record logs for verification of routine cash counts;
- Reviewed processes for reconciling cash receipts to the general ledger;
- Reported recommendations for improving cash handling to department management and/or fund custodians;
- Searched the Internet and completed multi-state claims for unclaimed properties in the name of Northern Arizona University, NAU and/or affiliated entities using the University's federal employer identification number; and,
- Requested unauthorized bank accounts in the name of Northern Arizona University, NAU and/or affiliated entities using the University's federal employer identification number from a sample of Flagstaff banks and credit unions.