



Internal Audit Department

Summer Camps and Conferences Audit Report

**June 2016
Report Number FY 16-09**

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Northern Arizona University
Summer Camps and Conferences
Audit Report
June 8, 2016

Summary

Our audit of NAU's Summer Camps and Conferences is in the Annual Audit Plan for FY 2016, as approved by the Audit Committee of the Arizona Board of Regents. This audit links to Northern Arizona University's goal of having efficient, effective, and accountable practices.

Background: In August 2012, NAU entered a management agreement with Sodexo to manage Summer Camps and Conferences. The University's summer conference season spans mid-May through early August. The one-stop-shop blueprint offers clients the convenience of one point of contact, one contract and one bill for their entire summer program. The single point of contact works closely with NAU departments to coordinate group usage of on-campus lodging, dining, catering, meeting space, academic space, recreation facilities, athletic fields, transportation and parking arrangements. Youth groups from all over the nation choose NAU as their destination for summer programs. NAU is also host to a number of summer adult conferences that include both national and international attendees. These groups range in size from 10 to 2,500 people and stay as little as one night or as long as five weeks. The combination of Flagstaff's proximity to the Grand Canyon, its elevation, state-of-the-art facilities and summer weather make NAU a popular choice for summer programs.

Sodexo utilizes the Event Management System (EMS) to reserve and administer summer camps and conferences. EMS is a database of all NAU rooms and facilities and facilitates the management of room availability. Unit Financial System (UFS) is the accounting system used to account for summer camps and conferences. Summer Camps and Conferences offers many venues for group meetings, receptions and activities, including meeting rooms, classrooms, recreational space and assembly halls. Meeting rooms can be equipped with audio/visual equipment. Meeting rooms are located within the du Bois Center, University Union, Health and Learning Center, W.A. Franke College of Business and R.H. Castro College of Social and Behavior Sciences and include space for the following capacities:

- du Bois Center - 17 to 250 participants
- University Union - 28 to 115 participants
- Health and Learning Center - 48 to 104 participants
- W.A. Franke College of Business - 40 to 200 participants
- R.H. Castro College of Social and Behavior Sciences - 83 to 200 participants
- Banquet rooms and ballrooms - 300 to 850 participants
- Performance halls - 400 to 1,300 participants

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Recreational fields feature indoor/outdoor soccer fields, multi-purpose fields/space, sand volleyball courts, indoor volleyball courts, basketball courts, tennis courts, indoor track, badminton courts and projector and screen for movies. Recreational fields include the following:

- South Field Complex
- The Aquatic and Tennis Complex
- The du Bois Center Field
- Union Fieldhouse
- Observatory Field
- Multi Activity Court (MAC) Gym
- Gabaldon Field
- South Gym

Housing options include the following on-campus residence halls:

<u>Traditional Style Halls</u>	<u>Suite Style Halls</u>
<ul style="list-style-type: none"> • McConnell • Reilly • Allen 	<ul style="list-style-type: none"> • Gabaldon • Mountain View • The Suites

Campus Dining provide meals and catering services to camps/conference participants. A variety of food choices are offered at The Hot Spot and The Dub, as well as the option of catering services.

Rates per participant for 2015 Summer Camps and Conferences are as follows:

Food Service	
Breakfast	\$ 5.02
Lunch	8.37
Dinner	8.61
Tax	1.97
Total Food Service	\$ 23.97
 Residence Life	 \$14 to \$58.50
 Conference Fee	 \$ 9.50
 Health Center Fee	 \$ 0.20

Meeting rooms range from \$50 to \$2,000 plus the cost of labor; while recreational facilities/fields range from \$5 per hour to \$100 per hour for indoor recreational facilities; \$80 per day to \$1,200 per day for outdoor recreational facilities and \$100 per day to \$200 per day for the swimming pool.

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Per the management agreement, payments from Sodexo to NAU represent surplus (net income), which are recognized as revenue on NAU's books minus the revenue generated from Campus Dining; while deficits (net losses) are charged as an expense to NAU and result in a payment to Sodexo. NAU reported net income during the summer months while net losses occurred during the rest of the academic year. Residence Life and Campus Dining provided 35% and 39% of total revenue, respectively. Approximately 17% of total revenue related to the Conference Center, with the remaining 9% of revenue allocated to other NAU departments involved with Summer Camps and Conferences (i.e. parking, shuttle, Health and Learning Center, room rentals) in accordance with Sodexo policies and procedures.

The following reflects the activity for Summer 2015:

	June	July	August	Total
Sales				
Rooms-regular	31,272.50	60,354.00	19,951.87	111,578.37
Lodging	283,248.00	350,292.25	123,457.70	756,997.95
Banquet and catering	4,706.06	1,067.26	-	5,773.32
Food lunch	321,342.37	416,964.65	94,632.74	832,939.76
Conference	142,048.32	174,448.50	56,819.50	373,316.32
Merchandise-regular	37,540.74	30,758.64	13,131.83	81,431.21
Restaurant-discountable	(328,688.43)	(416,903.90)	(95,554.89)	(841,147.22)
Total sales	491,469.56	616,981.40	212,438.75	1,320,889.71
Special services	2,931.80	3,672.41	1,196.20	7,800.41
Total sales and revenue	494,401.36	620,653.81	213,634.95	1,328,690.12
Operating Expenses				
Labor				
Wages	13,493.28	5,542.45	12,077.40	31,113.13
Benefits and payroll taxes	6,292.77	3,468.50	5,865.56	15,626.83
Wage accruals	220.05	220.11	241.18	681.34
Total labor	20,006.10	9,231.06	18,184.14	47,421.30
Controllables				
Telephone	11.00	11.00	11.00	33.00
Delivery	-	0.64	-	0.64
Printed materials	-	-	5,436.79	5,436.79
Miscellaneous	(4,626.37)	2,237.89	1,782.11	(606.37)
Credit card discount fees	1,362.66	2,380.40	1,182.54	4,925.60
Total controllables	(3,252.71)	4,629.93	8,412.44	9,789.66
Non-controllables				
Amortization-depreciation	77.39	61.90	61.91	201.20
Insurance	535.10	575.95	521.29	1,632.34
Taxes, license and fees	470.79	-	471.03	941.82
Management fee	2,483.35	1,986.68	1,998.20	6,468.23
Systems support	21.45	21.45	21.45	64.35
Total non-controllables	3,588.08	2,645.98	3,073.88	9,307.94
Total operating expenses	20,341.47	16,506.97	29,670.46	66,518.90
Net Income	474,059.89	604,146.84	183,964.49	1,262,171.22

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Audit Objective: The primary objective of the audit is to determine if Summer Camps and Conferences held at NAU are adequately planned, administered and accounted for.

Scope: The scope of our audit included a review of all policies and procedures governing the management of Summer Camps and Conferences as well as other procedures that helped us achieve our primary audit objective. We reviewed documents and system reports supporting transactions that occurred from May 2015 to August 2015, as well as current practices and procedures.

Methodology:

- Reviewed the Summer Camps and Conferences website.
- Reviewed ABOR and NAU policies and procedures related to Summer Camps and Conferences.
- Reviewed Sodexo policies and procedures related to Summer Camps and Conferences.
- Interviewed NAU and Sodexo staff responsible for managing Summer Camps and Conferences, which include Sodexo, Housing and Residence Life, and Enrollment Management and Student Affairs.
- Reviewed contracts, planning/management checklists, EMS reservation system and UFS accounting system reports for selected invoices to determine camp/conference was adequately planned, administered and accounted for.
- Reviewed revenue allocation, income statements provided by Sodexo and general ledger activity for Summer Camps and Conferences.

The audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*.

Conclusion: Summer Camps and Conferences are adequately planned, administered and account for. Checklists and periodic meetings among NAU departments prove effective in planning and administering Summer Camps and Conferences. While the use of EMS allows for efficient booking and paperless retention (i.e. contracts, insurance policies, etc.) for Summer Camps and Conferences, UFS is used to invoice customers and collect on those invoices.

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The control standards we considered during this audit and the status of the related control environment are provided in the following table.

General Control Standard (The bulleted items are internal control objectives that apply to the general control standards, and will differ for each audit.)	Control Environment	Recommendation No.	Page No.
Reliability and Integrity of Financial and Operational Information			
<ul style="list-style-type: none"> Departments prepare complete and timely billings for Summer Camps and Conferences 	Reasonable to Strong Controls in Place		
<ul style="list-style-type: none"> Revenue recognition is not duplicated 	Reasonable to Strong Controls in Place		
<ul style="list-style-type: none"> Reconciliation of NAU Department billings to customer invoices is performed 	Reasonable to Strong Controls in Place		
<ul style="list-style-type: none"> Duplicate reservations are not allowed 	Reasonable to Strong Controls in Place		
<ul style="list-style-type: none"> Revenue and expenses are captured in the correct annual accounting period 	Reasonable to Strong Controls in Place		
<ul style="list-style-type: none"> Rate schedules exist and are approved by NAU administration and Sodexo 	Opportunity for Improvement	1	7
<ul style="list-style-type: none"> Monthly reports are timely submitted to NAU administration for review. 	Reasonable to Strong Controls in Place	2	8
<ul style="list-style-type: none"> Monthly reports for NAU administration are adequate. 	Opportunity for Improvement	2	8
<ul style="list-style-type: none"> Management oversight is provided to ensure revenue and expense capture is appropriately recorded 	Opportunity for Improvement	3	9
Safeguarding of Assets			
<ul style="list-style-type: none"> Reservation and accounting software and data are backed up 	Reasonable to Strong Controls in Place		

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General Control Standard (The bulleted items are internal control objectives that apply to the general control standards, and will differ for each audit.)	Control Environment	Recommendation No.	Page No.
<ul style="list-style-type: none"> Sensitive information is adequately protected 	Reasonable to Strong Controls in Place		
Effectiveness and Efficiency of Operations			
<ul style="list-style-type: none"> Policies and procedures exist for Summer Camps and Conferences 	Reasonable to Strong Controls in Place		
<ul style="list-style-type: none"> Contracts are used and adequately explain Camps/Conference policies 	Reasonable to Strong Controls in Place		
<ul style="list-style-type: none"> Features within EMS are used to efficiently plan and effectively manage Summer Camps and Conferences 	Reasonable to Strong Controls in Place		
<ul style="list-style-type: none"> Planning meetings between Summer Camps and Conferences and NAU Departments are adequate 	Reasonable to Strong Controls in Place		
<ul style="list-style-type: none"> Customer disputes are timely followed-up on and resolved 	Reasonable to Strong Controls in Place		
Compliance with Laws and Regulations			
<ul style="list-style-type: none"> Summer Camps and Conferences complies with ABOR policies and AZ State Law 	Reasonable to Strong Controls in Place	1	7

We appreciate the assistance of the staff of Sodexo, Housing and Residence Life and Enrollment Management and Student Affairs.

/s/
Karletta Jones
Senior Internal Auditor
Northern Arizona University
(928) 523-4136
karletta.jones@nau.edu

/s/
Mark Petterson
Chief Audit Executive
Northern Arizona University
(928) 523-6438
mark.petterson@nau.edu

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Audit Results, Recommendations and Responses

1. NAU Management and Sodexo should periodically review and agree on rate schedules related to summer camps and conferences components.

Condition: NAU administration and Sodexo have approved dining rates for Summer Camps and Conferences; however, no formalized agreement exists for rates related to housing, conference fee, health center fee, facility (room and recreation) rentals and special rates. Rates, other than dining, have not changed significantly for several years.

Criteria: Per ABOR Policy 7-209, Rental Rates, "The rental rates for use of university facilities and properties by off-campus organizations shall be approved by the president of each institution. Rental rates should reflect considerations of the fair market value rates charged by comparable facilities, actual expenses incurred in providing the space (operations, maintenance, and deferred maintenance), and inflation. Each university shall review its established rates annually. A university may offer reduced rental rates to affiliated non-profit organizations."

Cause: Because the rates related to housing, conference fee, health center fee and facility rentals have not significantly changed since Sodexo began managing Summer Camps and Conferences, the rates have not been outlined in the contract and/or related addendums.

Effect: Adequate approved documentation does not exist to support fees charged. Without a formal agreement, potential disputes related to fees charged exist. Lack of annual review of rates could result in inadequate rates for cost recapture.

Recommendation: In addition to dining rates, all other conference/camp rates should be included in the contract and/or addendum to the contract as well as approved special rates. Rates should be periodically reviewed to ensure cost recapture is adequate.

Response: Senior administration of all involved departments will meet annually to formalize summer conference package and facility rates. The rates will be in effect for two years and will be reassessed by senior administration to ensure its adequacy. Involved departments include NAU Residence Life, High Country Conference Center, NAU Dining Services, NAU Campus Health Services, NAU Campus Services and Activities, NAU Athletics and Campus Recreation Services. Approved summer package and facility rates will be acknowledged on an internal NAU document to be approved and signed by all involved parties. A proposed 2016 Summer Conferences Package and

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Facility Rates Schedule has been drafted and will be approved by senior administration by June 30, 2016.

2. Monthly reports provided to NAU management should be more detailed.

Condition: Currently, Sodexo provides Monthly Operating Statements and Revenue Allocation worksheets for Summer Camps and Conferences. The Operating Statements reflect monthly revenue and expenses by account type. The Revenue Allocation is a spreadsheet that lists all events billed for a particular month with each billing allocated to several NAU departments for their share of the revenue. A contra-revenue account for discounts and bad debt expense accounts does not exist. Instead, discounts and bad debt are netted against revenue, with the net revenue allocated to the respective department.

Criteria: Reporting requirements as outlined in the Sodexo contract indicate monthly profit and loss reports and weekly sales reports are to be provided to NAU administration. Per the management agreement (Article VI, 6.1), Sodexo shall collect and account for Gross Revenue and pay Operating Expenses as required and will submit an Annual Operating Projection (Article VI, 6.2) to project revenues, management fees, operating expenses, routine capitalized maintenance and major reports for the forthcoming fiscal year.

Cause: Because the reporting requirements are limited to several reports and no deadline exists, there has been no request by NAU management to request detailed information within a certain deadline. There is no guidance in the management agreement to record discounts applied to revenue or the recognition of bad debt expense.

Effect: Without adequate and timely detail to support expenses and no separate tracking of discounts and bad expense, management is limited in their review of expenses to ensure payments made to Sodexo are accurate and comply with the management agreement; specifically if expenses are reasonably consistent with the Annual Operating Projection.

Recommendation: General ledger detail of expense line items should be requested monthly for review with adequate supporting documentation and/or explanation for unusual/significant activity noted by NAU administration. A deadline should be established within the management agreement for reporting requirements. Discounts should be reported in a contra-revenue account and bad debt expense should be separately recognized as opposed to being netted against revenue.

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Response: A contra-revenue account will be created to reflect discounts that are given for NAU Summer Camps and Conferences. A bad debt expense account (credit memos) will be created to capture accounts written-off; instead of being netted against revenue. This will be completed by Sodexo's fiscal year-end of August 31, 2016.

Detail of expense line items will be provided in the operations statement provided to NAU Management on a monthly basis. This will be completed by Sodexo's fiscal year-end of August 31, 2016.

3. NAU Management oversight should be improved to ensure revenue and expenses are recorded appropriately on the general ledger.

Condition: Net income reported on Sodexo Operating Statements are recorded in one revenue account on NAU's general ledger as opposed to recording revenue and expense separately. The net loss reported on Sodexo Operating Statements are recorded in consulting expense on NAU's general ledger.

Criteria: Per the management agreement, payments made to Sodexo are a result of any deficit (net loss) recognized for the month; while payments made to NAU are a result of any surplus (net income) recognized for the month. While no directive exists regarding revenue and expense postings on NAU's general ledger, recording the components that make up net income in their appropriate general ledger account (revenue and expense) will make the Status of Funds more accurate.

Cause: Without a second review of the accounting of cash receipts (net income) and cash disbursements (net loss), revenue and consulting expense have been understated.

Effect: Status of Funds reports (income statements) that NAU administration uses to assess the performance of Summer Camps and Conferences are not accurate. Per the Status of Funds, net income for July 2015 in the amount of \$604,147 was inadvertently recorded in consulting expense resulting in a credit balance for an expense account. Our scope includes June 2015; however, the June 2015 net income recognized was properly accrued at June 30, 2015 and reversed on July 1, 2015. Accordingly, revenue and expense is understated by \$46,177, which is the sum of total operating expenses for July and August 2015.

Recommendation: July 2015 net income should be reclassified to miscellaneous operating revenue and expenses associated with July and August 2015 should be

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reclassified to consulting expense. Because June 2015 is zeroed out by the reversing entry, we do not recommend reclassifying the expense to consulting expense. A second review of general ledger recordings should be made to ensure its accuracy and completeness.

Response: FY16 revenues and operating expenses will be reclassified in accordance with the recommended method above. The reclassification will be completed by June 30, 2016. Beginning with June 2016 activity, an additional review of the general ledger will be performed.

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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.

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