



**Internal Audit Department**

## **Printing Services**

**March 2017**  
**Report Number FY 17-06**

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Northern Arizona University  
Printing Services  
Audit Report  
March 27, 2017

## Summary

Our audit of NAU's Printing Services is in the Annual Audit Plan for FY 2017, as approved by the Audit Committee of the Arizona Board of Regents. This audit links to NAU's strategic goal of sustainability and effectiveness.

**Background:** Printing Services is a full-service print shop on the Flagstaff campus of NAU. It serves all NAU departments, including the Phoenix, Tucson, and Yavapai campuses, as well as governmental agencies through Intergovernmental Agency Agreements (IGA).

The mission of Printing Services is to provide customers with high quality, cost effective small and large format printing and copying services in a manner that is professional and courteous and accommodates customer needs. The core tenets of the mission include:

- Service – provide exemplary service to customers
- Integrity – operate with fairness, honesty and high ethical standards
- Innovation – incorporate current technologies and business processes
- Education – serve as a trusted advisor to the campus community on all topics involving print communications and involve student employees in learning about customer service, business operations and graphic design standards
- Engagement – be meaningfully involved in campus activities and areas where expertise can be applied for the good of the university

Taking print orders and producing a finished product is a simple concept, but it often requires complex thought and planning. There are many steps in creating a finished piece, including:

- Customer Service
- Pre-Press and Printing
- Binding
- Product Delivery
- Accounting

Excellent customer service is crucial to the success of Printing Services. Printing often has to decipher what a client wants and convey the type of product that will work best. Printing Services follows the rules of NAU's marketing and branding guidelines and ensures graphic compliance on all print orders.

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Printing orders are received in one of two ways: online orders are placed using the Digital Storefront (DSF) and customized orders are placed by completing a Custom Estimate Request (CER). Additionally, FY 2016 walk-in sales were made to students, IGA customers and the general public. As of February 1, 2017, walk-in sales are made only to NAU departments and IGA customers. Depending on the complexity of the print order, the job may be processed in-house or outsourced to an outside vendor for completion.

DSF is primarily offered to NAU departments, who pay using SpeedChart numbers, which are fund and department codes that represent the chart of accounts; however, there are IGA customers, such as Flagstaff Unified School District, that have online access to DSF. DSF launched in March 2016 and offers standard products with most stationary products (i.e. business cards, letterhead, etc.) being ordered through DSF. DSF allows standard orders to be efficiently ordered repeatedly; thereby managing the staff and operations more effectively. Features of the online ordering system include: instant proof approval and pricing, customer unique profile with order history, easy reordering and faster turnaround.

Customized orders are placed using a CER, which is a fillable form located on the Printing Services' website. The CER is not an order form; instead it is intended to initiate projects by collecting customer information, delivery and billing information, and project information. A signed estimate and valid SpeedChart number is required to move the project into production.

All online and customized orders are imported into PrintSmith Vision, a management information system used to track and manage orders from inception to completion. The accounts receivable and reporting features allow for efficient account management and analysis of Printing Services operations.

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With a 4,663 square-foot facility that houses state-of-the-art digital and offset printing equipment and a staff of 18 that includes full- and part-time employees and student workers, Printing Services generated the following revenue and recognized the following expenses for FY 2016:

<b>Revenue</b>	<u>Outsourced</u>	<u>In-House</u>	<u>Total</u>
Walk-In Orders	\$ 129,160	\$ 76,038	\$ 205,198
Online and Custom Orders	719,454	357,567	1,077,021
JacksCard Orders	-	3,779	3,779
	<u>          </u>	<u>          </u>	<u>          </u>
Total	<u>\$ 848,614</u>	<u>\$ 437,384</u>	<u>\$ 1,285,998</u>

<b>Expenses</b>	<u>Outsourced</u>	<u>In-House</u>	<u>Total</u>
Salary Expense (ERE eligible)	\$ -	\$ 136,583	\$ 136,583
Other Wages	-	25,883	25,883
Student Wages	10,006	18,665	28,671
Employee Related Expenses	356	63,135	63,491
Operations	650,327	118,180	768,507
Interdepartmental	620	3,738	4,358
Utilities/Other Ops/Insurance	1,452	1,467	2,919
University Charges	13,518	11,069	24,587
Professional & Outside Services	6,746	134,669	141,415
Travel	-	786	786
Equipment	30,932	8,411	39,343
	<u>          </u>	<u>          </u>	<u>          </u>
Total	<u>\$ 713,957</u>	<u>\$ 522,586</u>	<u>\$ 1,236,543</u>

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Revenue and expenses for FY 2015 are as follows:

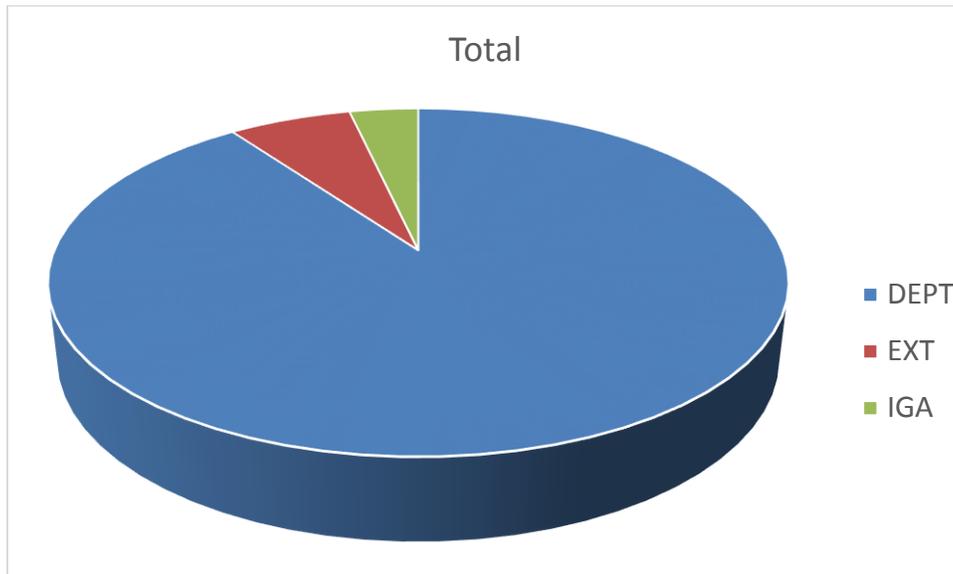
<b>Revenue</b>	<u>Outsourced</u>	<u>In-House</u>	<u>Total</u>
Walk-In Orders	\$ 48,615	\$ 71,716	\$ 120,331
Online and Custom Orders	670,288	281,658	951,946
JacksCard Orders	-	105	105
<b>Total</b>	<b><u>\$ 718,903</u></b>	<b><u>\$ 353,479</u></b>	<b><u>\$ 1,072,382</u></b>

<b>Expenses</b>	<u>Outsourced</u>	<u>In-House</u>	<u>Total</u>
Salary Expense (ERE eligible)	\$ 17,834	\$ 127,020	\$ 144,854
Other Wages	-	24,500	24,500
Student Wages	11,319	16,301	27,620
Employee Related Expenses	5,871	54,470	60,341
Operations	600,074	26,470	626,544
Interdepartmental	7,081	10,389	17,470
Utilities/Other Ops/Insurance	1,837	3,816	5,653
University Charges	-	-	-
Professional & Outside Services	127	183,284	183,411
Travel	75	2,995	3,070
Equipment	-	13,698	13,698
<b>Total</b>	<b><u>\$ 644,218</u></b>	<b><u>\$ 462,943</u></b>	<b><u>\$ 1,107,161</u></b>

Overall, revenue and expenses for FY 2016 increased by \$213,616 and \$129,382 over FY 2015, respectively.

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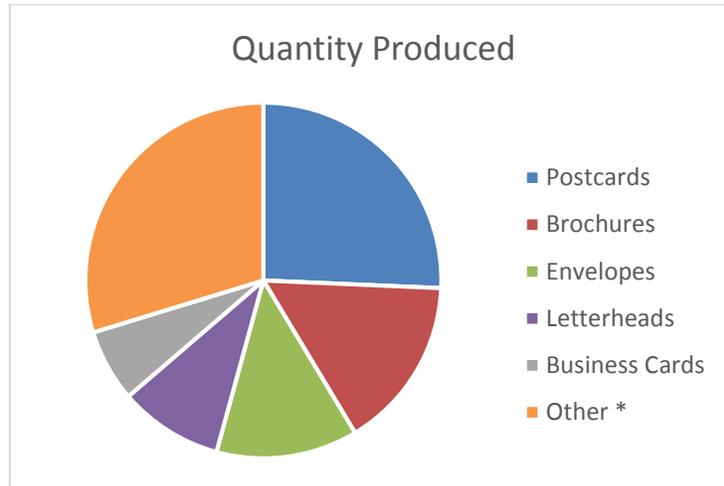
The following graph details the demographic of customers for FY 2016 sales:



90% of sales were to NAU departments (DEPT), 6% of sales were to external customers (EXT) and 4% of sales were to customers under an intergovernmental agreement (IGA).

Printing Services offers an array of products from business cards, brochures and booklets to banner stands, vehicle magnets, binding and free campus delivery as well as many more products. The following graph and tables reflect the products ordered for FY 2016:

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\* Other

Products	Quantity Produced	%
Postcards	1,457,447	26%
Brochures	890,270	16%
Envelopes	730,259	13%
Letterheads	536,200	9%
Business Cards	372,960	7%
Other *	1,686,376	30%
<b>Total</b>	<b>5,673,512</b>	<b>100%</b>

Products	Quantity Produced
Flyers	319,945
Direct Mail	310,882
Booklets	272,439
Forms	213,762
Blank Stock	84,550
Cards	74,487
Miscellaneous	410,311
<b>Total</b>	<b>1,686,376</b>

**Audit Objectives:** The primary objectives of the audit are to determine if Printing Services' financial management is adequate and effective and in compliance with NAU policies.

**Scope:** The scope of our audit included a review of all policies and procedures governing the management of Printing Services as well as other procedures that helped us achieve our primary audit objectives. We reviewed documents and system reports supporting transactions that occurred from fall 2015 to spring 2016, as well as current practices and procedures.

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**Methodology:** The following procedures were performed to accomplish the audit objectives:

- Reviewed the Printing Services website
- Reviewed ABOR and NAU policies and procedures relevant to Printing Services
- Interviewed Printing Services management and staff
- Toured Printing Services
- Reviewed DSF System, CER procedures and PrintSmith Vision System
- Reviewed Status of Funds financial reports, PrintSmith Monthly and Daily Sales Reports, Payment Journals, Pricing Schedules and Detailed Account Aging Schedules
- Reviewed forms/checklists (i.e. Intake Form, Inventory Form, job jackets) used to manage Printing Services
- Sampled and reviewed sales invoices, vendor bills, lease agreements, and Intergovernmental agreements
- Performed a payroll analysis
- Sampled and reviewed sales tax charged and paid via the sales tax liability account
- Reviewed the inventory listing as provided by Property Administration and compared to the audited capital asset listing as of June 30, 2016.

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

**Conclusion:** Printing Services is adequately managed and in compliance with NAU policies. The use of the DSF online ordering system, CER procedures and PrintSmith Vision billing, tracking and reporting system allow for efficient management and monitoring of Printing Services.

**Observations:** We noted:

- As of February 1, 2017, Printing Services is complying with ABOR policy 1-105 – Competition with Private Enterprise. They had been providing services to private enterprises prior to this.
- Because Printing Services intends to obtain more IGA customers, they will follow the IGA process as outlined in ABOR Policy 3-808, Intergovernmental Procurement.
- The Budget Office and Printing Services are in the process of setting up a reserve account for \$75,000 for equipment to be replaced beginning in FY 2018. This includes \$49,000 for a new cutter and \$26,000 for other equipment.

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- Printing Services is activity working to move its computer server to ITS as part of NAU's IT centralization initiative. Advantages of server centralization are better version control, security, capacity and performance. The date of the move has not yet been determined by ITS.
- Beginning in FY 2017, Printing Services consolidated their in-house and outsourced revenues and expenses into one department (5750020) to more efficiently review and analyze the Printing Services' operations. Previously, they used two separate departments to capture revenues and expense for in-house and outsourced products.

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

<b>General Control Standard</b> (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.
<b>Reliability and Integrity of Financial and Operational Information</b>			
<ul style="list-style-type: none"> <li>• Digital Store Front is automated to create standard sales orders</li> </ul>	Reasonable to Strong Controls in Place	1	11
<ul style="list-style-type: none"> <li>• Custom sales orders are handled by management</li> </ul>	Reasonable to Strong Controls in Place		
<ul style="list-style-type: none"> <li>• Printing Management System used to track stages of the product (i.e. receipt, production, delivery, billing)</li> </ul>	Reasonable to Strong Controls in Place		
<ul style="list-style-type: none"> <li>• Cash receipts per the Printing Management System are reconciled to revenue on the GL</li> </ul>	Reasonable to Strong Controls in Place		
<ul style="list-style-type: none"> <li>• Revenue recognition is not duplicated</li> </ul>	Reasonable to Strong Controls in Place		
<ul style="list-style-type: none"> <li>• Customer invoices and department billings are timely prepared</li> </ul>	Opportunity for Improvement	2, 4, 5	12, 14, 15
<ul style="list-style-type: none"> <li>• Revenue and expenses are captured in the correct GL account</li> </ul>	Reasonable to Strong Controls in Place		

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<b>General Control Standard</b> (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"> <li>Expenses are adequately supported</li> </ul>	Reasonable to Strong Controls in Place		
<ul style="list-style-type: none"> <li>Pricing schedules exist and are approved by administration</li> </ul>	Reasonable to Strong Controls in Place	3	13
<ul style="list-style-type: none"> <li>Management oversight is provided to ensure revenue and expense capture is appropriately recorded</li> </ul>	Reasonable to Strong Controls in Place		
<b>Safeguarding of Assets</b>			
<ul style="list-style-type: none"> <li>Print management checklists, forms and system data are backed up</li> </ul>	Reasonable to Strong Controls in Place		
<ul style="list-style-type: none"> <li>Sensitive information is adequately protected</li> </ul>	Reasonable to Strong Controls in Place		
<ul style="list-style-type: none"> <li>Printing Services ensures graphics and branding compliance on print orders</li> </ul>	Reasonable to Strong Controls in Place		
<ul style="list-style-type: none"> <li>All equipment is tagged and inventoried according to NAU policy</li> </ul>	Reasonable to Strong Controls in Place	7	17
<b>Effectiveness and Efficiency of Operations</b>			
<ul style="list-style-type: none"> <li>Policies and procedures exist for Printing Services</li> </ul>	Opportunity for Improvement	6	16
<ul style="list-style-type: none"> <li>Systems, processes and procedures are used to efficiently and effectively manage Printing Services</li> </ul>	Reasonable to Strong Controls in Place		
<ul style="list-style-type: none"> <li>Online orders are automated</li> </ul>	Reasonable to Strong Controls in Place		
<b>Compliance with Laws and Regulations</b>			

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<b>General Control Standard</b> (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"> <li>• Printing Services complies with ABOR policies and AZ statutes</li> </ul>	Reasonable to Strong Controls in Place		

We appreciate the assistance of the staff of NAU Printing Services and NAU Marketing.

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

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

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**Audit Results, Recommendations and Responses**

**1. The online user listing should be periodically reconciled to a listing of active NAU employees and approved IGA customers.**

**Condition:** Our review of Printing Services' Front Office Procedures manual indicated that the online user listing is not reconciled to active NAU employees and approved IGA customers. While Printing Services verifies customers are authorized to place an order when accepting customized orders, no active verification is performed for online orders.

**Criteria:** To ensure Printing Services does not violate ABOR Policy 1-105, which prohibits competition with private enterprise, Printing Services should quarterly reconcile users to NAU departments and approved IGA customers.

**Cause:** Orders were accepted from private enterprises in the past.

**Effect:** Without a review of the online order customer listing, the potential to service non-NAU and non-IGA customers exists.

**Recommendation:** The online user listing should be periodically reconciled to the listing of active NAU employees and approved IGA customers.

**Response:** Our online ordering system (DSF) is linked to NAU's Central Authentication Service (CAS) system. The current login process reconciles individual users against the CAS system at the moment of login. Thus, even though the entire user list may not be up-to-date with the NAU directory when reviewed, the relevant part of the list is always up-to-date, since individual user information is reconciled at each login. Additionally, orders placed by NAU employees are required to enter a valid department SpeedChart number and their emails and phone numbers must be entered and updated in PrintSmith. Upon job completion, users are again verified when invoices are emailed to the department contact. Customer contact lists in PrintSmith will be verified once a quarter and all ex-employees associated with the department will be deleted.

Only approved IGA customers are able to purchase through NAU Printing Services. These customers have given the Print Manager a list of approved purchasers and they are the only ones allowed to place an order. The users on this list will be reviewed and updated every quarter by the Manager and the IGA customer contact. This will be implemented by March 31, 2017 and will be completed on the last day of every quarter.

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**2. Accounts Receivable should be reviewed and reconciled to monthly close-out reports.**

**Condition:** During our revenue analysis, we noted accounts receivable per the monthly close-out reports do not agree to the accounts receivable aging schedule at any given point in time. At June 30, 2016, accounts receivable per the close-out reports and accounts receivable aging schedule were \$25,366.10 and \$9,390.79, respectively. The accounts receivable aging schedule at June 30, 2016 contained activity from as far back as 2014 and also had \$1,810.93 in unapplied credits. Printing Services' policy is to collect payment when orders are picked up, although several customers mail in their payments. The collection period calculated as part of our revenue analysis revealed an average of 14 days from invoice pickup to deposit date.

Accounts Receivable as a percentage of annual sales are less than 1% and are immaterial.

**Criteria:** The accounts receivable aging schedule and monthly close-out reports should reconcile to each other; especially since they are both generated from the same system. The aging schedule is used as a gauge to determine the financial health of a company's customers and determine the best business practice for collection.

**Cause:** No process exists to reconcile the aging schedule to the close-out reports.

**Effect:** Old accounts receivable are allowed to exist.

**Recommendation:** The accounts receivable aging schedule should be reviewed, old accounts receivable collected or written off, and be reconciled to the monthly close-out reports.

**Response:** Aging reports will be reviewed for accounts receivables that can be collected or should be written off. New account receivable procedures will state that account receivable aging reports will be pulled on the 1<sup>st</sup> and 15<sup>th</sup> day of each month for review. Accounts aging past 30 days will be issued a statement.

To reconcile monthly close-outs, reports in PrintSmith and Enterprise reporting will be pulled to ensure that they both reconcile to monthly receipts in PrintSmith and monthly revenues in PeopleSoft Financials. The account receivable balance from IGA customers will be reconciled to the daily close-out reports and an aging schedule will be pulled for review. All collected account receivables from IGA customers will be posted in PrintSmith and NAU interdepartmental transfers will be posted and approved before the closing of

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each month. Any variances will be reconciled to cash deposits in transit and all others will be reviewed and noted by management. This will be implemented by April 1, 2017.

**3. Pricing schedules should be published on the Printing Services website.**

**Condition:** Pricing schedules are not listed on the Printing Services website.

**Criteria:** To inform customers and to follow sound business practices, pricing schedules should be listed on the Printing Service website.

**Cause:** Because no best practice was established, the pricing schedules were not listed on the website.

**Effect:** Posting of prices enables customers to better estimate and compare prices.

**Recommendation:** Pricing schedules should be published on the Printing Services website.

**Response:** Previously, pricing was only displayed in the online store front at the product set up after selecting the product specifications. To allow more transparency, a pricing matrix will be listed for standard stationary products and other “standardized products” (i.e. brochures, posters, flyers) at the product preview page. These prices are located on the Digital Store Front page for access by NAU employees. This will be implemented by May 1, 2017.

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**4. Sales tax should be charged at the correct rate.**

**Condition:** Sales tax was not charged at the correct rate for the three external customer invoices sampled. The sales tax rate for 2016 was 6.9%, which is the tax rate for Coconino County. Sales tax was charged at 6.72%, 9.45% and 8.65% for the three external customers tested.

**Criteria:** Effective January 1, 2015, the Arizona Department of Revenue Rate schedule reflected a tax rate of 6.9% for Coconino County for Job Printing. NAU is exempt from City of Flagstaff sales tax.

**Cause:** No procedures exist to verify the sales tax rates each year.

**Effect:** Sales tax is not properly charged.

**Recommendation:** As of February 1, 2017, Printing Services no longer services external non-IGA customers; however, if an approved IGA-customer is subject to sales tax, we recommend that Printing Services verify the tax rate with the Comptroller's Office. Additionally, Printing Services should periodically verify the applicable tax rates for Coconino County and the State of Arizona.

**Response:** The tax rate of 6.9% has been verified as correct by the Comptroller's office as of March 8, 2017. This rate will apply to Printing Services' approved IGA customers and will be effective immediately.

Printing Services will verify the correct tax rates at the end of each calendar year which will then be implemented on January 1<sup>st</sup> of each year. Printing Services will refund sales tax overcharges for external customer orders from July 1, 2016 to March 23, 2017, the date of the audit exit conference.

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**5. Printing Services should charge sales tax to NAU departments at the same amount charged by outsourced vendors.**

**Condition:** While testing outsourced print orders to ensure the outside vendor's costs are passed onto the customer, we noted that Printing Services is charging a tax markup of 8.30%; however, that rate is incorrectly calculated on all costs (i.e. product cost, shipping, vendor markup, etc.). The vendor bill accurately charged sales tax on the product cost only; it did not consider freight as part of the sales tax calculation.

**Criteria:** NAU is not exempt from sales tax when ordering products from outside vendors for these outsourced print jobs. Sales tax is charged only on the product and not on freight/shipping. Sales tax should be passed onto the NAU department at the exact amount charged by the outside vendor.

**Cause:** Because no review of sales tax on outsourced vendor orders was performed and because the sales invoice provided to the NAU department reflected no sales tax, there was no apparent evidence that sales tax was being charged to NAU departments at a higher tax amount.

**Effect:** NAU departments and other customers that had their print job outsourced paid more for their products due to the tax markup than when ordering directly from the vendor.

**Recommendation:** Printing Services should pass the correct sales tax cost to the customer.

**Response:** We have received all current tax rates from our vendors. During the estimating process, we will attempt to accurately estimate the vendor cost for the print product, shipping, and tax based on actual vendor costs. Additionally, we have introduced a new procedure to bill customers after invoices are received from outside vendors.

Instead of issuing invoices at pick up or delivery, only the delivery receipt will be given. After delivery, job tickets for print jobs will be held by the original estimator until it is verified that outsourced vendor costs in PrintSmith match the invoice given by the vendor. These costs will include the product, tax, shipping, and any order adjustments. Once all charges have been reviewed and updated, it will go to Accounting for billing and the transfer of payments. This will allow Printing Services to accurately pass the outside vendors costs to the customers and remove the risk of overcharging or undercharging our customers. This will be implemented by April 1, 2017.

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**6. All costs associated with outsourced orders and discounts should be outlined in a policy and periodically reviewed.**

**Condition:** While testing outsourced print orders to ensure the outside vendor's costs are passed onto the customer, we noted the following additional costs were charged to the customer:

- Coordination fee
- Tax markup
- Incoming shipping
- Vendor markup
- Rebox, quality control and labeling
- Printed product sample from vendor.

We also noted that discounts are used in the Printing Services operation. Discounts relate to rework or are true discounts offered to customers. During FY 2016, discounts totaled \$10,290.36 with 6%, 5% and 89% allocated to external customers, IGA customers and NAU departments, respectively.

However, we did not note any policy that outlines additional costs or discounts; nor review of each by management.

**Criteria:** Policies and procedures are designed to guide and determine all major decisions and actions and should be consistent with the overall mission of NAU.

**Cause:** No policies and procedures were created to address additional charges and discounts.

**Effect:** There is potential for inconsistent application of additional costs and discounts or inadequate pricing charged to customers.

**Recommendation:** All costs associated with outsourced orders and discounts should be outlined in a policy and annually reviewed by management to ensure prices are adequate to recoup the costs of processing outsourced orders and criteria is established for discounts.

**Response:** As mentioned in response to Recommendation #5, product cost, printing cost, tax and incoming shipping will be directly charged to the customer with no markup.

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All other costs charged to the customer are noted as being out of date and will be reviewed. Operational and overhead expenses associated with the production of outsourced print jobs will be calculated and matrixed in a pricing schedule. The pricing schedule and policy for applying those charges will be written in the Printing Services' procedure manual. It will be reviewed by management at the end of each fiscal year and any updates to policy or costs will be effective in each new fiscal year.

Printing Services will review the procedure for discounts with management and write up a policy. This policy will be reviewed by management at the end of each fiscal year and any updates to the discount policy will be effective in each new fiscal year. This will be implemented by the end of fiscal year 2017.

## **7. Printing Services should inventory its tagged assets.**

**Condition:** Printing Services did not inventory its tagged assets for FY 2016.

**Criteria:** ABOR and NAU require an annual physical inventory of all tagged assets. Tagged assets consist of capital items (those assets that have an original acquisition value of \$5,000 or more, and all computers). Accurate records of capital equipment with all pertinent information such as location, acquisition date and value and betterments or upgrades are to be maintained.

**Cause:** Marketing and Printing Services were in the process of separating their tagged assets after Marketing moved to its new location. Consequently, Printing Services did not submit their inventory by the due date.

**Effect:** Tagged assets may be missing and undetected and/or unreported.

**Recommendation:** Printing Services should properly inventory tagged assets in accordance with ABOR and NAU policies.

**Response:** Both Printing Services and Marketing have a designated employee with the responsibility of tracking inventory. The responsible employee has gone through tagged asset and inventory training with the Property Control Department and they have each submitted the inventory sheets for their respective departments. Property Administration is finalizing the separation and the new reports should be available in April 2017.

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Once the inventory has been assigned to the correct departments, inventory records will be ready for the annual inventory submission. This will be implemented by April 2017.

**Distribution:**

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Dylan Turner, Manager, Printing Services  
Deeda Williams, Accountant, Printing Services

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