

Audit Follow-up: Department Revenues

August 2015

FY16 - #01

Submitted to:
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Copies to:

Audit Committee, Arizona Board of Regents

Ann Weaver Hart, President

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Caroline M. Garcia, Associate Vice President for Research

Duc D. Ma, Interim Assistant Vice President, Financial Services Office

Submitted to:
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Arizona State Museum:
Patrick D. Lyons, Director

Career Services:
Eileen M. McGarry, Director

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Audit Follow-up: Department Revenues

Summary

Follow-up on prior audits was included in our approved Fiscal Year (“FY”) 2016 Audit Plan. The professional standards for internal auditing require auditors to follow-up on any recommendations included in prior audit reports.

Background: Internal Audit completed audit report FY11 - #02 that evaluated whether adequate departmental controls were in place to ensure department-generated revenue was properly received, recorded, and deposited. The audit was included in our approved FY 2011 Audit Plan. The audit report included management responses (“Action Plan”) to our recommendations, as well as target implementation dates.

The audit focused on revenues from sales and services in departments, including:

- sales by educational departments of items such as curriculum materials and photocopies; and
- services provided by educational departments, such as conference registrations and research expertise.

In the University of Arizona’s (“UA’s”) decentralized environment, departments and colleges are responsible for determining when activities that generate sales revenues should be established and ensuring that a sufficient number of employees are available to perform the activities in compliance with UA policies. The individual departments are also responsible for setting prices or rates and monitoring that all receivables are received. In some cases, the revenue is charged to a student account by the Bursar’s Office, while in other cases, departments are responsible for handling cash, checks, and credit card payments and ensuring the funds are deposited in compliance with UA policy.

The scope of the original audit included approximately \$22 million in transactions, from which we judgmentally selected 22 sample accounts from 15 departments, ensuring that a variety of revenue types, colleges, departments, and functions were selected, for a total of \$3.5 million in sampled transactions (17% of the population).

Recommendations were identified in 16 departments, plus one recommendation directed to UA senior management to improve guidance.

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Audit Objective: To evaluate whether the open Action Plan items from the March 2011 Action Plan have been implemented and whether they are functioning as intended.

Methodology: We accomplished our objective by contacting each of the 17 departments to discuss the status of their action plans. Management provided their current status and updated written documentation as needed. We evaluated the status by:

- reviewing transactions and supporting documentation in UAccess Financials,
- meeting with departments to discuss procedures and observe processes, and
- confirming information as needed with the Financial Services Office- Financial Management, Bursar's Office, and Procurement and Contracting Services.

Because the recommendations spanned many departments, Internal Audit summarized the original audit management responses and the results of the follow-up in the attached *Departmental Action Plan Status Form*.

Conclusion: We found that all Action Plan items have been implemented and are functioning as intended. Departments have improved their procedures since the original audit in order to ensure compliance with UA policy. In some cases, department activities had changed and the originally-audited revenue activities were no longer taking place.

Highlights of the improvements include:

- The Arizona State Museum gift shop developed an agreement that could be used to document items taken on consignment and improved their consignment procedures.
- The Controlled Environment Agricultural Center improved their produce sales procedures by implementing an invoice process and requiring payments via checks rather than cash.
- The Office of Research and Discovery developed an easy-to-use flowchart to help other campus departments know who to contact when negotiating an agreement with an outside entity, and made the chart readily available on several UA websites.

Additional follow-up will not be required.

/s/
Amanda L. Perkins, CPA
Auditor-In-Charge
(520) 626-3726
alperkin@email.arizona.edu

/s/
Sara J. Click, CPA
Chief Auditor
(520) 626-4155
clicks@email.arizona.edu

Attachment: *Departmental Action Plan Status Form*

**Departmental Action Plan Status Form
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Departmental Action Plan	Status
<p>1. Target Implementation Date: April 30, 2011. Arizona State Museum: Gift Shop</p> <ol style="list-style-type: none"> 1. Duties were segregated following the audit visit. The Store manager no longer can add or remove users to the system. This is handled by IT or the Head of Operations. Additionally, the year-end inventory is managed by the Head of Public Programs or a designee identified by the Director. The Store Manager does not directly participate in the year-end inventory. We will contact the Financial Management team at FSO to discuss additional changes and expect that the revamped processes will be in place by mid-April. 2. A written consignment agreement has been drafted and will be submitted to Procurement and Contracting Services and Risk Management by the end of the month. 3. Documentation standards have been developed for consignment sales: <ol style="list-style-type: none"> a. The consigner provides an itemized list of objects which is verified against actual consigned goods delivered before entering the data into the Museum Store inventory. 	<p>Implemented.</p> <ol style="list-style-type: none"> 1. Due to budget cuts and employee turnover, the gift shop manager currently is able to add or remove users in the point-of-sale system. However, his supervisor now periodically reviews the user listing as well as certain other reports in the system to monitor for unexpected or unusual changes. Inventory processes were improved to involve student employees when new inventory is input into the system. 2. A consignment agreement was implemented to document the length of the consignment, responsibilities in case of damage or loss, and payment procedures. 3. The additional documentation standards were implemented in conjunction with the consignment agreement.

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<ul style="list-style-type: none"> b. On a monthly basis, sales are tallied and itemized on a receipt submitted to the consigner. c. The consigner then submits an itemized invoice for his share of the receipts. d. The Museum Store inventory system also produces a list of objects not sold, to be returned to the consigner with signature of receipt, or retained for later sale. 	
<p>2. Target Implementation Date: April 30, 2011. Controlled Environment Agriculture Center: Produce Cash Sales The Agricultural and Biosystems Engineering business office has reviewed the UA cash handling policies. A first draft of departmental written procedures will be updated or created by March 31, 2011. Written procedures and all required training will be completed by April 30, 2011.</p>	<p>Implemented. Procedures were changed to require that an invoice be prepared for each sale and that only checks were accepted.</p>

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<p>3. Target Implementation Date: June 30, 2011. Department Cash Handling Procedures The departments identified are actively improving controls and implementing additional procedures to comply with the recommendations. Subject to the availability of <i>Cash Handling and Receiving</i> training, implementation is expected by the end of June 2011.</p>	<p>Implemented. Each department (listed below) updated their procedures to better comply with UA policies and best practices for receiving, depositing, and recording revenue.</p> <ul style="list-style-type: none"> • Arizona Research Laboratories • Biosphere 2 • Career Services • College of Education Dean's Office • College of Engineering Administration • College of Nursing • College of Public Health • Drachman Institute • International Affairs- Passport Acceptance Facility • Ophthalmology and Vision Science • Optical Sciences • School of Family and Consumer Science • Water Resources Research Center- Res. • Yuma Agricultural Center- Res.
<p>4. Target Implementation Date: June 30, 2011. The UA Senior Management (including the President's Office, Business Affairs, the Office of General Counsel, and the Office of the Vice President for Research, Graduate Studies, and Economic Development) is currently developing contracting procedural clarifications for the University campus. This group will develop additional guidance for departments to determine when signed agreements are required.</p>	<p>Implemented. The Office for Research and Discovery developed <i>The Contracting Process: What You Need to Know to Get Started</i> document to inform UA employees of procedures required for entering into agreements that are binding to the University. The document was posted to the Research Gateway and Procurement and Contracting Services websites.</p>