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REPORT NO. 01-645

November 5, 2001

Dr. Richard L. Maughan, Superintendent
Bridgerland Applied Technology Center
1301 North 600 West
Logan, UT 84321

Dear Dr. Maughan:

We have performed the procedures described below to certain aspects of the internal control and compliance at Bridgerland Applied Technology Center (the Center) for the period July 1, 2000 through May 31, 2001. The purpose of these procedures is to assist the Center in evaluating its internal control and compliance. The procedures performed were as follows:

1. We reviewed internal control over the Center's cash receipting procedures. We selected and tested samples of cash receipts transactions from the period of July 1, 2000 through May 31, 2001.
2. We tested the Center's cash accounts.
3. We tested a sample of the Center's cash disbursements from the period of July 1, 2000 through May 31, 2001 for propriety, reasonableness, and compliance with internal and State purchasing policies.
4. We reviewed the Center's compliance with certain laws and policies and procedures regarding personnel and payroll.
5. We reviewed and tested the Center's internal control over fixed assets and tested the completeness and accuracy of the fixed assets listings.
6. We reviewed the Center's services contract management including internal controls and compliance with certain policies and procedures.

7. We reviewed inventory control policies and procedures, including physical inventory procedures.

Our procedures were more limited than would be necessary to express an audit opinion on compliance or on the effectiveness of the Center's internal control or any part thereof. Accordingly, we do not express such opinions. Alternatively, we have identified the procedures we performed and the findings resulting from those procedures. Had we performed additional procedures or had we made an audit of the effectiveness of the Center's internal control, other matters might have come to our attention that would have been reported to you.

Our findings resulting from the above procedures are included in the attached findings and recommendations section of this report. We feel that Findings 1 through 3 are significant weaknesses. If these weaknesses are left uncorrected, an unacceptable amount of errors or misappropriations could occur without detection.

This report is intended solely for the information and use of the Center and is not intended to be and should not be used by anyone other than this specified party.

By its nature, this report focuses on exceptions, weaknesses, and problems. This focus should not be understood to mean there are not also various strengths and accomplishments. We appreciate the courtesy and assistance extended to us by the personnel of the Center during the course of the engagement, and we look forward to a continuing professional relationship. If you have any questions, please call Dean Eborn, Audit Director, at (801) 538-1352.

Sincerely,

Auston G. Johnson, CPA
Utah State Auditor

cc: K. Chad Campbell, CPA, Assistant Superintendent

BRIDGERLAND APPLIED TECHNOLOGY CENTER

FOR THE PERIOD JULY 1, 2000 THROUGH MAY 31, 2001

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1. **INADEQUATE WRITTEN POLICIES AND PROCEDURES** (Significant Weakness)

The Bridgerland Applied Technology Center (the “Center”) does not have adequate written policies and procedures. Although the Center does have some written policies and procedures for the areas of student services and personnel, they are not complete and are not up-to-date. *Utah Code* Section 53B-2a-110 requires the Center’s Board to “develop policies for the operation of applied technology education facilities under its jurisdiction” and to “establish human resources and compensation policies for all employees.”

The Center’s policies and procedures should include clear definitions of authority, reporting relationships, responsibility, and accountability for *all* areas and functions of the Center and should be in writing. Policies and procedures should also include a method to annually evaluate employees’ performance, a disaster recovery plan, an information security policy requiring protection of sensitive data, confidentiality agreements for employees who come in contact with confidential information, and changes of employee passwords on a periodic basis.

Although the Center does have some *unwritten* policies and procedures, we noted that employees were often unaware of the policies and were not following the procedures. This situation has significantly weakened the Center’s internal control because management cannot assign responsibility and accountability for the Center’s operations. In addition, we could not determine the Center’s compliance with internal policies and procedures because the policies and procedures were not written and were not consistently applied. Such policies are critical for assigning responsibility and for consistent handling of similar situations.

Recommendation:

We recommend that the Center’s Board develop written policies and procedures for the operation of the Center.

Center’s Response:

The Center concurs with the recommendation that written policies and procedures should be improved and implemented. It should be noted that many written policies have been developed by both the Bridgerland Applied Technology Center (BATC) Board and the Utah State Board for Applied Technology Education that are currently in use and have been in use for many years. The Center acknowledges that these existing policies are in need of many revisions and additions. This is especially true due to the change in governance structure that occurred effective September 1, 2001, which, among many other things, created a new and expanded BATC Regional Board of Trustees.

In addition to the policies described above, many unwritten policies, procedures, and operating practices currently in use at the Center will be formally written and adopted by the BATC

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Regional Board of Trustees. This Board has already taken action to provide clear, written definitions of authority, reporting relationships, responsibility, and accountability for all areas and functions of the Center. Additional policies and procedures will be adopted as quickly as they can be written and reviewed.

2. **INADEQUATE FIXED ASSET CONTROLS** (Significant Weakness)

The Center's annual fixed asset inventory is not effective. When conducting the annual inventory, the Center should confirm the physical existence of the Center's fixed assets, compare the information in the detailed fixed asset records to the fixed assets in use, and resolve any discrepancies. In addition, Center employees assigned to conduct the inventory should not have any custodial or record-keeping duties. If conducted properly, the fixed asset inventory will help prevent the fixed assets errors noted below:

- a. One of 13 fixed assets we selected from the Center's fixed asset listing could not be located. We determined that the asset was donated to charity on June 21, 1999 but was never removed from the fixed asset listing. Failure to remove disposed assets from the fixed asset listing results in an overstatement of the Center's fixed assets.
- b. One of 13 fixed assets we selected from the Center's fixed asset listing has been disassembled and has not been used for several years. Because this asset is no longer used, the Center should dispose of the asset and remove it from the fixed asset listing.
- c. Two of 13 assets we selected from the Center's fixed asset listing had been transferred to different departments within the Center but the fixed asset listing had not been updated to reflect the changes in location. Any transfer of assets should be immediately reported to the Center's Accountant so that the fixed asset listing can be updated on a timely basis. Failure to report asset transfers results in inaccuracies in the fixed asset listing and loss of custodial responsibility.
- d. Two of 13 fixed assets observed at the Center could not be found on the Center's fixed asset listing. Failure to include all fixed assets on the fixed asset listing understates the Center's fixed assets and increases the opportunity for misuse or theft of the assets.
- e. One of 13 fixed assets observed at the Center was found on the Center's fixed asset listing using the asset's description and tag number. However, the model and serial numbers on the fixed asset listing did not match the model and serial numbers on the asset due to an error recording the information when the asset was purchased. Inaccurately recorded fixed asset information increases the opportunity for misuse or theft of the Center's fixed assets.

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- f. The Center is not maintaining adequate records of fixed asset dispositions. The Center should ensure that each disposition is properly authorized and should document the method of disposal, an estimate of the asset's salvage value, and whether the remaining salvage value was realized upon disposal. Failure to maintain adequate records of fixed asset dispositions increases the opportunity for misuse or theft of the Center's fixed assets.
- g. The Center reported both capitalized and non-capitalized assets in the "Investment in Plant" line item on the June 30, 2000 Balance Sheet. Only assets costing more than the \$1,000 capitalization level should be included on the Center's Balance Sheet. Thus, the Center's reported fixed assets on the June 30, 2000 Balance Sheet were overstated.

Recommendation:

We recommend that the Center review its current procedures for accounting for and performing the annual physical inventory of fixed assets. Specifically, policies should include the following:

- a. **Remove assets from the fixed asset listing upon disposal.**
- b. **Dispose of all obsolete or unused assets and remove the assets from the fixed asset listing.**
- c. **Update the fixed asset listing when assets are transferred between departments at the Center.**
- d. **Ensure that all fixed assets are included on the Center's fixed asset listing.**
- e. **Ensure that model numbers, serial numbers, and other pertinent information are accurately recorded on the fixed asset listing.**
- f. **Authorize each fixed asset disposition and document the method of disposal, an estimate of the asset's salvage value, and whether the remaining salvage value was realized upon disposal.**
- g. **Include only capitalized assets on the Center's Balance Sheet.**

Center's Response:

The Center concurs with the recommendation to review current procedures for accounting for and performing the annual physical inventory of fixed assets. The process of reviewing current procedures is already underway.

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As a general rule, the specific recommendations provided by the Auditor's Office for fixed asset procedures are already in place, but obviously warrant further attention. For example, the Center already has an unwritten procedure and practice to dispose of all obsolete or unused assets and to remove the disposed assets from the fixed asset listing. Attention to following these procedures will be improved.

It should also be noted that the Center started a fixed asset software conversion process during the audit period, which was still in progress at the time of the audit. This conversion process contributed to these findings. When fully implemented, this new software and the associated procedures will address the majority of these issues and beyond. For example, the new software will provide the Center with the ability to track capitalized and noncapitalized assets separately.

3. LACK OF DETAILED, WRITTEN CONTRACTS (Significant Weakness) (Repeat Finding)

The Center has a verbal contract with three local school districts in which one or two teachers employed by each school district will teach at the Center. The Center reimburses the respective school districts annually for the teachers' salaries and benefits. To avoid possible future legal issues between the Center and the school districts, these contracts should be in writing. The contracts should address, among other issues, the teachers' salaries and benefits, responsibility for supplies and equipment, and employee evaluations, grievance issues, and other legal matters. The contracts should also include other specific requirements that are to be performed by both parties.

The Center also has a contract with Utah State University which allows the Center to send its students to participate in the University's Dairy Management Program. Although the contract stipulates the dollar amount the Center will reimburse the University, it does not stipulate the number of students who are expected to participate or the types of services the Center expects to receive from the University. To avoid possible future legal issues between the Center and the University, the contract should have specific details as to what is expected from each party.

This is a repeat finding from the audit of the Center for the year ending December 31, 1997. The Center's response to the finding and recommendation at that time was that they "concur with [the] recommendation and [would] begin the implementation process immediately." However, the Center has not implemented the recommendation and the lack of detailed, written contracts continues to exist at the Center.

Recommendation:

We recommend that the Center prepare detailed, written contracts for their agreements with Utah State University and the local school districts.

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Center's Response:

The Center concurs with this recommendation and will begin the implementation process immediately. In fact, draft contracts have already been developed and are being reviewed by the respective parties. These formalized, written contracts will be implemented as soon as the review process is completed and the contracts are signed. All future agreements will be formalized by a written, signed contract.

It should be noted that these informal cooperative agreements between BATC, Utah State University, and two local school districts have been in place for more than 15 years without incident or issue. While it is acknowledged that the potential does exist for problems to arise in the future, the cooperative nature of the institutions involved is of such a nature that it seems highly unlikely.

4. **INADEQUATE CASH RECEIPTING CONTROLS**

We selected 25 cash receipts at the Center and reviewed supporting documentation for each receipt. We noted the following weaknesses:

- a. The Center has a practice of cashing personal employee and student checks using the change fund. Change funds should only be used for making change for cash sales occurring at the Center. Cashing personal checks using State funds weakens internal controls over cash receipts.
- b. One Daily Sales Summary Report tested from the Brigham City Campus Bookstore contained several errors. The Report did not list one category of sales, resulting in an understatement of sales on the Report of \$4.95. In addition, the Report did not document a transaction reversal in the amount of \$6.15. Finally, we noted the Report showed an \$8.00 understatement in the amount of cash received versus the amount deposited. Failure to properly complete the Daily Sales Summary Report and failure to deposit all cash receipts received may be indications of fraud.
- c. The Center's cashiers handle refunds below \$30.00 without supervisor review or approval. All refunds should be properly reviewed and approved by a supervisor to ascertain they were properly handled. Failure to properly review and approve all refunds may result in errors or misappropriation of funds going undetected.
- d. One cash receipt was deposited 5 business days after receipt. Section 51-4-1 of the *Utah Code* requires receipts to be deposited within 3 business days after receipt. Untimely deposits result in lost interest revenue to the State and increase the risk for misappropriation of funds.

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- e. All copies of voided receipts at the Logan Campus Student Services Center are not kept on file. All copies of voided receipts should be kept for reference and audit. Failure to account for all receipts may result in possible errors or misappropriation of funds going undetected.
- f. The cashier at the Brigham City Campus Bookstore inaccurately recorded the mode of payment when transactions occurred. All transactions should include the actual mode of payment (e.g., cash, check, charge). Failure to record the actual mode of payment hinders the reconciliation and audit functions and could be an indication of fraud.

Recommendation:

We recommend that the Center:

- a. Discontinue the practice of cashing personal employee and student checks.**
- b. Have someone independent of the cash receipting function reconcile the cash register tapes to the Daily Sales Summary Report and to the validated bank deposit slip.**
- c. Have a supervisor review and approve all refunds to ascertain they were properly handled.**
- d. Deposit cash receipts within 3 business days after receipt, in accordance with State law.**
- e. Keep all copies of voided receipts.**
- f. Ensure cashiers record the actual mode of payment when processing each transaction.**

Center's Response:

The Center has carefully reviewed the recommendations associated with the cash receipting process and, as a general rule, concurs with the recommendations and will begin implementing them immediately. Because of the varied nature of the recommendations, response to the specific recommendations seems appropriate.

- a. The practice of cashing personal employee and student checks is a part of the Center's customer service activities. Because the Center is a service organization, it has been assumed that providing this service to both Center employees and Center students is good customer service, as long as the risk of loss can be mitigated through other good control practices. The Center would like to continue providing this service but will implement additional control procedures designed to limit or eliminate any risk. These procedures would include limiting this service to only one location at the Center, documenting*

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transactions with a cash receipt, and having all such transactions recorded by one employee and approved by an appropriate supervisor.

The Center has considered the option of installing ATM machines that would also accomplish this service, but that option is still under investigation.

- b. This recommendation will be implemented in all locations where a cash register tape is in use. The Center has implemented a new invoice and cash receipting software product that produces individual receipt documents and a computerized "X" and "Z" tape report. These reports will be used in lieu of cash register tapes wherever the computerized system is available. In any event, the Center will have someone independent of the actual cash receipting function provide the reconciliation to the Daily Sales Summary and the bank deposit slip. This process will be documented by the appropriate signatures or initials.*
- c. The Center will implement the procedure to have a supervisor review and approval all tuition or other appropriate refunds.*
- d. The Center already has a policy and procedure to comply with the law to make deposits of all cash receipts within three banking days after the receipt. The actual Center procedure is for daily deposits. This procedure will be more carefully monitored and appropriate action will be taken any time this procedure is not adhered to.*
- e. The Center will keep all copies of voided receipts. It should be noted that the Center has implemented a new computerized cash receipting function that eliminates multiple copies of receipts, thereby eliminating the existence of any duplicate copies.*
- f. The Center has already implemented the recommendation to record the tender type for all cash receipt transactions. This procedure will be more carefully monitored.*

5. **INADEQUATE PETTY CASH CONTROLS**

We selected 65 petty cash disbursements at the Center and reviewed the supporting documentation for each disbursement. We noted the following:

- a. The Center is not performing a reconciliation of the petty cash fund, including a count of the cash on hand. This reconciliation should be performed by an employee independent of the petty cash function and should be conducted either on a regular basis or periodically as a surprise count. Failure to conduct periodic reconciliations could allow the misappropriation of petty cash funds to occur without detection.*

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- b. Twenty disbursements were advances to employees. Eight of these 20 advances, totaling \$514, were not supported by receipts. In addition, only one of the 20 advances was documented on a Travel Authorization and Advance Request Form and approved before the advance was disbursed to the employee requesting the funds. Each advance from the petty cash fund should be documented on a Travel Authorization and Advance Request Form and should be properly approved before the advance is disbursed. The Center should maintain the Travel Authorization and Advance Request Forms to ensure that employees receiving advances return receipts or other documentation supporting the expenditures and any unexpended funds. Failure to require preauthorization for advances and the return of receipts and any unexpended funds could result in the misappropriation of petty cash funds without detection.
- c. Nine disbursements, totaling \$233, were reimbursements to employees that were not supported by receipts or other documentation that justified the expenditures. Two additional disbursements were reimbursements to employees for which the Center overpaid the employees a total of \$44 based on the receipts that supported the expenditures. The two overpayments were caused either by the Center disbursing the wrong amount or not obtaining all applicable receipts from the employees. Each petty cash disbursement should be supported by receipts or other appropriate documentation. Failure to require receipts or other documentation before disbursing petty cash funds could result in the misappropriation of petty cash funds without detection.
- d. Two employees have access to and responsibility for the petty cash funds. Responsibility for and access to the petty cash funds should be vested in one individual. Failure to limit access to petty cash funds to one individual could result in the misappropriation of petty cash funds. Any misappropriation of funds would likely be detected by the other employee with access to the funds, but the Center would have difficulty assigning responsibility for the misappropriation.

Recommendation:

We recommend that the Center:

- a. **Perform periodic independent reconciliations of the petty cash fund.**
- b. **Require documentation of each advance of petty cash funds on an approved Travel Authorization and Advance Request Form before disbursing the advance. The Center should maintain copies of the Travel Authorization and Advance Request Forms to ensure that employees receiving advances return receipts or other documentation to justify the expenditures and any unexpended funds.**

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- c. **Disburse petty cash funds only when the disbursement is supported by receipts or other appropriate documentation.**
- d. **Limit responsibility for and access to petty cash funds to one individual.**

Center's Response:

The Center concurs with this recommendation and will begin the implementation process immediately.