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UTAH STATE AUDITOR

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Office of the State Auditor

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MANAGEMENT LETTER NO. 03-48

June 16, 2004

To the Board of Trustees,
Audit Committee,
and
Ryan L. Thomas, President
College of Eastern Utah

We have completed our audit of the financial statements of the College of Eastern Utah (hereinafter referred to as the "College") for the year ended June 30, 2003. Our report thereon, dated March 26, 2004, was issued under separate cover. This management letter contains the Report on Compliance and on Internal Control Over Financial Reporting required by *Government Auditing Standards*, issued by the Comptroller General of the United States. We have also completed the College's portion of the statewide federal compliance audit for the year ended June 30, 2003. The federal programs tested as major programs at the College were the Student Financial Assistance Cluster of programs.

This report by its nature focuses on exceptions, weaknesses, and problems. This 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 College during the course of our audit, 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: Raelene Allred, Vice President of Finance and Administrative Services
Greg Fisher, Director of Internal Audit, Board of Regents

COLLEGE OF EASTERN UTAH
FOR THE YEAR ENDED JUNE 30, 2003

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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Trustees,
Audit Committee,
and
Ryan L. Thomas, President
College of Eastern Utah

We have audited the financial statements of the College of Eastern Utah (hereinafter referred to as the "College") as of and for the year ended June 30, 2003, and have issued our report thereon dated March 26, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted immaterial instances of noncompliance that are included in the accompanying schedule of findings and recommendations.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course

of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that are included in the accompanying schedule of findings and recommendations.

This report is intended solely for the information and use of the College's Board of Trustees, the Audit Committee, and management of the College and is not intended to be and should not be used by anyone other than these specified parties.

Auston G. Johnson, CPA
Utah State Auditor
March 26, 2004

COLLEGE OF EASTERN UTAH

FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2003

1. SEPARATE BANK ACCOUNT NOT MAINTAINED (Repeat Finding)

The College of Eastern Utah and the Southeast Applied Technology College (SATC) process their transactions through the same bank account even though each is a legally separate entity. The SATC was established as a legally separate component of the Utah College of Applied Technology at the beginning of fiscal year 2002, but was previously included as part of the College of Eastern Utah reporting entity. As noted in the prior year's management letter, two legally separate entities should maintain separate financial records and accounts in order to ensure proper fiscal accountability and reporting. Also, although the College of Eastern Utah and the SATC maintain separate accounts in the accounting system and do not have access to each other's assets, the College of Eastern Utah was unable to provide required information for proper footnote disclosure of cash balances because separate bank accounts were not maintained.

Recommendation:

We recommend that the College of Eastern Utah ensure that a separate bank account is established and maintained for the SATC.

College of Eastern Utah's Response:

President Thomas is working with Board of Regents staff to incorporate SATC with the College of Eastern Utah. If the president is unable to combine the two institutions other alternatives will be pursued.

2. UNDEFINED CRITERIA AND LACK OF FORMAL AMENDMENT FOR ENDOWMENT

The College of Eastern Utah (the College) does not currently have a policy to define specific criteria to be used in determining a student's eligibility to receive scholarships in accordance with donor restrictions. We tested four endowments and noted that for one scholarship endowment, the files for 12 of the 17 students (70.6%) who received this scholarship during fiscal year 2003 were missing documentation demonstrating how they met the economic, physical, or mental needs, as required for this endowment. Two of the 12 students that received this scholarship were awarded the scholarship based on ethnicity which, according to the College, was a subsequent verbal amendment between the donor and the College. Without defined criteria and written amendments, funds could be awarded to ineligible students, which could cause the donor to reclaim any funds that are awarded in violation of the endowment restrictions.

COLLEGE OF EASTERN UTAH

FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2003

Recommendation:

We recommend that the College develop a policy defining specific criteria to be used in determining a student's eligibility to receive scholarships in accordance with donor restrictions. We also recommend that the College obtain any amendments to the restrictions in writing.

College's Response:

The Institutional Advancement Office will develop departmental policy in conjunction with the Scholarship Office to ensure that donor restrictions are met with the awarding of private scholarship gifts. There are limitations placed on us by the Federal Department of Education as to the type of questions that can be asked on applications. Much is left to the voluntary information an applicant offers on their submitted application. We do make this space available on the application and make awards based on submitted information. The offices will seek to clarify and document all future restrictions and awards.

The Institutional Advancement Office will also institute a departmental policy to have on file in writing any amendments to the original restrictions donors specify in their gifts.

3. NONCOMPLIANCE WITH ESTABLISHED PURCHASE ORDER PROCEDURES

We tested 15 accounts payable transactions at the College and noted one (for \$3,269) that was not properly recorded as a fiscal year 2003 payable. The Athletic Department ordered and received items in fiscal year 2003, but purchase orders were not obtained until after year-end. College policy requires that a requisition and a purchase order be obtained from the Accounts Payable Department prior to orders being placed. By not following existing procedures, the Athletic Department is obligating funds and creating liabilities without the proper documentation and financial statement reporting.

Recommendation:

We recommend that the College enforce existing controls over the payment of invoices and the issuance of purchase orders prior to orders being placed.

College's Response:

The College concurs with the auditors' findings. Employees will be sent a copy of the College's purchasing policy as a reminder for future purchases. The purchasing and accounts payable department will monitor fiscal year end purchases more closely to ensure that purchases are entered in the correct year.

COLLEGE OF EASTERN UTAH

FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2003

4. NONCOMPLIANCE WITH BOND REQUIREMENTS

The College has not collected enough building and rental fees to sufficiently cover the Burtenshaw Hall Dormitory's operating expenses and 125% of the fiscal year 2004 debt service requirement. The total required amount to meet the bond covenant is \$190,051. The actual building and rental fees collected in fiscal year 2003 were \$183,383.

The Official Statement for the Student System Revenue Refunding Bonds, Series 1996 A (Burtenshaw Hall Bond) requires these amounts to be collected. If the revenues collected are insufficient for the bond year, then the Official Statement requires the College to increase the Burtenshaw building fees to cover the shortage.

The College noted the shortage and approved an increase in building fees of 7% at its March 22, 2004 Board of Trustees meeting. This increase will become effective on July 1, 2004.

Recommendation:

We recommend that the College continue to charge building fees at the maximum amount allowed by law in order to maintain compliance with the bond rate covenants.

College's Response:

The College concurs with the auditors' recommendation and will continue to monitor the building and rental fees for Burtenshaw. When the bond covenants are not met, student fees will be increased at the maximum amount allowed by Board of Regents policy.