



COLLEGE OF EASTERN UTAH

Management Letter
For the Year Ended June 30, 2005

Report No. 05-45

*Keeping Utah
Financially Strong*

AUSTON G. JOHNSON, CPA
UTAH STATE AUDITOR



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UTAH STATE AUDITOR

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Office of the State Auditor

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MANAGEMENT LETTER NO. 05-45

March 26, 2007

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 (the College) for the year ended June 30, 2005. Our report thereon, dated February 26, 2007 is issued under separate cover. This management letter contains the Report on Internal Control over Financial Reporting and on Compliance and Other Matters required by *Government Auditing Standards*, issued by the Comptroller General of the United States.

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 Stan Godfrey, Audit Director, at (801) 538-1356.

Sincerely,

Auston G. Johnson, CPA
Utah State Auditor

cc: Kevin Walthers, Vice President of Finance and Administrative Services
Brian Foisy, Assistant Commissioner of Finance and Facilities, Board of Regents

COLLEGE OF EASTERN UTAH
FOR THE YEAR ENDED JUNE 30, 2005

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS 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 (the College) as of and for the year ended June 30, 2005, and have issued our report thereon dated February 26, 2007. 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.

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 an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the College's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and recommendations as items Numbers 1 and 2.

A material weakness is a reportable 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 caused by errors or fraud 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item Number 1 to be a material weakness to the College. We also noted other

matters involving the internal control over financial reporting that are included in the accompanying schedule of findings and recommendations.

Compliance and Other Matters

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 grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance 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, Audit Committee, and management and is not intended to be and should not be used by anyone other than these specified parties. However, the report is a matter of public record and its distribution is not limited.

Auston G. Johnson, CPA
Utah State Auditor
February 26, 2007

COLLEGE OF EASTERN UTAH

FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2005

1. UNTIMELY PREPARATION OF FINANCIAL STATEMENTS (Material Weakness)

We were unable to complete our audit of the College of Eastern Utah's financial statements for fiscal year ending June 30, 2005 due to the College's failure to provide a complete draft of the financial statements in a timely manner. On December 5, 2005, we requested that the College provide us with a complete draft of the financial statements and other various schedules needed for the audit. The College later informed us that they would not be ready for our audit to begin mid-January, so the audit was postponed until March 2006 to allow the College additional time to prepare.

We obtained the first draft of the Statement of Net Assets and the Statement of Revenues, Expenditures, and Changes in Net Assets on March 10, 2006 and were informed that these statements were a "very rough draft." We proceeded with our testwork with the understanding that we would receive an updated draft of these statements by the time that we arrived at the College on March 20, 2006. As of July 19, 2006 (more than a year after the fiscal year end), we have not received an updated draft of these statements or the Statement of Cash Flows, Notes to the Financial Statements, Management's Discussion and Analysis, or other necessary schedules and documentation needed to complete our audit and issue an opinion on the College's financial statements.

Financial reporting, specifically preparation of the financial statements, does not appear to be a high priority to the College's management, as evidenced by the delays in providing a draft of the financial statements. Inadequate staffing, as was reported in the prior year management letter, may have contributed to these delays. Timely preparation of financial reports and statements is essential to provide management, the Board of Trustees, the State Board of Regents, the State Legislature, and various individuals and user groups with information necessary to make informed decisions. This failure to complete the financial statements may have also contributed to or caused some of the following findings and recommendations.

Recommendation:

We recommend that the College prepare financial reports and statements in a timely manner.

College's Response:

Financial reporting, including preparation of the financial statements, is a high priority for the College's management. The underlying staffing issues in the Business Office are currently being addressed with assistance from the Commissioner's Office, and the financial reports necessary to complete the audit have been prepared.

COLLEGE OF EASTERN UTAH

FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2005

Subsequent Update to Finding:

We received a draft of the fiscal year 2005 financial statements, which included Management's Discussion and Analysis, the Financial Statements, and the Notes to the Financial Statements, on October 5, 2006. Subsequent to that date, we received the additional schedules and other necessary information needed to complete our audit of the fiscal year 2005 financial statements which was completed on February 26, 2007. We also noted that the College has hired a Controller, which should help the College with accounting and financial reporting.

2. INADEQUATE BANK RECONCILIATIONS (Reportable Condition)

While testing the College's June 2005 bank reconciliation, we noted the following:

- a. The College identified reconciling items, totaling \$9,794, during the monthly reconciliations which have remained as reconciling items for at least three years. Reconciling items should be researched and appropriately resolved in a timely manner.
- b. There is no independent review of the bank reconciliations. The bank reconciliations should be reviewed and approved by an individual independent of the bank reconciliation process.
- c. All months of the fiscal year remain open, allowing transactions to be recorded to any month. As a result, the bank reconciliation for a given month has to be performed multiple times because transactions are recorded to a month after the reconciliation has been performed.

Bank reconciliations are a key internal control relied upon by management. Incomplete preparation of bank reconciliations delays correction of errors and detection of possible misappropriations.

Recommendation:

We recommend that the College:

- a. Research any reconciling items and take the appropriate action to resolve them in a timely manner.**
- b. Assign a person independent of the bank reconciliation process to review and approve the reconciliations.**
- c. Close each month at month end and require transactions to be posted in the current month.**

COLLEGE OF EASTERN UTAH

FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2005

College's Response:

The bank reconciliations have been reviewed and a new method for reconciliation, including independent review has been developed. This review included:

- a. Research of all outstanding bank reconciliation issues with appropriate resolutions of each of them.*
- b. Assigning a person independent of the bank reconciliation process to review the reconciliations.*
- c. Closing each month at month end with all transactions posted in the current month.*

Subsequent Update to Finding:

We noted that the unresolved reconciling items, totaling \$9,794 as discussed in a. above, had been reduced to \$317 when we retested the bank reconciliation after receiving the draft fiscal year 2005 financial statements in October 2006. We recommend that the College continue to research and take appropriate action to resolve these reconciling items.

3. INTERNAL CONTROL WEAKNESS RELATED TO ACCOUNTS RECEIVABLE

The College received a \$71,788 payment on November 11, 2004 for a receivable balance totaling \$151,788. The account was mistakenly marked as "paid-in-full" even though there was an outstanding balance of \$80,000. This balance was still outstanding at June 30, 2005.

The College tracks their accounts receivable on a separate spreadsheet instead of through Banner (the College's accounting system) throughout the year. When the financial statements are prepared, this spreadsheet is used to determine the outstanding receivable balance at the end of the fiscal year and used to adjust the accounts receivable balance in Banner. This accounts receivable spreadsheet could be easily manipulated, whether intentionally or accidentally, without detection because there is no audit trail documenting the billings sent, collections received, and adjustments made to the accounts receivable. An annual review of this spreadsheet would not effectively identify and detect potential errors.

Recommendation:

We recommend that the College implement appropriate controls to ensure the accuracy of the accounts receivable balance throughout the year.

COLLEGE OF EASTERN UTAH

FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2005

College's Response:

The Banner system is being used to record all accounts receivable.

4. INADEQUATE INTERNAL CONTROLS OVER CAPITAL ASSETS (Repeat Finding)

During our review of the College's capital assets, we noted the following:

- a. The College has not conducted an adequate annual physical inventory of capital assets for at least the past two fiscal years. As noted in the prior year management letter, inventory sheets were sent to the various departments throughout the College, but the inventory sheets, in most situations, were not returned to the capital asset administrator for adequate follow-up and little effort was made to collect the inventory sheets. Per inquiry and observation, no effort was made during fiscal year 2005 to conduct a physical inventory of capital assets. College Policy (Property Inventory, 2-5.I.) requires the College to conduct an annual inventory of their capital assets.
- b. One of 15 equipment deletions tested was erroneously deleted from the capital asset listing. This asset was deleted by the College in fiscal year 2004 and again in fiscal year 2005 because duplicate documentation was sent to the Business Office. The Business Office could not find the asset number on the current fixed asset listing and instead of investigating why the asset number was not on the current listing, the value of the deleted asset was used to reduce an asset on the listing with a similar description. This caused capital assets to be understated by \$32,500.
- c. Two of the seven capital asset additions tested were not recorded in the general ledger at the proper value. Costs incurred to place these assets into service (e.g. shipping and handling costs) were capitalized as part of the value of the asset on the capital asset system but not included as part of the capitalized value in the general ledger. Discrepancies in recording information cause the general ledger to not agree with the capital asset system, which could cause errors to occur in financial reporting. These discrepancies could also cause delays in the preparation of financial reports, pending investigation of the causes of such discrepancies.

Adequate internal controls over capital assets are critical for tracking and safeguarding capital assets as well as ensuring that the financial statements properly reflect the value of assets held by the College.

COLLEGE OF EASTERN UTAH

FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2005

Recommendation:

We recommend that the College:

- a. Comply with their Property Inventory policy by conducting an annual physical inventory of capital assets.**
- b. Establish adequate internal controls over capital assets to ensure proper and accurate updating of capital asset changes.**
- c. Ensure that the capitalized values of assets are properly recorded in the general ledger and on the capital asset system and that these two systems reconcile with each other.**

College's Response:

- a. The College will conduct a physical inventory of capital assets as part of the implementation of the Banner Inventory System which will be fully implemented by Spring 2007.*
- b. The Banner system will be updated annually through a physical inventory of capital assets.*
- c. The Banner system will allow for reconciliation of capitalized values in the general ledger with the capital assets system.*

Subsequent Update to Finding:

We noted that the understatement of capital assets, totaling \$32,500 as discussed in b. above, was appropriately resolved by the College for the October 2006 draft of the fiscal year 2005 financial statements.

5. CASH MANAGEMENT WEAKNESS

The College erroneously drew more money from the U.S. Department of Education for the Upward Bound program than was expended. The overdraw was apparently caused by a miscalculation of the amount to draw. Although the College found the \$60,020 overdraw of federal funds, it was eight months after the draw down before the error was noted. Per OMB Circular 110 Section 22 a. "Payment methods shall minimize the time elapsing between the transfer of funds from the United States Treasury and the issuance or redemption of checks, warrants, or payment by other means by the recipients." Overdrawn amounts can result in interest liability to the Federal Government.

COLLEGE OF EASTERN UTAH

FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2005

Recommendation:

We recommend that the College exercise greater care when drawing federal funds to ensure that funds are not overdrawn.

College's Response:

The College has reviewed its accounting system for federal grants to ensure accurate transactions on all federally funded grants.