



BRIDGERLAND APPLIED TECHNOLOGY COLLEGE

Management Letter
For the Year Ended June 30, 2006

Report No. 06-03

*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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REPORT NO. 06-03

January 19, 2007

To the Board of Directors
and
Dr. Richard L. Maughan, President
Bridgerland Applied Technology College

We have completed our audit of the financial statements of Bridgerland Applied Technology College for the year ended June 30, 2006. Our report thereon, dated October 20, 2006, 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. We have also completed the College's portion of the statewide federal compliance audit for the year ended June 30, 2006. The federal program tested as a major program at the College was the Vocational Education program. Our report on the statewide federal compliance audit for the year ended June 30, 2006 should be issued by April 2007.

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 Jon Johnson, Audit Director, at 538-1359.

Sincerely,

Auston G. Johnson, CPA
Utah State Auditor

cc: K. Chad Campbell, Vice President for Finance

BRIDGERLAND APPLIED TECHNOLOGY COLLEGE
FOR THE YEAR ENDED JUNE 30, 2006

TABLE OF CONTENTS

	<u>Page</u>
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	1
FINDINGS AND RECOMMENDATIONS:	
1. UNALLOWABLE NON-PAYROLL EXPENDITURES (Single Audit Reportable Condition)	3
2. IMPROPER ACCOUNT CODING (Single Audit Reportable Condition)	6
3. MISSING CERTIFICATION OF EFFORT FOR EMPLOYEES PAID FROM FEDERAL FUNDS	6
4. NONCOMPLIANCE WITH FIXED ASSET REPLACEMENT AND DISPOSAL	7
5. LACK OF INTERNAL CONTROLS OVER SUSPENSION AND DEBARMENT	8
6. NONCOMPLIANCE WITH POLICIES OVER PETTY CASH DISBURSEMENT APPROVALS	8



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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 Directors
and
Dr. Richard L. Maughan, President
Bridgerland Applied Technology College

We have audited the financial statements of Bridgerland Applied Technology College (the College) as of and for the year ended June 30, 2006, and have issued our report thereon dated October 20, 2006. 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. 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 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 error 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. 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.

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 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 Board of Directors and management of the College and the Utah College of Applied Technology 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
October 20, 2006

BRIDGERLAND APPLIED TECHNOLOGY COLLEGE

FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2006

1. **UNALLOWABLE NON-PAYROLL EXPENDITURES** (Single Audit Reportable Condition)

Federal Agency: **U.S. Dept. of Education**
CFDA Number and Title: **84.048 Vocational Education**
Federal Award Number: **V048A06004 and V048A05004**
Questioned Costs: **\$4,108**
Pass-through Entity: N/A

We sampled 40 Vocational Education non-payroll expenditure transactions at Bridgerland Applied Technology College (College). Three of the 40 (7.5%) expenditures were for unallowable items as follows:

- a. Two of the expenditures were for food and decorations for social functions relating to the accreditation team visiting the College. Per the *Council on Occupation Education* (which details requirements for accreditation), page 10, "Social functions are optional."
- b. One expenditure was to frame pictures for student services.

These expenditures were not considered reasonable and necessary for the performance of the Vocational Education program in accordance with OMB Circular A-21 section C.2-3. The College should implement controls as part of the expenditure approval process to ensure that expenditures made with federal funds are for allowable activities only. Not properly ensuring expenditures are allowable prior to payment could result in loss of funding. The 40 transactions tested, totaling \$155,216, were selected from a population of \$415,924 Vocational Education expenditures.

Recommendation:

We recommend that the College implement internal controls as part of the expenditure approval process to ensure that expenditures made with federal funds are for allowable activities.

College's Response:

BATC [the College] will quickly implement additional control procedures to ensure that expenditures made with federal funds are allowable. However, Administration of the College was aware of the transactions described above, believed they were allowable at the time they were incurred, and continues to believe they should be considered as allowable expenditures.

The primary purpose of the accreditation process, from the College's point of view, was to ensure the institution's eligibility to continue participation in Federal Financial Aid programs. Shortly after the Utah State Legislature changed the governance structure of the Applied Technology Colleges, effective September 1, 2001, the Utah State Board for Vocational and Technical Education, who served as the accrediting organization for the ATCs, withdrew its

BRIDGERLAND APPLIED TECHNOLOGY COLLEGE

FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2006

charter to be an accrediting organization. As a result, the Applied Technology Colleges participating in Federal Financial Aid programs were under an obligation to identify another appropriate accrediting organization and immediately began the process of becoming fully accredited by the new organization. Identifying and pursuing full accreditation was a significant concern for the College because Federal Financial Aid is imperative for one of the largest special population groups targeted for improved access and service by the Carl D. Perkins Vocational Education grants--that population being the economically disadvantaged. Without the accreditation, which would in turn eliminate the College's ability to provide Federal Financial Aid, the economically disadvantaged population of students at the institution would be substantially limited in their ability to access the career and technical training delivered at the College. It is important to note in this analysis that BATC is precluded by law, Sec. 53B, 2a, 101-116 Utah Annotated Code, from providing any training other than Career and Technical Education.

After looking to several options, it was determined by the Utah College of Applied Technology Central Administration that the best fit of an accrediting organization, given the mission and role of the individual ATC campuses, is the Council on Occupational Education. In accordance with the Council's Handbook of Accreditation – page 3 “Its current scope of recognition is as a national institutional accrediting agency for the accreditation of non-degree-granting and applied associate degree-granting postsecondary occupational education institutions.” In addition, the mission of the Council is “assuring quality and integrity in career and technical education.”

Clearly the accrediting organization selected by the Utah College of Applied Technology, and accordingly BATC, has a role and mission that is limited in its scope to Career and Technical Education only.

Knowing that the process of applying for, and participating in, an accreditation review with the ultimate goal of becoming fully accredited by the new organization was going to require additional funding for the College, BATC first sought after those additional funds by requesting consideration from the Utah State Legislature. BATC submitted a legislative request through the established approval processes. When the request was reviewed by the UCAT Central Administration in connection with the many other priorities, it was combined into a system-wide request to address the upcoming accreditation needs. Unfortunately, given the many other financial needs of UCAT and the respective campuses, the request for funding to cover the cost of this new accreditation process was not prioritized high enough to be successful. At the time, the State of Utah was still in the process of recovering from the economic slowdown and funds were very limited.

As a result, BATC was forced to seek alternative funding sources for the pursuit of the urgent and required accreditation. Based on observing the funding mechanism used by the Utah College of Applied Technology for the initial accreditation process to reach candidacy status, BATC determined that utilizing some of the Carl Perkins Vocational Education grant money as a source of funds to cover some of the costs associated with becoming accredited would be a very appropriate use of those funds.

BRIDGERLAND APPLIED TECHNOLOGY COLLEGE

FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2006

Now, let us address the specific issue being questioned. The opening conference for the accreditation site visit was not intended or operated as a “social function” but rather was an important opening conference or workshop as an integral introductory part of the accreditation site visit. Approximately one month prior to the actual site visit event, the team leader of the seven-member accreditation team visited BATC to verify that the institution was prepared to proceed. As part of that visit it was determined by the team leader in consultation with the College President and Administrative staff that an opening workshop or conference would be the best way for the accreditation team to introduce themselves to the BATC faculty and staff, to lay out the agenda for their respective areas of responsibility and to communicate their expectations for the site visit. In addition, the opening conference was used as a means for the accreditation team members to provide the faculty and staff of the College with ideas and thoughts on how to improve the Career and Technical Education programs at BATC. One of the primary purposes of the grant has been, and continues to be, the improvement of career and technical training programs and to improve access to these programs by special population students. Not becoming fully accredited would have the opposite effect on special population students. Because the opening conference was held in the evening during normally off-duty hours for our employees and because attendance at the meeting was mandatory for all employees involved in the accreditation process it was determined by BATC Administration, and the accreditation team leader, that an evening meal for the accreditation team and the faculty and staff of BATC was an appropriate venue for the opening accreditation conference.

Accordingly, BATC believes that this was, and continues to be, an appropriate use of these federal funds.

However, in an effort to ensure that questions of this nature are not raised in the future, the College will implement an additional review and approval process for all non-payroll expenditures made with federal funds. Any purchase order being coded to federal grants will be reviewed by the Vice President for Finance to ensure they are for allowable activities only. This will be accomplished by having the Accounts Payable Department identify any purchase orders that are being coded to a federal grant and having these purchase orders approved by the Vice President for Finance.

Contact Persons: Laurie John, Accounts Payable, (435) 750-3174

K. Chad. Campbell, Vice President for Finance, (435) 750-3171

Anticipated Correction Date: January 30, 2007

BRIDGERLAND APPLIED TECHNOLOGY COLLEGE

FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2006

2. **IMPROPER ACCOUNT CODING** (Single Audit Reportable Condition)

Federal Agency: **U.S. Dept. of Education**

CFDA Number and Title: **84.048 Vocational Education**

Federal Award Number: **V048A06004 and V048A05004**

Questioned Costs: **\$-0-**

Pass-through Entity: N/A

Five of the 40 non-payroll expenditure transactions (13%) reviewed were improperly coded as materials/supplies. The College reports all expenditure transactions for the Vocational Education grant to the Utah State Office of Education (USOE) by expenditure classification when the College completes their reimbursement requests. The College should report expenditures using the appropriate codes that correspond to the budget approved by USOE. When the College inappropriately codes transactions, they report their spending inaccurately to USOE. Improper codes may also result in errors in the College's financial statements.

Recommendation:

We recommend that the College properly code all transactions.

College's Response:

BATC will establish additional general ledger object accounts following the expenditure classifications outlined on the grant award budget document and the request for reimbursement form provided by the grantor agency. Then actual expenditures will be coded to the additional account as appropriate. The use of these accounts will correspond to the original budget detail outlined in the grant award budget page.

Contact Persons: Lisa Rigby, Accounting Manager, (435) 750-3170

K. Chad. Campbell, Vice President for Finance, (435) 750-3171

Anticipated Correction Date: January 30, 2007

3. **MISSING CERTIFICATION OF EFFORT FOR EMPLOYEES PAID FROM FEDERAL FUNDS**

The College did not complete a certification of effort for those salaried employees paid from federal funds. Per OMB Circular A-21 J.10.C.1.e., "At least annually a statement will be signed by the employee, principal investigator, or responsible official(s) using suitable means of verification that the work was performed, stating that salaries and wages charged to sponsored agreements as direct charges, and to residual, F&A cost or other categories are reasonable in relation to the work performed." If a certification of effort for employees paid from federal funds is not completed, unallowable personnel costs could be charged to the grant.

BRIDGERLAND APPLIED TECHNOLOGY COLLEGE

FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2006

Recommendation:

We recommend that the College complete a certification of effort for employees paid from federal funds as required by OMB Circular A-21.

College's Response:

BATC concurs with this recommendation and will implement this procedure immediately.

4. **NONCOMPLIANCE WITH FIXED ASSET REPLACEMENT AND DISPOSAL**

The College sold a fire truck purchased with Vocational Education funds and used the proceeds to purchase a replacement fire truck. The sale resulted in a net gain of \$1,100 after purchase of the replacement fire truck. The College did not obtain approval from the federal awarding agency through the State Office of Education to use the proceeds to offset the costs of the replacement equipment; nor did the College make compensation to the original federal awarding agency for the gain. Per OMB A-110 Subpart C.34. (e) "When acquiring replacement equipment, the recipient may use the equipment to be replaced as trade-in or sell the equipment and use the proceeds to offset the costs of the replacement equipment subject to the approval of the Federal awarding agency." Also, per OMB A-110 Subpart C.34. (g) "For equipment with a current per unit fair market value of \$5,000 or more, the recipient may retain the equipment for other uses provided that compensation is made to the original federal awarding agency or its successor." Not obtaining approval from the Federal awarding agency and not compensating the Federal awarding agency for the gain results in noncompliance with OMB A-110, which could affect the College's federal funding.

Recommendation:

We recommend that the College comply with OMB A-110 Subpart C.34.(e) and (g).

College's Response:

BATC concurs with this recommendation and has already implemented the recommendation. Written permission from the grantor agency to utilize the proceeds of the fire truck sale for both a replacement fire truck and to utilize the remaining funds for additional equipment in the fire and rescue training program has been obtained.

BRIDGERLAND APPLIED TECHNOLOGY COLLEGE

FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2006

5. **LACK OF INTERNAL CONTROLS OVER SUSPENSION AND DEBARMENT**

The College does not currently have internal controls in place to ensure that vendors being paid with federal funds are not suspended or debarred. The College should implement controls to ensure compliance with federal suspension and debarment requirements prior to paying vendors with federal funds. Not properly identifying a vendor's status as an excluded party could result in violation of federal procurement policies.

Recommendation:

We recommend that the College implement internal controls to ensure compliance with federal suspension and debarment requirements.

College's Response:

BATC concurs with this recommendation which will generally have rare application because of the thresholds where this applies and will implement the recommendation immediately.

6. **NONCOMPLIANCE WITH POLICIES OVER PETTY CASH DISBURSEMENT APPROVALS**

During our review of petty cash disbursements, we noted that 3 of 22 petty cash disbursements lacked an approval by the appropriate authority. Per the College's Cash Management Policy, "Petty cash disbursements require approval by the appropriate authority, either at the time of the disbursement or at the time the petty cash fund is reimbursed." Adhering to this policy would help prevent errors and misappropriations of funds.

Recommendation:

We recommend that the College follow established policies by requiring employees to obtain approval from the appropriate authority for all petty cash disbursements.

College's Response:

BATC concurs with this recommendation and will implement it immediately. Procedures already exist to ensure that petty cash transactions are properly approved prior to being initiated but additional training and diligence will be implemented to ensure compliance with the established procedures.